EXHIBIT 8

VIVE
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HTC 2016 Annual Report

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LETTER TO HTC SHAREHOLDERS

LETTER TO HTC SHAREHOLDERS

Dear Shareholders,

2016 was in many ways a rewarding year for HTC with the fruits of our labour to restructure the Company starting to pay off, not only in terms of the achievements in operating and process efficiency across HTC, but also in terms of the remarkable products we released, where innovation triumphed in all of our focus product areas, firmly reasserting us at the top of the innovation and quality ladder once again. While we are disappointed that these great achievements have not been wholly reflected in our financial performance, there are positive trends, including the sequential improvement in quarterly revenues over the year, while our aggressive program to manage operating expenditure delivered a 34% annual cost reduction.

HTC is particularly proud of its record of innovation and execution in 2016. The media and consumer buzz around our flagship products, the HTC 10 premium smartphone and the HTC VIVE virtual reality system, both of which launched in April, clearly demonstrated our renewed leadership in innovation and provided a great boost to the HTC brand. This acclaim translated to around 150 international awards and excellent reviews for the HTC 10, and over 100 for the HTC VIVE, a remarkable achievement and a strong endorsement of the efforts we have made to strengthen our innovation capabilities.

Those capabilities were also extended to partner products in 2016 through our 'Powered by HTC' program, with devices launched that showcased the superior quality of our innovation, design, engineering and manufacturing expertise. We are looking to extend his program in 2017 with target partners that share our vision of creating high quality products that benefit people all over the world.

Those capabilities were also applied to our work with the Dynamical Biomarkers Group in the Qualcomm Tricorder XPRIZE, a competition to design and build a lightweight, easy-to-use wireless diagnostic tool capable of accurately diagnosing 13 health conditions for use in underdeveloped and remote areas of the world underserved by healthcare services. Working with Taiwan's National Central University and other institutions, this project leveraged HTC's artificial intelligence and big data strengths, as well as our industrial design, system integration and user experience prowess. We were very proud when the DB Group was announced as one of the two XPRIZE finalists in December 2016, winning out over the dozens of groups that started out four years ago, and we look forward to continued success in our innovation.

PRODUCT STRATEGY

Smartphones and Connected Devices

HTC smartphones had a good year, with many of the innovations in the flagship HTC 10 being introduced into later products in the HTC One and Desire lines, including luxury design, high resolution cameras and audio, and aggressive power management.

The flagship smartphone for 2016, the HTC 10, was widely acclaimed around the world as the best Android phone on the market and a clear indicator that HTC has rediscovered its leading innovative edge in a highly competitive market. The HTC 10 gained more than double the number of awards and excellent reviews of its predecessor, due to its stunning design, intelligent features and superb user experience. Inspired by light and sculpted to perfection, the HTC 10 employed a new approach to design, with bold contours carved out of solid metal and chamfered edges for a more slimline look that catches the light, and with a full glass front merging seamlessly into the metal body. Among several industry firsts, the HTC 10 boasted the world's first optically stabilized, larger aperture f/1.8 lenses on both the front and rear cameras, with many new features that earned it an industry-leading DxOMark™ score of 88.

The HTC 10 evo launched in November featured the unique HTC BoomSound™ Adaptive Audio, the world's first USB Type-C dual adaptive earphones that tailors sound to the user's ear, and an all-metal unibody that is IP57-rated as water, splash, and dust resistant. Continuing the popular HTC One line, the HTC One S9 and the HTC One A9s phones were launched over the summer, which drew on HTC's iconic design pedigree and introduced strong technologies from the flagship line.

The HTC Desire range continued to see robust performance across several regions, with several strong launches over 2016, including the HTC Desire 10 Pro and Lifestyle editions in September that again raised the bar for features, design and quality in mid-tier phones.

HTC's industrial design teams worked hard to create differentiation in the smartphone families. The unique splash-pattern body design of the HTC Desire 530, 626 and 825 phones early in 2016 earned 'Best of MWC' nominations in publications such as Android Central and PocketLint, while the 50/50 smooth grooved rear design of the HTC Desire 650 launched in Q4'16 was not only stylish but provided a more secure grip in the hands. The HTC Desire 10 Pro launched in November was inspired by the Art

Deco movement, with bold, precise, geometric metallic lines framed by elegant colors and sophisticated materials, providing strong visual differentiation in a competitive landscape.

HTC maintained an aggressive approach to power management over the year, with the HTC 10 introducing Boost+, a suite of intelligent technologies designed to make your phone faster, consume less power and provide effective applications management, such as smart boost that automatically optimises your memory, and the new PowerBotics system that auto detects and shuts down apps using excessive power, improving battery life by 30% and delivering up to two days' charge. Boost+ has since been incorporated into all smartphones launched later in 2016.

The overwhelming response of the media and industry to the HTC 10 flagship launch in April and the subsequent repositioning of HTC as a leader in smartphone innovation and design was reflected in the critical acclaim that greeted the launch of the HTC U Ultra and HTC U Play premium smartphones at the beginning of 2017.

HTC VIVE Virtual Reality

The HTC VIVE virtual reality system received an overwhelming reception everywhere it was shown in 2015, winning 24 awards over the year even before it was publicly available. After the launch of the consumer edition in April 2016, the excitement simply amplified around the world, with the HTC VIVE earning over a hundred awards over the year. Today, the HTC VIVE is firmly established as the industry leader in PC-based virtual reality (VR), with a thriving development environment.

With HTC's considerable experience in the consumer electronics industry, we understood that having the best hardware in the world is not enough to ensure wide adoption. Accordingly, we undertook an ambitious yet keenly focused program to build the VR ecosystem, to enable the whole industry to expand through the creation of compelling content and rich experiences. This saw the establishment of four distinct business areas within the VIVE business unit, covering hardware, platform, content generation, and an accelerator program.

- HTC VIVE represents the hardware element of the VIVE business, leveraging HTC's proven design, system integration, user experience and manufacturing quality to create industry-leading head-mounted VR devices, and the accompanying controllers and base stations that enable interactive tracking and room-scale motion. Over the eight months since launch, there has been an aggressive expansion of retail execution across all major regions, which has helped raise awareness and lift sales. On the hardware side, we launched the HTC VIVE BE head-mounted device for enterprise and B2B2C applications, and have a clear roadmap for in-house and partner-developed peripherals and accessories.

- VIVEPORT is the marketplace for VIVE content, making available the most considered content in the VR world and providing an exceptional platform for content developers to promote their titles and enable greater monetization opportunities. Launched in September 2016, VIVEPORT hosts a wealth of VR content, and will offer a subscription model in 2017. It also provides a platform for alternative revenue streams for developers such as VR arcades, like the VIVELAND arcade that opened in Taipei, Taiwan in 2016.

- VIVE Studios is the content generation engine for VIVE, creating content to enhance in-house content design and engineering capabilities, and also investing in external projects to produce compelling content in both gaming and non-gaming fields. VIVE Studios brought its first in-house gaming title, Arcade Saga, to market in late 2016, while collaborating with Time-Life Inc. on the poignant 'Remembering Pearl Harbor' app, highlighting how VR can bring history to life and evoke greater empathy for society challenges. With more VR content available for VIVE than any other platform, including several high-profile titles such as Star Wars: Trials on Tatooine, VIVE users can look forward to a high calibre of VR content for the HTC VIVE set to be released in 2017.

- VIVE X is the accelerator program for VIVE, hosted in Beijing, Taipei, Shenzhen and San Francisco, that attracts companies focused on developing content, tools and analytics to help grow the VR ecosystem and fill capability gaps. The program held its first demo days in December, attracting top venture capital funds to consider a wide range of VR applications and tools that solve problems, take VR into new areas, and enhance VR operations. The second batch commenced in early 2017.

The vast range of enterprise applications for HTC VIVE systems has been one of the surprise outcomes of the virtual reality market, with businesses both big and small recognizing the potential of affordable yet high quality systems to solve problems such as design collaboration across continents, offering new services to their business or consumer customers, and creating new business models. HTC VIVE systems have been integrated into myriad non-consumer applications, including medical, education and training, design, marketing, architecture, finance, military and much more. We are also collaborating with leading international museums to help bring their museum experiences to life and make them more accessible, and we look forward to working with these and many more organisations in the years ahead.

Powered by HTC

HTC has an enviable record of innovation, with widely-acclaimed design, engineering and manufacturing expertise, as demonstrated by the high esteem in which our products are held by media, customers and the industry alike. HTC is also known in the industry for building strong partnerships that spark innovation and drive the industry forward. Accordingly, HTC has set out a new strategy, Powered by HTC, that seeks to work with partners in other industries to create compelling products that leverage our industrial design, user experience and technology strengths.

The successful launch of two partner products in 2016 proved that this form of collaboration can result in innovative products that serve the partner's customers, while extending the HTC brand into new markets. HTC is looking to extend this program in 2017, seeking partners that share our vision of creating high quality products that benefit people all over the world. We are optimizing our engineering strengths and innovative and creative capabilities to enable target partners to achieve their objectives, and drive the most efficient design and manufacturing in the world. We have created a dynamic, modular structure that enables taskforce creation for rapid project set-up, and the ability to tap into HTC's world-class skills in hardware, software and system integration resources for efficient, effective product definition and development.

Awards

2016 saw unprecedented acclaim for the quality and design of our products, with a record number of media, design and industry awards and superlative reviews. In Q1'16, HTC's entire portfolio won critical acclaim, with over 50 awards earned at the Consumer Electronics Show (CES) and Mobile World Congress (MWC) in January and February respectively for the HTC VIVE virtual reality system and for smartphone and connected device products including the HTC One X9 and the HTC Desire 530, 626 and 825.

This momentum continued over the summer, with the global launches of our two flagship products in April seeing a tremendous response, with around 150 awards and stellar reviews for the HTC 10 premium smartphone and over a hundred for the HTC VIVE virtual reality system. We believe this recognition of our product quality and innovation reflects the work we have put into restructuring the Company and rejuvenating the innovation process.

FINANCIAL PERFORMANCE

Over 2016, HTC streamlined its portfolio and sharpened its focus which, coupled with prudent cost control, led to improved performance over 2015. While the full year results were disappointing, the progress we have made in operating efficiency across the Company has significantly improved our financial position and, more importantly, has created a positive and energetic environment of innovation across all of our business divisions, and a dynamic attitude to product and market development that will stand HTC in good stead in the years ahead.

Revenues for 2016 totalled NT$78.2 billion, with gross profit of NT$9.4 billion and a gross margin of. 12.1%; however, the operating margin of -18.7% led to a net income of -NT$10.6 billion, corresponding to an earnings per share of -NT$12.81. The launch and commercial availability of our flagship products in April provided a boost to Q2'16 revenues, and this trend continued in the third quarter's sequential rise of 18%, with a material contribution from our Powered by HTC program. This improvement in performance coupled with continued progress in operating expenditure control, prompted a significant improvement in net income over the year.

BRAND UPDATE

Over the last year, HTC continued to reinforce our brand values and brand promise, the Pursuit of Brilliance, to ensure that all of our employees live the brand in every division and at every stage of our business – from starting a project right through to selling to consumers. Our brand drives the Company ethos, and is the yardstick by which we measure our performance.

With the launch of the HTC VIVE virtual reality system in 2016, the business set about to define the VIVE brand to ensure that the whole team are working towards a unified goal. While a living brand, the branding project was successfully concluded in 2016, with all employees being provided training to inculcate the brand values across all parts of the business.

The VIVE brand mission is to unleash human imagination from the limitations of reality, to bring people and their imaginations closer together than ever before. This reflects the unprecedented ability of immersive virtual reality to create empathy and understanding, which VIVE looks to drive forward. Accordingly, the brand promise is to create the most compelling and considered experiences by constantly pushing the bounds of virtual reality.

SOCIAL RESPONSIBILITY

HTC continues to seek ways to provide a positive impact on the environment, our employees and the communities around us. From recyclable packaging through enhancing employee welfare to aggressive power management at both factory and product level, HTC strives to improve our carbon footprint and our contribution to society.

HTC worked hard at further improving our energy management in our manufacturing facilities in 2016, with an electricity use reduction rate up to 42.26%, compared to 25% for 2015. The corresponding reduction in carbon emissions represented a greenhouse gas emission reduction of up to 42.69%, again comparing favorably to 2015's 26.51%. Progress was also made regarding the green fields and planted areas inside the factories, which are irrigated with recycled sewage water to avoid increasing total water consumption. This contributed to a sewage recycling rate of 72.54% in 2016, up from 68.92% the previous year.

The HTC Foundation, now ten years old, continued its noble work of promoting character education and motivation through 2016, working to help children and youngsters develop good character by supporting both schools and teachers. The HTC Foundation has established 4 character- building schools in Taiwan.

A new initiative of HTC announced early in 2017, the 'VR FOR IMPACT' program, aims to leverage the incredible power of VR to change the world around us. Immersive, interactive systems like our HTC VIVE make it possible to better share other people's experiences and emotions, bringing the world closer together. HTC is looking for opportunities to transform education, health, medicine, art and many other areas through VR, and create positive societal impact, in line with the United Nations Sustainable development goals that seek to end poverty, protect the planet, and ensure prosperity for all. HTC is dedicating US$10 million in funding to help make this happen. This initiative has received a remarkable response from the media and the VR community, and led to engagement with over 800 developers and organizations interested in building experiences that speak to our humanity and have the potential to change the world. We look forward to the results of this program in the years ahead.

Throughout all of HTC's activities, there is a conscious effort to preserve, recycle, reuse, and maintain as we strive to set the example for the industry and for the countries in which we operate.

HTC Corporation
Chairwoman and CEO

Cher Wang

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COMPANY PROFILE

COMPANY PROFILE

About HTC

HTC brings brilliance to life through leading innovation in smart mobile device and experience design. Beginning with a vision to put a personal computer in the palm of our customers' hands, we have led the way in the evolution from palm PC to smartphone, and are now applying that same innovative approach to connected devices and virtual reality.

The Pursuit of Brilliance is at the heart of everything we do, inspiring best-in-class design and game-changing mobile and virtual reality experiences for consumers around the world. At HTC, the Pursuit of Brilliance is the impulse to create, to venture into the unknown with an unwavering dedication to bring innovative design to life. It pushes us every day to re-imagine new ways to connect the world, our consumers, and their pursuits in ways never before thought possible.

An Unending Curiosity

At HTC, we go where others haven't thought to. Breaking down barriers and creating industry firsts is a large part of our history, which is why HTC has become synonymous with innovation, engineering breakthroughs, and designing the future of human communications as we continue to expand into uncharted product territories.

An Unyielding Resilience

Strong character is at our core. Award-winning vision requires taking risks and challenging convention. From the very beginning, resilience has been at the heart of our creative spirit. To this day, we stay committed to our pursuit, believing that the greatest ideas transcend temporary recognition: they influence behavior, shape lives, and inspire new thinking.

A Refined Approach

We hold our ideas and our products to a higher set of standards. That is why we design for performance over popularity – and our partners have taken notice. Other industry leaders come to us because they understand that we create great products with an eye for design and mind for engineering that's celebrated by the industry and customers alike.

A Real Impact

It is our belief that technology's purpose has always been to bring humanity together to overcome and conquer difficult challenges. That is why we always design our technology to generate a real impact – to serve a greater, human purpose that every single human being can benefit from.

A Greater Purpose

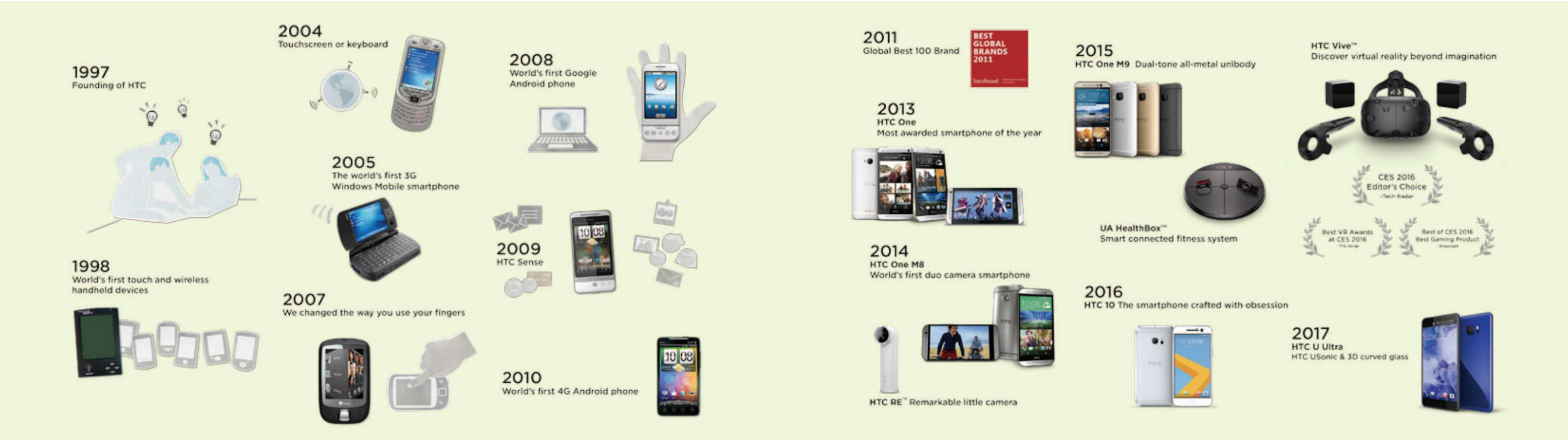
HTC takes a broader approach to serving society and making life better. We believe that we can make more of a difference looking beyond the obvious, reaching out to people and enabling them to make a difference, and in improving the way we do things.

Our strengths in design are not limited to creating great looking hardware. Our standards extend to our manufacturing processes as well. That's why our factories are among the most environmentally responsible in the world, and why our offices have earned global acclaim, setting the gold standard in energy efficiency.

We have also expanded our environmental initiatives to shape the entire customer experience. Starting from 2013, our product packaging is primarily made of fast-renewable materials such as bamboo and bagasse. That's an industry first we're particularly proud of and also our commitment to environmental sustainability.

At HTC, we do all of these things in the knowledge that we're always creating for the future. To that end, we realize that bringing the future to life ultimately rests in the hands of our youth. Through the HTC Foundation and our Summer Family Camp we provide humanitarian and social support to those most in need while also assisting in the teaching and development of a strong sense of character and social values in youth. We believe that the future is for everyone, which is why we strive to ensure that every child has the opportunity to be part of the next generation of leaders and visionaries.

This evolutionary path is a piece of the much larger journey we aim to take in the future. Since 2014, we expanded into IoT categories and launched HTC RE™ camera and unveiled UA HealthBox™ to bring an innovative approach to fitness technology. HTC VIVE™ provides users the most immersive virtual reality experience. It is important to remember what brought us to where we are now, and why we do the work we do. From our people to our products and our social and environmental initiatives, the Pursuit of Brilliance represents the guiding philosophy that has shaped and will continue to shape HTC as a global organization.



Company History

HTC started with the goal of bringing the power of computing into the hands of people around the world. To date, 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 partner of Microsoft Corporation and built the solid foundation on which the HTC-Microsoft partnership continues to grow and flourish. The Compaq iPAQ, manufactured by HTC for Compaq Computer became a huge market success when launched in 2000 and 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 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 smart phones. 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 connectiveness. The pursuit of brilliance is at the heart of everything we do. It is the impulse to create, to venture into the unknown with an unwavering dedication to bring innovation to life. It pushes us every day to re-imagine new ways to connect the world, our consumers, and their pursuits in ways never before thought possible.

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.

Diversification into Connected Devices and Virtual Reality

In 2014, HTC began to seek new fields to apply its distinguished heritage in design, engineering and manufacturing excellence as well as innovative thinking, starting with the field of fitness, where, together with partner Under Armour®, the leading brand in the fitness space, HTC launched the UA HealthBox™, providing comprehensive holistic information to enable users to monitor and improve their performance.

Stepping into the nascent field of consumer virtual reality (VR), we unveiled the HTC VIVE™ in April 2015, the first complete virtual reality system, to universal media and consumer acclaim. Partnering with Valve®, the strongest brand in PC gaming, HTC VIVE is set to create a broader world beyond our imagination, as virtual reality has the potential to impact every aspect of our lives, including how we work, play, communicate, learn and believe.

Appreciating that a robust ecosystem and diverse content is central to grow the nascent VR market, HTC has undertaken considerable investment in software and platform in order to empower developers to create compelling VR content. HTC has also founded or played a key role in building industry alliances, such as the Asia-Pacific Virtual Reality Industry Alliance in April of 2016 comprising numerous organizations involved in the virtual reality industry, and is a founding member of the Global VR Alliance. HTC has also launched an accelerator program called VIVE X aimed at promoting the eco-development of virtual reality by providing professional guidance, tools and investment for developers of VR content, tools and applications that will further empower content developers. This will enable VIVE to be central to the VR eco-system and cultivate more advantageous resources to ensure the continued success virtual reality in the consumer space.

Product Development

For 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 most advanced room-scale VR experience ever.

While burgeoning competition in the smartphone market has led to a bewildering choice for consumer, with brands seeking to gain attention through gimmicks and over-designed products, over the last two years HTC has returned to what made HTC great: focusing on YOU, the consumer. In every way, our latest smartphones are all about YOU.

Smartphones

On April 12, 2016, HTC unveiled its annual flagship smartphone: the HTC 10, which was designed to deliver everything that customers would want from a premium smartphone. Inspired by light and sculpted to perfection, the HTC 10 employed a new approach to design in which bold contours are carved out of solid metal. The chamfered edges create a slender look, with its full-glass front merging seamlessly into the metal body. Attention to detail extends to even the smallest things such as the power button, with its carefully adjusted pitch and pressure to evoke a premium feel, while a cinema-grade display specially tuned to match Digital Cinema Initiatives (DCI) standards resulted in a breathtaking display delivering 30 percent more colours than previous generation screens. The media acclaim was overwhelming, with the HTC 10 winning over 150 awards and stellar reviews, clearly repositioning HTC as the leader in smartphone innovation. This acclaim set HTC in good stead for the launch of the HTC U series of premium smartphones at the beginning of 2017.

As well as the flagships, the HTC One and HTC Desire continue to be a vital part of our portfolio strategy, reflecting the youthful energy and style of younger customers who seek fresh designs and great experiences in a well-rounded package.

We remain strongly committed to our smartphone business, and our clear strategy focusing on the HTC U, One and Desire brand families includes a robust roadmap that creates more opportunities for targeting specific and more diverse markets around the world, as well as positioning HTC as the premium choice in the Android segment.

HTC U series

The new HTC 'U' series devices continued a more customer-driven movement that refocused the smartphone on YOU: it reflects you, learns from you, listens to you, and captures you and your individual brilliance.

The HTC U Ultra and HTC U Play were announced in January 2017 in Taipei, Taiwan. HTC U Ultra introduces a new, beautifully contoured, liquid surface that's designed to reflect the world. To achieve this extraordinary look, we developed an entirely new process where colors bond to the glass in multiple layers to reflect light beautifully - adding brilliance and depth from every angle.

Both the HTC U Ultra and HTC U Play also include the HTC Sense Companion that is always learning from you, and the things you do every day. It's made to evolve and get to know you better over time.

The HTC U Ultra introduces a second smaller screen which gives you the information you need, at your fingertips. The big 5.7-inch phablet sized screen on this phone is great for regular day to day activity; while the new second 2 inch screen located on the top is perfect for fast, convenient access to the things you use the most - like your top contacts, app shortcuts, event notifications and more.

The HTC U Ultra has four high-sensitivity omnidirectional microphones that capture positional sound in your video and audio recordings; this can record sound in 360 degrees for immersive audio that's just like being there. Every person's inner ear is as unique as their fingerprint; we all experience sound differently. HTC USonic analyzes your inner ears with a sonic pulse, and then adapts to phone's audio profile to your personal configuration.

The HTC U Ultra builds on and improves on our highest rated camera yet, introduced in our 2016 flagship HTC 10. Photos have with less blur, super-fast laser focus and new Phase Detection Auto Focus (PDAF) to catch every moment and bigger pixels for better photos at night. The new selfie camera on HTC U Ultra lets you easily switch between 16 megapixel and UltraPixel™.

The HTC U Play is a more compact 5.2-inch product that delivers all the premium features of the HTC U Ultra wrapped in a beautiful package at a more accessible price.

HTC 10 evo

The HTC 10 evo was announced in November 2016 in Taipei, Taiwan. HTC 10 evo is a dramatic evolution of HTC's renowned sculpted-by-light style and introduced the world's first USB Type-C dual adaptive earphones that tailor sound to ones' ears' unique hearing abilities for a truly illuminating audio experience. The HTC 10 evo's full metal unibody is water, splash, and dust resistant with an IP57 rating.

The HTC 10 evo takes audio to an unprecedented new level with HTC BoomSound™ Adaptive Audio, which almost instantly adapts your audio to sound levels around you, keeping you in the zone of the music and sound you're enjoying, and the USB Type-C High-Res adaptive earphones right in the box. Pushing the multimedia experience even further, the HTC 10 evo has a big, 5.5-inch display to show stunning visuals for vivid gaming, movies and more.

The HTC 10 evo's 16 megapixel camera has Optical Image Stabilization (OIS) that reduces camera shake to capture sharp photographs on the go in almost any environment, even in low light, with quick camera launch time and an ultra-fast autofocus of up to 0.3s with Phase Detection Auto Focus. Featuring an 8 megapixel front camera with Auto HDR, your selfies will show vivid detail to bring out not just your smile but also the environment behind you. A super-wide panorama mode lets you capture the whole family with room to spare.

HTC One A9s

In September 2016, the HTC One A9s was unveiled at an event in Berlin, Germany. Drawing on HTC's iconic design pedigree and world-renowned technological innovation, the One A9s was created to inspire a new generation of phones that offers impeccable precision craftsmanship and quality at remarkably affordable value.

The HTC One A9s is encased in a nature-inspired, dual-finish metal body that glistens with light from its frame. Its polished edges comfortably fit a 5-inch screen in your hand, and its diamond-like cut buttons and power button grooves demonstrate attention to every detail. It is both beautiful and durable, crafted to withstand hundreds of drop and scratch tests in addition to hundreds of hours of extreme weather testing for long-lasting reliability.

The HTC One A9s features an outstanding 13 megapixel main camera with autofocus for sharp, clear photos. You'll capture low light details with its BSI Sensor and get enhanced editing control with RAW capture in Pro mode.

The 5 megapixel front camera of the HTC One A9s makes brilliant selfies simple, enabling hands-free selfies with Voice Selfie, or use Auto Selfie for taking shots with just a smile. You can even smooth out your skin tone and beautify yourself before you shoot with Live Makeup.

HTC One S9

The HTC One S9 was announced in June 2016 in Taipei, Taiwan. HTC One S9 adds to the family of HTC One series smartphones. The HTC One S9 sports a classic and elegant two-tone metallic appearance with a perfect arc. This allows the phone to fit comfortably in the palm with an excellent grip.

The HTC One S9 features a 5-inch Full HD 1080p high-definition screen that is capable of delivering crisp and detailed photos and videos. Multimedia experience is further enhanced with HTC BoomSound combined with Dolby Audio stereo sound, providing cinematic action video and audio effects, whether listening to music, watching movies or video games. The experience is rich and delicate, just like listening to an actual performance.

The HTC One S9 is equipped with a 13 megapixel main camera with Optical Image Stabilization (OIS) so all your photos look clear and sharp. On the front is an UltraPixel selfie camera for the best performance even in low light environment. In addition, the HTC One S9 has a built-in 12x dynamic time-lapse photography and expert-level RAW image feature that lets you quickly adjust the shutter speed and manually control the exposure or white balance.

HTC Desire 10 series

HTC unveiled the HTC Desire 10 pro and the HTC Desire 10 lifestyle in September 2016. Inspired by the Art Deco movement in art and design, the HTC Desire 10 captures the spirit of luxury and modernism: bold, precise, geometric metallic lines – influenced by the same contours as the 2016 flagship, the HTC 10 – framed by elegant colors and sophisticated materials in a smartphone that inspires with alluring looks on the outside and powerful technology on the inside. This bold, polished outline distinctively wraps the edges of the device, encasing the HTC Desire 10 pro's 5.5-inch Full HD (1080p) display or the HTC Desire 10 lifestyle's 5.5-inch HD (720p) screen, and contrasting with the eye-catching body in one of four distinct color themes for both models.

The HTC Desire 10 pro boasts one of the best camera experiences in its class, delivering features normally reserved for flagship phones. Starting with a 20 megapixel main camera, the HTC Desire 10 pro provides extraordinary detail in every shot. Advanced functions such as intelligent Electronic Image Stabilization provide smooth videos even with shaky hands, and the laser autofocus gives clear, focused pictures.

The HTC Desire 10 pro has been designed to give you the best possible selfie experience. Snap your best selfies with the 13 megapixel selfie camera, and if you need to capture even more in one single view, HTC Desire 10 pro features a brand-new Selfie Panorama mode. HTC Desire 10 pro's super-wide, 150° Selfie Panorama mode is wide enough to fit a whole football team with room to spare.

HTC BoomSound Hi-Fi Edition, introduced in the HTC 10, features in the HTC Desire 10 lifestyle, providing High-Res audio support for your favorite music, movies, and games with awesome, crystal-clear, high-resolution sound quality through stereo external speakers or to your headphones with a powerful, built-in amplifier.

HTC Desire 650

The HTC Desire 650 was announced in November 2016 in Taipei, Taiwan. HTC Desire 650 features an innovative design to meet consumer desire for a unique look and design in a smartphone. The HTC Desire 650 introduces a cool new 50/50 smooth grooved design, easy to hold with a grooved grip that keeps the phone secure in your hand. The HTC Desire 650 features Corning® Gorilla® Glass on top of the vivid 5-inch 720p HD display: clear, tough and scratch resistant.

For the first time in HTC smartphones, we introduced a new feature called HTC Night Mode, which uses a warm hue on the screen for a more comfortable reading experience in low light without straining your eyes.

The HTC Desire 650 has a 13 megapixel main camera with BSI sensor for shooting clear and vivid pictures even in low light. More detail can be fitted into every photo with sweep panorama which takes shots up to 180° wide. The HTC Desire 650's front camera combines a high quality 5 megapixel sensor with fun features that will unleash your selfie creativity. At the same time, the HTC Desire 650 comes pre-installed with Google Photos which offers free online storage for all your photos and videos. It's all stored in the cloud, which can free up your phone memory for other things.

For audiophiles, the HTC Desire 650 is Hi-Res certified, which means it is capable of delivering high quality audio that brings all the notes, nuances and tonal detail of your favorite music and movies to life like never before.

HTC works hard to create differentiation and introduce new innovations throughout our smartphone portfolio. Some of these features are award-winning, such as the 'Best of MWC' nominations for the unique splash-pattern body design of the HTC Desire 530, 626 and 825 phones early in 2016.

HTC also maintained an aggressive approach to power management over the year, introducing Boost+, a suite of intelligent technologies designed to make your phone faster, consume less power and provide effective applications management, such as smart boost that automatically optimises your memory, and the new PowerBotics system that auto detects and shuts down apps using excessive power, improving battery life by 30% and delivering up to two days' charge. Boost+ has since been incorporated into all smartphones launched later in 2016.

Virtual Reality

In April 2016, HTC started shipping the HTC VIVE™, the consumer edition virtual reality system developed in partnership with Valve®. The HTC VIVE, powered by Steam®VR, was designed from the ground up for room-scale VR, allowing true-to-life interactions and experiences thanks to an adjustable headset displaying stunning graphics, and 360° absolute motion tracking. There are two wireless controllers with HD haptic feedback for interacting in a more natural way with virtual worlds. HTC VIVE also has a front facing camera that blends physical elements into the virtual and intuitively delineates the room boundary while inside the virtual world.

Over the year, HTC has worked tirelessly with Valve to deliver the best VR experience on the market, winning over a hundred awards in 2016 alone and receiving critical acclaim from media, consumers and the industry. The HTC VIVE is enabling people to experience immersive virtual reality in a way that fires the imagination to explore new things and change the world. By Q3'16, along with an online presence, HTC VIVE had been made available in high street shops across several continents, many of which have live demos available in-store, to enable consumers to choose the most convenient way to test and buy their system.

VR arcades provide another opportunity to enable consumers to try out the best in VR. In Taiwan, HTC worked with industry leaders such as Syntrend, Advanced Micro Devices (AMD), and SteelSeries to open the world's first high-end VR arcade, VIVELAND, in Taipei. VIVELAND 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 developers, and to enable competitive advantages for the digital content industry.

While the initial adoption of virtual reality (VR) came from the gaming audience, VR is about so much more than gaming. HTC has been working with thousands of developers to foster the creation of compelling content that spans multiple sectors including entertainment, retail, education, training, design, healthcare and automotive.

The enterprise field has proven the most adaptive, recognizing how high quality VR can change the way they operate, or how they do business with customers. Jaguar's landmark launch of their latest model in a virtual showroom, courtesy of HTC VIVE, demonstrated new consumer interaction models for businesses, with other industries taking note. It was for the burgeoning enterprise market interest that HTC launched the HTC VIVE Business Edition over the summer of 2016, which provides organizations with extra features, support and services geared towards commercial use.

In January 2017, HTC VIVE™ debuted two premium accessories, the VIVE Tracker™ and the VIVE Deluxe Audio Strap™. The VIVE Tracker will open new options for developers to make VR even more immersive with additional tracking capabilities and new peripherals, while 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. In addition, the new headstrap routes the 3-in-1 cable in a cleaner and more comfortable way.

VIVE Tracker™

The VIVE Tracker enables motion tracking for entirely new form factors to be trackable within the VR world, and is the foundation for building a new accessories ecosystem for VIVE. At CES, VIVE demonstrated eight VIVE Tracker integrations that showcased the future of VR applications. Most importantly, since the VIVE Tracker will integrate with any number of future VR accessories via a simple connection, it ensures developers and consumers have a single accessory to unlock thousands of new experiences.

At CES 2017, VIVE showcased a variety of Tracker-enabled accessories, including the first VR camera, multiple rifles built for VR shooters, haptic gloves for VR, and even training applications for Major League Baseball players and professional firefighters.

VIVE Deluxe Audio Strap™

The VIVE Deluxe Audio Strap is designed with adjustable headphones, allowing you to enjoy 360-degree VR audio with even more comfort and convenience. The headstrap features integrated headphones and a new customizable sizing dial for quickly adjusting the fit of the headstrap, ensuring a tighter and more comfortable fit.

VIVEPORT™

VIVEPORT is the premier dedicated marketplace for VR apps. Building on the fast growth and success of great VR games, VIVEPORT features immersive experiences across additional categories that allow consumers to discover, create, connect, watch and shop in the VR world. VIVEPORT's mission is to democratize access to the world's most diverse selection of immersive experiences by empowering all content creators to reach and engage the fast-growing global VR audience.

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. The VIVEPORT store is available in VIVE headsets, web browsers, and as a PC and mobile app. 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.

VIVEPORT Premieres consists of content launching first on VIVEPORT; these have included some of the most popular titles such as Everest VR, Google Spotlight Stories' Pearl, Lifeliqe, Stonehenge VR, The Music Room, and many more.

Board of Directors and Supervisors

Board of Directors

Cher Wang
Chairwoman

HT Cho
Director

Wen-Chi Chen
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.

Management Team

Cher Wang
Chairwoman & Chief Executive Officer

Chialin Chang
President, Smartphone & Connected Devices Business

David Chen
Chief Operating Officer

WH Liu
Chief Technology Officer

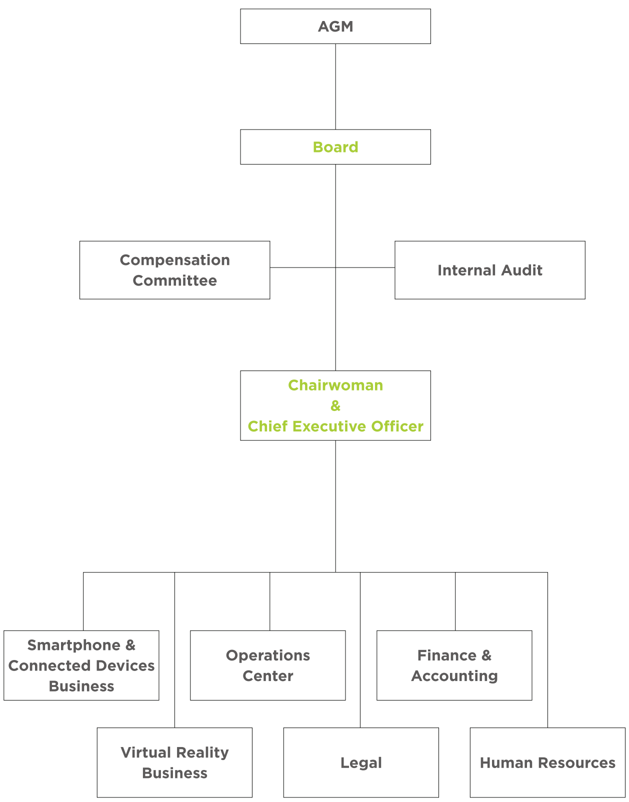
Marcus Woo
General Counsel

Peter Shen
Chief Financial Officer

Crystal Liu
Vice President

Hsiu Lai
Associate Vice President

Organization



Organization Functions

Virtual Reality Business

Cher Wang (Concurrent)
Chairwoman & Chief Executive Officer

Responsible for global Virtual Reality business, including sales, engineering, operations, business, strategy development in planning, implementation and management.

Smartphone & Connected Devices Business

Chialin Chang
President

Leads the global Smartphone & Connected Devices Business, responsible for production promotion, new customer development, customer relations, customer service and communication.

Operations Center

David Chen
Chief Operating Officer

Responsible for execution of products research and development, manufacturing, production planning, management and quality.

Legal

Marcus Woo
General Counsel

Responsible for legal strategy, contracts, litigation, and protection of intellectual property.

Finance & Accounting

Peter Shen
Chief Financial Officer

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

Human Resources

Crystal Liu
Vice President

Responsible for corporate human resource development and administration; promoting HTC corporate culture and employee benefit programs; conducting organizational and human resource planning to support corporate development.

Internal Audit

Ken Wang
Senior Director

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

Worldwide Office Locations

HTC is headquartered in Taiwan with sales and service centers in Europe, the Americas and Asia to ensure our ability to service clients and enhance relationships with consumers. HTC maintains a presence in all key markets, including the United States, Canada, the United Kingdom, Germany, France, Italy, the Netherlands, Spain, Poland, Czech Republic, Denmark, Sweden, Russia, Indonesia, India, Australia, China, Japan, Hong Kong, Singapore, Thailand, Myanmar, Vietnam, Malaysia, the United Arab Emirates (UAE) and Brazil.

Key HTC Operation Centers

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Human Resources

Employees represent one of HTC's most valuable assets. The company has, in recent years, actively recruited outstanding talent into its ranks – particularly in the areas of product design, user interface, brand promotion, and sales and marketing. While bringing on professionals from Europe and the Americas, we have also invested significant resources into making the work environment at HTC diverse, challenging, and encouraging.

As of March 31, 2017, HTC employed 10,652 staff worldwide. 22.43% (327) of all HTC managerial positions are held by non-Taiwanese managers. Non-Taiwanese managerial and technical staff filled 18.00 % of HTC managerial and technical positions. Women held 18.52 % of HTC's 1,458 managerial positions.

Statistics Related to the Structure of Human Resources at HTC (excluding outsourced labor)

Employees by Position Type

	Mar. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
Management	1,458	1,485	1,470	1,438
Specialists	2,643	2,690	3,136	3,671
Administrators	1,259	1,099	999	1,219
Technical Staff	5,292	5,655	6,837	10,572
Total	10,652	10,929	12,442	16,900

Gender, Average Age and Average Years of Service

	Mar. 31, 2017	Dec. 31, 2016	Dec. 31, 2014	Dec. 31, 2013
Male	5,343	5,531	6,524	8,699
Female	5,309	5,398	5,918	8,201
Average Age	32.85	32.71	31.98	30.36
Average of Service	4.86	4.71	4.38	3.45

Employees' Highest Level of Academic Achievement

	Mar. 31, 2017	Dec. 31, 2016	Dec. 31, 2014	Dec. 31, 2013
Ph.D.	93	99	122	116
Master's	2,481	2,509	2,943	3,336
Bachelor's	3,235	3,393	4,089	4,695
Technical/Vocational	1,032	934	1,142	1,615
Other	3,811	3,994	4,146	7,138

3

BUSINESS OPERATIONS

BUSINESS OPERATIONS

Business Operations

Industry overview

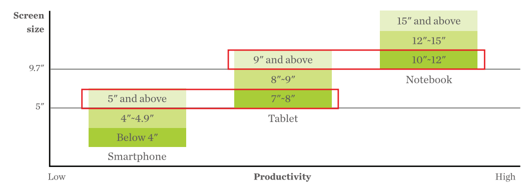
HTC primarily designs and manufactures smartphones. Upstream suppliers provide smartphone components and parts, and operating systems. Downstream channels include telecom service providers and distributors and retailers (see Figure 1).

Figure 1: Smartphone Industry Relationship Chart:

To keep the top quality in the competitive market, HTC will continue to demand adequate capacity commitments from all suppliers to ensure on-time delivery of their products. HTC is committed to working closely with suppliers to raise production efficiencies as well as to lower the production costs to enhance mutual competitiveness. In addition, HTC will manage product life cycles jointly with the downstream smartphone agencies and retailers for a more robust and healthy industrial ecosystem.

Over time, the boundaries between personal computing devices have become blurred as shown in Figure 2 below; the concept of the mobile PC has shifted from Notebooks to Chromebooks, tablets and now phablets and hybrids. A seamless user experience across devices appears to have been the goal for Google, Apple, and Microsoft as well as traditional hardware device vendors; though it has yet to be achieved. The 'Wintel' alliance (Windows + Intel) had its moment in the Desktop and Notebook era, while Google and Apple are enjoying success in the mobile era. The industry is about to be revolutionized as we shift from a mobile-centric world to a cloud-centric world.

Figure 2: Cannibalization between personal computing devices



Source: Display Research, Gartner, BNP, Macquarie Research

In a cloud-centric world, it is about providing seamless user experiences across devices and, more importantly, across places; to always be where the users are. This raises its own unique set of challenge that the market is seeking to address.

Smartphone Market Analysis

Traditional hardware device vendors, such Acer, HP and Lenovo have all tried to provide seamless user experiences across devices to users. For example, they have offered Windows phones to complete their product lineups, but consumers have not responded. Smartphone vendors, such as Samsung, LG, Xiaomi and Huawei, on the other hand, have attempted to tackle product segments that have been traditionally occupied by PC makers, such as 2-in-1, Microsoft notebooks or Chromebooks. Although costly, it is understandable that in an era saturated with personal computing devices, each device maker has to either fight for every opportunity in existing product categories, or explore new or under-penetrated categories.

However, investing intensive capital to expand hardware product lineups, in the hopes of securing market share or even consumer's mind share does not always work. Xiaomi is entering various and seemingly irrelevant product categories, such as rice cookers, ninebot, and air purifiers, while losing momentum in smartphone sales. LeEco, a unicorn company that offers a wide range of products, from smartphones and TVs, to content and futuristic cars, cut 80 percent of its Indian workforce in March, 2017. These examples illustrate that the strategy of throwing everything against the wall and seeing what sticks does not always work in the hardware business.

The industry is being revolutionized as we transition from a mobile-centric world to a cloud-centric world.

A cloud-centric world provides a more seamless user experience across devices, but more importantly, across locations; to always-on wherever users are. Amazon is aiming to achieve this goal by proliferating and pushing devices that are supported by Alexa, a cloud-based, voice-activated personal assistant service. Amazon worked with Intel to provide reference designs to incentivize ODM/OEMs to manufacture their own devices using Amazon's Alexa voice-activated service and Intel's hardware platform. Amazon's effort has started to pay off as the industry is starting to see consumer products that are equipped with Alexa showing up since 2017 CES.

In their 4Q16 earnings call, Alphabet noted that computing is moving from mobile first to AI first, with more universal ambient and intelligent computing that people can interact with naturally. Alphabet's central piece of this effort is Google Assistant, which allows users to have natural conversation with Google, to help users get things done wherever they are and with whichever device they are using.

Samsung is also gearing up investments in the intelligent conversational platform area. In October 2016, Samsung acquired the startup Viv, which was built by the creators of Apple's Siri. On Samsung's 4Q16 earnings call, the company noted that it is going to implement its own voice service not just on smartphones but on other devices, such as tablets, TVs and other home appliances. News has also suggested that Samsung is looking to spend US$1 billion to buy companies to improve and enhance its service offerings. Apple, on the other hand, as the pioneer of voice-activated assistance with Siri introduced in the iPhone 4S in 2011, has not had a major update for some time.

Business Scope

Smartphones

HTC has evaluated and invested resources carefully. We have remained committed to developing advanced, high quality smartphones in the mid to high tiers. For example, the recently announced HTC U Ultra and HTC U Play have been very well-received. The beautiful, sophisticated 3D-contoured liquid surface ID design elevates smartphone aesthetics to another level and is highly praised by influencers as well as critics. Both models feature HTC Sense Companion, which learns from you, listens to you and provides timely suggestions and information to make your life better.

HTC is also actively exploring and expanding our product portfolios into areas where HTC can deliver premium, quality products and services to our customers as well as users. Transformation takes time, but we are committed to our promises and have started seeing positive responses.

Further, we have extended our distribution channels beyond telecom operators and mobile retail channels into consumer electronics stores, broader technology outlets, crossover partners' retail stores and online stores as well as HTC's own eStores.

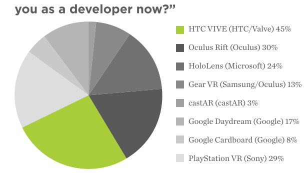
We will continue to challenge the status quo by introducing innovative products that deliver impeccable user experiences. We will continue to streamline product lineups and optimize cost structure. We believe our determination and expertise will continue to help us overcome future challenges and make HTC the first choice among smart device brands.

Virtual Reality

HTC VIVE

HTC VIVE consumer edition VR system was announced for preorder in February 2016 as the world's first room-scale VR system with cutting edge, precision spatial tracking. According to the GDC 'State of the Game Industry 2017' report, HTC VIVE attracts the highest general interest level among major VR/AR headsets, with 45% of respondents stating interest in the HTC VIVE (see Figure 3).

Figure 3: "Which VR/AR platform most interests you as a developer now?"



Source: State of the Game Industry 2017 report, Game Developers Conference

HTC VIVE started shipping in April 2016 the US, western Europe, Taiwan, and China. In July, HTC VIVE entered Japan, and then Korea, with other countries in Asia and Europe following later in the year. In January 2017, HTC announced the VIVE Tracker and the VIVE Deluxe Audio Strap at the CES show. The VIVE Tracker easily enables motion tracking for entirely new form factors to be trackable within the VR world, and is the foundation for building a new accessories ecosystem for VIVE. VIVE Tracker was awarded Top Tech of CES 2017 by Digital Trends and Best Accessory of CES by ComputerBild, among others. The VIVE Deluxe AudioStrap is designed with adjustable headphones, allowing you to enjoy 360-degree VR audio with even more comfort and convenience.

VIVEPORT

VIVEPORT is the app store for virtual reality, where customers can explore, create, connect, and experience the content they love. In April 2016, VIVEPORT was first released in China, and then globally in the September, to provide VR experiences across art, creativity tools, design, education, fashion, music, sports, travel, video and more.

In November 2016, we launched VIVEPORT™ M in China, which extends the same VR content store experience of PC based VIVEPORT to mobile platform; VIVEPORT M provides Google Cardboard based VR contents.

HTC also announced VIVEPORT Arcade in November, which creates a digital storefront to distribute VR content to businesses globally. The app store is designed for arcades, cinemas, amusement parks and other location-based entertainment centers eager to introduce their customers to VR. The rapid expansion of VR into arcades is creating an important touch point for people to experience high-end VR for the first time, and is also providing content developers with new revenue streams. HTC is partnering with Leke VR, a leading chain VR Park company in China, to open "1,000's of Locations" by using VIVEPORT Arcade.

VIVELAND

VIVELAND is a high-end VR arcade theme park in Taipei; it was opened on October 29th for consumers located at Syntrend Digital Park in Taipei, and features several theme zones, including FRONT DEFENCE, Project CARS, The Walk, Bounty VR in 4D, and Mixed Reality. VIVELAND is providing a template for arcade owners around the world to implement VR into their set-ups.

VIVE X

VIVE X is HTC's VR-focused global accelerator. The VIVE X mission is to help cultivate, foster and grow the global VR ecosystem by supporting startups and providing them with education, investment and mentorship. VIVE X is looking to fund software and hardware startups. Specifically, teams that are creating innovative content, content tools, social/multiuser, tools, apps, accessories, business model enhancers (analytics, advertising) and any other underlying technologies that enrich the VR ecosystem and end-user experience, ultimately helping the teams turn into valuable content producers or content enablers for the VIVE platform. In the 4-month accelerator program, 30-45 teams per batch globally will enter our accelerators in Taipei, Beijing, San Francisco and Shenzhen.

In August, HTC announced VIVE X batch I, with 33 teams selected from 1200+ teams that applied. Batch II started in March 2017 with approximately 30+ teams.

Business Results

Market share is one of the Key Performance Indicators (KPI) in the industry. According to GfK Taiwan report, HTC's 2016 smartphone market share ranked in top 5 at 15%.

Besides the core smartphone business, we have received very positive responses to our mobile Virtual Reality (VR), wearable as well as other Internet of Things (IoT) offerings. HTC is one of the few Google Daydream partners to develop an Android VR platform. As for wearables, UA HealthBox was first available in January, 2015 in the U.S. and now the world's first connected fitness trio is available in close to 20 countries.

As of the close of December 31, 2016, HTC's 2016 revenue was at NT$78.2 billion with gross margin of 12.1%.

Brand Strategy

Brand is neither a logo nor marketing terms, its true power lies in what it represents: the resonance, meaning, and promise to our customers, our partners and employees. HTC brings brilliance to life through leading innovation in smart mobile device and experience design. Beginning with a vision to put a personal computer in the palm of our customers' hand, 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.

While 'Quietly Brilliant' is deeply rooted within HTC's corporate culture, we restated our brand promise as the 'Pursuit of Brilliance' in 2015, in order to bring a more dynamic, aspirational objective to life . The 'Pursuit of Brilliance' serves as a mantra, a truism about the deep respect for the important place we hold in our customers' lives. Our pursuit of brilliance results in the best-designed and most technologically advanced products that enable and empower our customers to amplify and share their ambitions, talents and skills with others, so they can be more effective, more brilliant in their own lives. The 'Pursuit of Brilliance' is a promise that HTC will always strive to empower our customers to pursue their own brilliance in big and small ways, every day. The emotional resonance we've developed with our customers is demonstrated in our commitment and hard work, innovating in ways that make them more creative, more connected, more deeply human. Through consistent and focused brand messaging, we are communicating with singular clarity of purpose, across our product portfolio.

While we expanded from producing and marketing world-class smartphones into the exciting technology of connected devices and virtual reality, there is a strong need to augment the HTC brand story and introduce the VIVE brand to entirely new constituencies.

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. Through the most immersive and considered virtual reality experience, VIVE can positively impact the world, affecting the way we live, learn and believe.

VIVE is the only consumer virtual reality system on the market that enables full room-scale motion with precision tracking, enabling users to experience a more interactive and immersed world. HTC has worked with thousands of developers and partners to create VR content across a wide spectrum of sectors, from gaming to entertainment, education, health and medicine, creativity and the arts, design, shopping and commerce, enterprise, and many other major fields of human endeavor. VIVE is truly about democratizing experience, and to deliver this we bring together hardware, software, platform, services, and ecosystem innovation under the VIVE brand, demonstrating the potential of a world without limits on the imagination.

VIVE embodies so much more than hardware. From the first marketplace dedicated to VR apps, VIVEPORT, to a custom content creation engine, VIVE Studios, an ecosystem acceleration engine in the VIVE X program to wide industry alliances, VIVE is doing more than anyone to lay a firm foundation for the industry. To further demonstrate how virtual reality can lead to positive impact, initiatives like the $10 million 'VR for Impact' program seeks to create content that support the United Nation's Sustainable Development Goals. All of these initiatives and actions aim to increase brand awareness and build greater confidence to live up to our brand promise.

Product Marketing

Smartphones

2016 was a pivotal year for HTC, as we looked to reclaim and strengthen our leadership in the smartphone industry by continuing to streamline our portfolio and introduce bold marketing campaigns to differentiate our brand from the competition. We launched two product campaigns, 'Power of 10' and 'Be Edgier' as well as one brand campaign simply titled 'U'. 2016 also saw the 10th edition of and HTC-branded flagship phone, which we aptly named the HTC 10. The number '10' became the inspiration for marketing initiatives throughout the year.

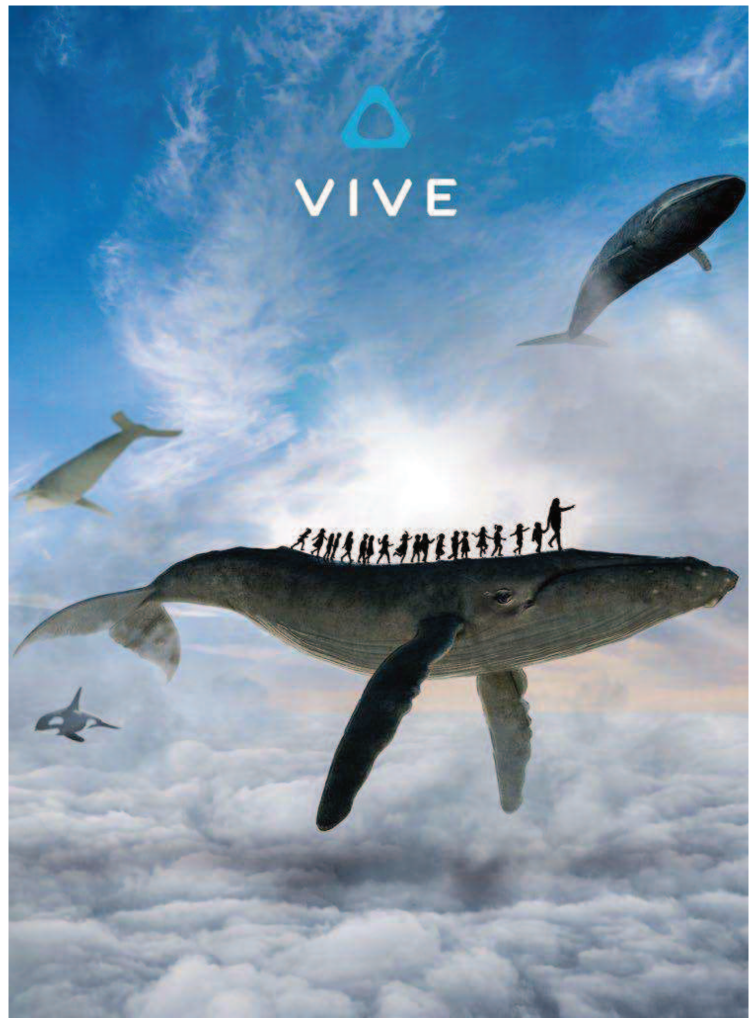
In order to excite and energize our fan base as well as inspire those considering becoming a part of our brand experience, we introduced the 'Power of 10', which provided rich territory to expand our storytelling. The number '10' represents perfection, totality. The HTC 10 was the best smartphone we had ever built. As industry firsts and disrupters with full metal unibody phones, we highlighted our beautiful metal design being sculpted by light and a camera with an industry-leading DxOMark. We also delivered the most premium and personal sound experience ever on a smartphone. Leveraging the hashtag '#powerof10', consumers around the world responded to this powerful, emotional messaging and HTC fans became even more engaged with our brand than ever before.

To capitalize on the exploding trend of mid-range phones in the emerging markets, we introduced the HTC Desire 10. With a campaign hashtag of '#Be edgier', it was the first time we designed an HTC Desire phone modeled after our flagship phone, leveraging the metallic design of HTC 10 to highlight the HTC Desire 10's contours. Most, if not all, mid-tier phones are polycarbonate so the HTC Desire 10 stood out with its metallic edges. '#Be edgier' resonated with consumers all over the world who flocked to experience our brand because of this device.

Riding the momentum of the 'Power of 10' and 'Be Edgier' campaigns, we wanted to end the year by deepening fan loyalty and passion about the HTC brand to a whole new level by igniting a movement. Thus, the 'U' campaign was born. The 'U' campaign messaging focuses on HTC creating product and experiences solely for the benefit of the user – not simply for the sake of showing off our technical prowess and capability. In the first 60 days, the 'U' campaign garnered tens of millions of Youtube views. On other social media sites, we engaged users by creating a hashtag '#BrilliantU', encouraging users to pursue and share their own brilliance and passions. Sharing reflections of skylines, people and other fun subjects off the back of the HTC U Ultra became an online hit.

Virtual Reality

In the past year, HTC VIVE has established itself as the leader in consumer virtual reality (VR), with its room-scale tracking ability. Starting from the February pre-order period to an April 5 product launch, HTC VIVE's entrance to the market upstaged the other primary high-end competition in the VR space and clearly set the definition for immersion in VR. According to multiple analyst reports, VIVE is leading sales for PC-based VR systems today. Most important, however, VIVE has captured mind-share of the development community for VR, and was named as the platform of choice in Game Developers Conference market-share survey (published January 2017).



Following the product launch in April 2016, the VIVE team set out to diversify and build an ecosystem of interests that would ensure the future of VR for HTC. VIVEPORT, the dedicated app store for VR, launched in September 2016, and provides an avenue to publish games in China and curates a dedicated VR store in North America and Europe. VIVEPORT has also extended its business focus to VR arcades, creating the foundation for successful VR arcade experiences across the world. In China alone, over 1,000 VR arcades are featuring VIVE today. The company also launched an incubator fund, VIVE X, committing up to $100 million to fund VR companies that are investing in the future of the medium.

To make VIVE even more attractive to new purchasers, the team has funded bundled content throughout the year, featuring Job Simulator, Google's Tilt Brush, The Gallery – Episode 1: Call of the Starseed, Zombie Training Simulator, and more. This work has helped developers to gain an install and revenue base with VIVE. From fewer than 100 titles at launch, the SteamVR store alone has grown to over 1,500 VR titles. To further support this effort, in November, the company launched VIVE Studios, an internal development and publishing arm for VR content, which coincided with the launch of the division's first title: Arcade Saga.

Over the course of the year, VIVE set out to showcase that the promise of VR is real and here to stay. To this end, the company has merchandised VIVE across 50 retailers globally, and have presented more than 750,000 demos through retailers in the U.S. alone. Likewise, the company has paired VIVE technology with major enterprise and consumer brand launches including Honda, Adidas, NBA, Jaguar, Salesforce and more.

Most recently, at CES 2017, VIVE set the stage for year two of consumer VR by announcing tools to expand the VIVE ecosystem for VR developers, retailers and accessories manufacturers. The company introduced the VIVE Tracker, the VIVE Deluxe Audio Strap and a new subscription service for VIVEPORT. The VIVE Tracker alone, represents an enormous opportunity for developers to monetize both new software and accessories, by easily integrating real-world objects into VR. The new VIVE Deluxe Audio Strap allows for longer play sessions due to an even more comfortable fit, and integrates audio into the headset for the first time. Lastly, VIVEPORT subscription provides an easy and affordable way to explore new VR titles monthly and a significant opportunity for developers to monetize their content.

For VIVE, there's far more to come in 2017. We're just getting started.

Progress in Research & Development

Smartphones

Since its inception, HTC has invested consistently to consolidate in-house R&D capabilities. Today, R&D professionals account for almost 30% of HTC's headcount, and annual R&D investments regularly represent 14 percent of total revenues. 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 Sense™, launched in 2009, was a momentous breakthrough that revolutionized the

mobile phone experience. In 2011, HTC launched several enhanced cloud and audio-visual services that enhance and enrich the HTC user experience.

HTC has earned its pioneering reputation through innovation and an exceptional understanding of industry and consumer trends. Nowhere is this more apparent than in the Android and Windows Phone markets. In 2011, with markets shifting up to 4G high-speed mobile networks, HTC launched HTC Thunderbolt and HTC Titan II - the world's first LTE Android and LTE Windows Phone smartphones. Milestones like these further highlight HTC's leadership in critical technologies.

HTC unveiled the HTC One family at the 2012 Mobile World Congress. This addition to HTC's portfolio further streamlined the user experience with unparalleled design aesthetics, with amazing camera and authentic sound. The HTC One was the only smartphone in its class with the all-new ImageSense™ to enhance image and video capture functions.

In order to further satisfy the different needs of the market, HTC in 2012 released multiple smartphones that combined performance and ergonomic design, such as the release of the first 4G LTE Windows Phone, named TITAN II. In addition, HTC also featured the critically acclaimed entry-level Desire series smartphones. In the high-end space, HTC released 5-inch full HD smartphones, such as the DROID DNA in 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 (later called the M7). 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 can instantly acquire depth-of-view information and provide super-fast focusing (300ms) to capture every exciting moment of the user. The UFocus™ function can be used to alter the focus of the images while all creative photo backgrounds and Seasons animations offer the user an incomparable photo experience. The new Zoe™ integrates all its functions even more intuitively and seamlessly into the snapshot function. Combining Motion Launch™ gestures with the new Sense 6 (6th Sense) and Smart Sensor Hub, HTC One M8 is able to recognize gestures and touch control tracks to intelligently launch corresponding functions or apps. The HTC One M8 incorporated all of these functions without compromising the battery life. More demanding conditions and specifications extend battery life by 40% while the extreme power-saving function increases the standby time to two weeks. 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 and Google together released Nexus 9 tablet in October 2014. The 8.9-inch Nexus 9 has a well-sized 2K (2014 x 1536 pixels) IPS display to provide immersive video a 4:3 aspect ratio (length to width ratio) in conjunction with 7.95 mm ultra-thin body thickness together with tone rich HTC BoomSound dual front stereo speakers, so that the user may balance work and entertainment. The attach-to-go, responsive removable Bluetooth keyboard and protective cover allow you transform Nexus 9 to a portable workstation instantly. In conjunction with origami-based collapsible and flip-angle seat cover, the integral device integration provides Nexus 9 with mobility, so that the user can always keep productivity. With the optimal 64-bit NVIDIA Tegra K1 (dual 2.3 GHz Denver CPU and 192 core Kepler mobile GPU) processor, in conjunction with the always-on intuitive voice command and globally debuted 64-bit Android Lollipop OS, Nexus 9 has improved both productivity and tablet operation experience to a completely new level.

HTC continues challenging ourselves to aim higher. Building on the design DNA of its predecessors, the HTC One M9 combines the antenna and precision of HTC One M7 and the ergonomic curves of HTC One M8 in a seamless, elegant metal unibody. We achieved 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 October 2015, HTC unveiled the latest addition to the award-wining HTC One family- HTC One A9. New curves, refined edges, and precision-cut ridges on the power button and the super-thin metal frame give the phone a smooth, lightweight feel. In a stunning fusion of metal and glass, a 5-inch, Full HD AMOLED screen cascades into the metal frame, offers brighter and more vivid colors for brilliant graphics and gaming, even in direct sunlight. Its main 13MP rear camera features Optical Image Stabilization (OIS), which automatically minimizes hand shake and corrects vibrations to give you a crystal-clear picture every time. Meanwhile, the front UltraPixel camera delivers the best self-portraits in any lighting condition, using HTC's UltraPixel sensor to capture 300% more light than conventional smartphone cameras. In addition, HTC One A9 offers an optional Pro mode to capture the perfect photo without being a photography expert. RAW capture, a tool used by professional photographers, can also be used for an unmatched level of detail and post-shot editing flexibility. Combined with a multi-directional fingerprint scanner located at the bottom of the screen, Android Pay makes purchasing items as secure and as easy as "tap, pay, done." Game changing audio has always been central to the HTC One family, and the HTC One A9 delivers amazing sound quality, with HTC BoomSound integrated into the headset combined with Dolby Audio™ surround technology, delivering immersive, vibrant sound that matches a live experience in your headphones by taking high-resolution audio to the next level.

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 colourful, 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. HTC 10 boasts the latest Qualcomm Snapdragon processor with enhanced 4G LTE, and each device comes with Boost+ which is designed to make your phone faster, to consume less power and to provide effective security and applications management features. Included in the box is the quick charge 3.0 Rapid Charger with improved thermal management that can charge the battery up to 50% in just 30 minutes – ideal for people who find their phone running low on juice before the end of the working day.

In November 2016, the US-launched HTC 10 Bolt (HTC 10 Evo for non-US areas) made another breakthrough in full-metal and whole-body manufacturing technique and pushed its water- and dust-resistance toward IP57 level that is capable of withstanding water-immersion in the depth of 1 meter for 30 minutes, making it the first full-metal Android cellphone that has reached such a high level. On top of HTC 10 Bolt, what was also launched was the world's first USB Type-C smart earphone with personalized sound-effect being able to adjust every note, rise and fall, and tone based on specific anatomy inside the users' ears. It then provides personalized compensating frequency feedback, bringing in a whole-new experience with sound.

In January 2017, HTC employed "You" as the concept behind its design to launch the brand-new HTC U Ultra that features a whole new design with 3D watery-curved glass for its look, unveiling the direction of its product design for 2017. Among these new phones, sapphire glass was introduced as the higher level model and was the first premium cellphone for HTC to feature protection through sapphire crystal glass of which the sturdiness is comparable to diamonds, making it the ultimate choice to resist against cracking and scratching cellphones. In terms of innovation in user interface, for the very first time, functions that are most frequently used by users, such as most frequently-used contact info for family and friends, application shortcuts, and even notifications are added to the second screen. Through in-depth learning, HTC Sense Companion is able to gradually learn about individual users' habits of use, automatically detect calendar scheduling on the cellphone, habit of APP use, power management, etc., and it can offer touching suggestions that are suitable for users. The built-in voice recognition offers the ability to recognize voice and then respond. It can even start the cellphone when it is on standby. For multimedia, the Super LCD5 with the resolution of 5.7-inch QHD offers the most optimal visual experience. HTC USonic high-quality earphone is able to analyze users' inner ears adopting wave pulse analysis, with one button press to complete personalized smart sound effect. The cellphone features four high-sensitivity all-directional microphones that allow recording of sound from 360 degrees all around to create a realistic, immersive effect as if being present on site. The main camera captures a perfect image using its 12Mp UltraPixel high-sensitization sensor along with optical anti-handshake and laser focusing. The front camera is configured with a 16Mp resolution that offers powerful capture of details and can switch to the first-featured UltraPixel high-sensitization mode under low light to enhance perception of light up to four times.

Virtual Reality

In March 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 in the 2015 Mobile World Congress (MWC).

In the Consumer Electronics Show (CES) in the U.S. in January 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 materiel. 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.

In the Consumer Electronics Show (CES) in the U.S. in January 2017, HTC debuted two premium accessories, the VIVE Tracker™ and VIVE Deluxe Audio Strap™.

The VIVE Tracker will open 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.

VIVE Tracker

The VIVE Tracker enables motion tracking for entirely new form factors to be trackable within the VR world, and is the foundation for building a new accessories ecosystem for VIVE. At CES, VIVE demonstrated 8 VIVE Tracker integrations that showcase the future of VR applications. Most important, the VIVE Tracker will integrate with any number of future VR accessories via a simple connection, ensuring developers and consumers will have a single accessory to unlock thousands of new experiences.

To foster the long-term growth of VR, HTC want to make it even easier for developers to prototype and market more immersive controllers and accessories. The VIVE Tracker is the first step in growing an ecosystem of third-party accessories that will change how we interact with virtual experiences and provide consumers and businesses with an unlimited amount of content opportunities.

At CES, VIVE showcased a variety of Tracker-enabled accessories, including the first VR camera, multiple rifles built for VR shooters, haptic gloves for VR, and even training applications for Major League Baseball players and professional firefighters.

VIVE Deluxe Audio Strap

The VIVE Deluxe Audio Strap is designed with adjustable headphones, allowing you to enjoy 360-degree VR audio with even more comfort and convenience. The headstrap eadstrapttluxe Audio Strap is designed with adjustable headphones, allowing you to enjoy 360-degree VR headstrap, ensuring a tighter and more comfortable fit.

Healthcare

The HTC Healthcare business unit comprises cross-domain experts and engineers in areas such as computer science, software engineering, medicine, regulations, user experience, design, through virtual reality / 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.

International Summit on Healthcare Innovation 2016

HTC hosted the "International Summit on Healthcare Innovation 2016" in Taiwan, co-organized by Taiwan Neurosurgical Society, invited to 25 domestic and foreign top medical innovation experts, including five deans. With the aim of discussing the assistance and use in medical virtual reality (Medical VR) and healthcare artificial intelligence (Healthcare A.I.) through cross-domain and cross-industry cooperation with medical, artificial intelligence, and computer science experts.

The use of medical VR in the preoperative planning of the brain can assist neurosurgeons and surgical teams to do better preoperative preparation. When the patient puts on the VR headset, you can enter your own brain to clearly understand the path of the surgeon's surgery and brain tumor location, significantly improve the communication with the patient before surgery. In addition, VR can also improve the anatomy education of medical colleges and surgery-related training.

Over 200 participants from 15 medical centers and related academic units participated in this summit. It has laid the foundation for the development of medical artificial intelligence (Medical A.I.) and virtual reality surgery (VR Surgery).

Mackay Medical Hall

“Taking on time” is one of the critical priorities for chronic patients to control the condition. Many chronic patients are older, memory is not as good as in the past, and sometimes they forgot to take their medication. In order to solve the problem for the patient, HTC Healthcare cooperated with Mackay Memorial Hospital to develop the “Mackay Medical Hall” app, with which patients can use the mobile phone to scan the QR code on medication bag or chronic prescription to complete personal medication settings, as long as medication taking time is up, the app will regularly ring to remind the patient for taking medication. If the patient scans chronic disease consecutive prescription, the app will also remind the medication to be refilled.

The “Mackay Medical Hall “ app is to help patients to take care of personal medication and improve medication adherence, so medication records and physical condition are presented by the charts to help users understand the overall recovery trends and changes. In addition, you can be concerned about the medication situation and health status of friends through the Mackay Medical Hall. The app also supports the children’s exclusive subordinate account to help record your child’s medication.

The “Mackay Medical Hall” app won the first prize of the 2016 Young Award for Healthcare Medicine, as well as the 2017 Smart City Innovation Application Award - the wisdom of the medical field. This app will be extended to other hospitals in 2017.

VIVEPAPER

HTC developed and launched a novel augmented reality reading system, VIVEPAPER, which renders virtual multimedia content on a piece of physical paper (card stock). The paper then appears as a multimedia book when viewed through the display of a head-mount device (HMD). The rendering pipeline of VIVEPAPER consists of three main components: an HMD with a frontal camera, a card-stock paper printed with visual fiducial markers, such as QR codes, and an HCI module. A user sees a virtual book on the display of a HMD rendered from the physical card stock. The user can interact with the book through natural hand gestures and eye positioning such as swipe for flipping pages, and point-and-click or staring for selecting content.

VIVEPAPER turns an ordinary piece of two-dimensional card stock into a doorway to an infinite amount of content in 2D, 3D, VR, and any other format that can be rendered on the HMD display, while preserving the natural ways of human-book interactions. Since its launch in October 2016, VIVEPAPER has been adopted in several domains including education, training, and tourism for making rich media information immersive and interactive.

HTC has deployed VIVEPAPER to commercial VR systems: VIVE on PC and Daydream on the Google Pixel. Additionally, a content-generation platform has also created to allow third parties to upload and compose books for users to explore.

Business Development

HTC’s R&D programs for the most recent fiscal year primarily focus on research and development of applications related to the user experience and mobile data services, and on providing product-related technical support and after-sales service. In addition to further developing its existing smartphone product line, the Company will continue to research and develop technologies that enhance the user experience,

In the meantime, in order to timely respond to the fast-growing and coming to mature LTE technology and market, HTC continues to invest more developing resources to ensure HTC devices to fully meet the demands of global telecom carriers to ensure HTC’s leadership position in 4G market and technology. HTC will continue to use its resources to develop new technologies and enhance the holistic user experience in order to deliver products and services that fit all high-end, mid-end, and low-end segment market demands.

R&D Expenditures in Recent Years

Unit: NT$ millions

	2016	2015	2017Q1
Worldwide R&D Expenditures	10,957	13,728	2,574
As a Percentage of Worldwide Revenue	14%	11%	17%

Corporate Governance

HTC is committed to implementing good governance, effective risk management and information transparency. HTC policies related to these corporate governance are explained further below:

Independent Director Positions Created

In accordance with the Securities and Exchange Law, HTC elected two independent directors at its board re-elections in 2007, in order to strengthen the independence and functions of Directors and enhance the operational effectiveness of the Board.

Remuneration Committee Created

In compliance with the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company whose stock is listed on the Stock Exchange or Traded Over-the-Counter" as per Letter No.1000009747 issued by the Financial Supervisory Commission of the Executive Yuan on March 18, 2011, the Board of Directors resolved to adopt the Company's Compensation Committee Charter and the Committee shall consist of three members who are appointed by resolution of the board of directors. The current 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.

Board of Supervisor Proceedings

Meetings of the Board of Supervisors take place every quarter, at which financial, legal, internal audit and other issues are reported. Issues reviewed by supervisors and certified public accountants include risk management, intercompany transactions, changes in accounting policies, assessments of IPR infringement risk, and reasonableness of provision and accrual items to be presented on financial reports.

Disclosure of Information & Financial Forecasts

HTC has been working diligently to enhance the timeliness and transparency of financial disclosures. In addition to online disclosure of important data related to HTC's business in accordance with regulations to keep investors up-dated on the business operations. Apart from regular disclosures, HTC also participates in investor forums in Taiwan and overseas as well as proactively visits major investment houses and investors to enhance communication with the investment community.

Stable Dividend Policies

HTC maintains stable dividend policies. Factors considered in determining dividend distributions include current and future investment environments, capital needs, domestic and international competition, and budgetary considerations. Shareholder interests and the balance between dividend distributions vs. longer-term financial planning are also considered. The Board of Directors, in accordance with regulations, sets a distribution plan each year for submission to shareholders.

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

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

Unit: NT$ millions

	2016		
Supplier Code	Amount	%	Relation to HTC
A	7,301	15	None
Others	40,782	85	
Total	48,083	100	

Unit: NT$ millions

	2015		
Supplier Code	Amount	%	Relation to HTC
A	14,039	18	None
B	13,831	18	None
C	10,970	14	None
Others	37,953	50	
Total	76,793	100	

	2017Q1		
Supplier Code	Amount	%	Relation to HTC
D	1,118	10	None
Others	10,078	90	
Total	11,196	100	

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

	2016		
Customer Code	Amount	%	Relation to HTC
A	16,374	21	N/A
Others	61,787	79	
Total	78,161	100	

Unit: NT$ millions

	2015		
Customer Code	Amount	%	Relation to HTC
Others	121,684	100	
Total	121,684	100	

	2017 Q1		
Customer Code	Amount	%	Relation to HTC
A	4,598	32	N/A
Others	9,933	68	
Total	14,531	100	

Production and Sales for the Most Recent Two-Year Period

(1) Production

Unit: 1,000 units / NT$ millions

	2016		
	Production Capacity	Production Quantity	Production Value
Smartphones and other items (accessories)	18,400	7,910	44,885
Total	18,400	7,910	44,885

Unit: 1,000 units / NT$ millions

	2015		
	Production Capacity	Production Quantity	Production Value
Smartphones and other items (accessories)	20,800	9,364	49,796
Total	20,800	9,364	49,796

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

(2) Sales

Unit: 1,000 units / NT$ millions

	2016			
	Domestic Sales		Export Sales	
	Quantity	Value	Quantity	Value
Smartphones and other items (accessories)	1,812	9,844	26,833	65,920
Total	1,812	9,844	26,833	65,920

Unit: 1,000 units / NT$ millions

	2015			
	Domestic Sales		Export Sales	
	Quantity	Value	Quantity	Value
Smartphones and other items (accessories)	2,084	17,624	60,183	102,464
Total	2,084	17,624	60,183	102,464

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

Principal Contractual Agreements

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

Party	Term	Description
Apple, Inc.	January 1, 2015 - December 31, 2017	The scope of this license covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with payment based on the agreement.
Qualcomm Incorporated.	December 20, 2000 to the following dates: a. If the Company materially breaches any agreement terms and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Nokia Corporation	January 1, 2014 - December 31, 2018	Patent and technology collaboration; payment for use of implementation patents based on agreement.
InterDigital Technology Corporation	December 31, 2003 to the expiry dates of these patents stated in the agreement.	Authorization to use TDMA and CDMA technologies; royalty payment based on agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates of these patents stated in the agreement.	GSM/DCS 1800/1900 patent license; royalty payment based on agreement.
MOTOROLA, Inc.	December 23, 2003 to the latest of the following dates: a. Expiry dates of patents stated in the agreement. b. Any time when the Company is not using any of Motorola's intellectual properties.	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA standards patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents stated in the agreement.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
IV International Licensing Netherlands, B.V.	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.

4

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

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

(1) Directors and Supervisors:

1. Directors' and Supervisors' information (I)

2017.04.17 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 holdingsharesin 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	%	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	3.93%	22,391,389	2.72%	0	0.00%	• Bachelor in Economics, University of California, Berkeley. • General Manager of the PC Division, First International Computer, Inc. (FIC)	• CEO and President, HTC Corporation • Chairwoman (Representative), H.T.C. (B.V.I) Corp. • Chairwoman (Representative), HTC Investment One (BVI) Corporation • 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	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.	• Chairman, HTC Social Welfare Foundation. • Chairman, HTC Education Foundation. • Director, Chunghwa Telecom Foundation. • General Manager, Atrust Corporation • Director, China University of Technology • Director, Asia Pacific Fuel Cell Technologies, Ltd. • Chairman, Taiwan Chief Executive Officer Club for Social Benefit	None	None	None

(Continued)

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 holdingsharesin 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	%	Shares	%			Title	Name	Relation
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	2.72%	32,272,427	3.93%	0	0.00%	• MSCS, California Institute of Technology. • President, Symphony Laboratories.	• President & Chairman, 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.	Chairwoman	Cher Wang	Spouse
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	• Max and Doris Starr Professor at Harvard Business School • Director, Intel Corporation • Director, The National Bureau of Economic Research • Director, Financial Engines, Inc.	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	• Compensation Committee member, HTC Corporation. • Independent director and Compensation Committee member, Taiwan High Speed Rail Corporation. • Chairman, Angel Hearts Family Social Welfare Foundation. • Chairman, New Mainstream Cultural Foundation.	None	None	None
Independent Director	Swiss Confederation	Josef Felder	Male	2016.06.24	2019.06.23	2007.06.20	229,985	0.03%	260,000	0.03%	0	0.00%	0	0.00%	• Graduate of Advanced Management Program (AMP), Harvard Business School, Boston • Deputy Director, Crossair • Chief Executive Officer, FIG (Flughafen Immobilien Gesellschaft) • Chief Executive Officer, Unique (Flughafen Zurich AG)	• Independent director, Careal Holding AG, Zurich • Independent director, AMAG, Zürich • Independent director, Edelweiss Air AG, Zurich • Chairman, Gutsbetrieb Oetlishausen AG, Hohentannen • Chairman, Pro Juventute, Zurich • Independent director, Luzerner Kantonalbank AG, Lucerne • Chairman, Flaschenpost AG, Zürich • Chairman, The Nuance Group • Chairman and Independent director, Zino Davidoff SA, Fribourg • Chairman, Stöckli Swiss Sports AG, Wolhusen	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	5.33%	0	0.00%	0	0.00%	• Ph.D in Material Science and D.Eng in Electrical Engineering, UCLA. • Executive Vice President, Lam Research Co., Ltd.	• Director, IC Broadcasting Co., Ltd • Vice President, Via Technologies, Inc. • Director, Chinese Christian Faith, Hope and Love Foundation. • Director, Via Faith, Hope and Love Foundation. • Director, TVBS Media Inc. • President, Chander Electronics Co., Ltd.	None	None	None

(Continued)

							Shareholding When Elected		Current Shareholding (Note)		Spouse & Minor Sharing (Note)		Other persons holdingsharesin their name(Note)				Other executives, Directors and Supervisors who are spouses or within second-degree of kinship		
Title	Nationality/ place of Registration	Name	Gender	Date Elected	Term Expires	Date First Elected	Shares	%	Shares	%	Shares	%	Shares	%	Principal work experience and academic qualifications	Positions held concurrently in the company and/or and other company	Title	Name	Relation
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 2017.04.17

2. Major shareholders of Institutional Shareholders

2017.04.17

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

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

The Institutional Shareholder is a foundation, no major shareholders.

4. Directors' and Supervisors' Information (II)

2017.04.17

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

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

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

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

2017.04.17 Unit: Share; %

Title	Nationality	Name	Gender	Date Elected	Shareholding (note 1) Shares	%	Spouse & Minor Shareholding (note 1) Shares	%	Other persons holding shares in their name (note 1) Shares	%	Principal work experience and academic qualifications	Positions held concurrently in the company and/ or and other company	Managers with spouses or relatives within second-degree of kinship Title	Name	Relation
Chairwoman & CEO	Republic of China	Cher Wang	Female	2015.03.20	32,272,427	3.93%	22,391,389	2.72%	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 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	Wen-Chi Chen	Spouse
President of Smartphone and Connected Devices Business	Republic of China	Chialin Chang	Male	2012.04.16	0	0.00%	0	0.00%	0	0.00%	• PhD in Electrical Engineering, Princeton University. • MBA, The Wharton School of the University of Pennsylvania. • Partner, Goldman Sachs. • Engineer, Motorola (US).	None	None	None	None
Chief Operating Officer	Republic of China	David Chen	Male	2007.05.08	1,086,000	0.13%	244,000	0.03%	0	0.00%	• Bachelor in Electronic Engineering, National United College. • National Chiao Tung University EMBA • Principal Engineer, Digital Equipment Corporation.	• Chairman (Representative), HTC Communication Technologies (Shanghai) Limited • Chairman (Representative),HTC Electronics (Shanghai) Co., Ltd. • Chairman (Representative), High Tech Computer (SuZhou) Co., Ltd. • Chairman (Representative), Communication Global Certification Inc. • Chairman (Representative), HTC Communication Technologies (Beijing) Co. Limited • Director (Representative), HTC Communication Co., Ltd	None	None	None
Chief Technology Officer	Republic of China	WH Liu	Male	2008.06.01	94,675	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
President of North Asia (Note 2)	Republic of China	Jack Tong	Male	2007.07.01	9,000	0.00%	0	0.00%	0	0.00%	• Bachelor in Civil Engineering, Feng Chia University. • President, Dopod International Corp.	• Chairman (Representative), HTC Communication Co., Ltd. • Director (Representative), HTC Vietnam Services One Member Limited Liability Company • Director (Representative), HTC Electronics (Shanghai) Co., Ltd. • Director (Representative), HTC HK, Limited • Director (Representative), HTC HIPPON Corporation	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), HTC I Investment Corporation • Director (Representative), HTC America, Inc. • 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	None	None	None

(Continued)

					Shareholding (note 1)		Spouse & Minor Shareholding (note 1)		Other persons holding shares in their name (note 1)				Managers with spouses or relatives within second-degree of kinship		
Title	Nationality	Name	Gender	Date Elected	Shares	%	Shares	%	Shares	%	Principal work experience and academic qualifications	Positions held concurrently in the company and/ or and other company	Title	Name	Relation
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 I 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	None	None	None
Vice President	Republic of China	Crystal Liu	Female	2012.04.24	0	0.00%	0	0.00%	0	0.00%	• MBA, Oklahoma City University. • HR Director, DuPont • APAC Business Group HR Manager, Intel Microelectronics Asia Ltd. • HR Manager, BRS Nike Taiwan	• Director, HTC Middle East FZ-LLC	None	None	None
Associate Vice President	Republic of China	Hsiu Lai	Female	2015.09.16	18,057	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	• Supervisor (Representative), Communication Global Certification Inc. • Director (Representative), HTC America Innovation, Inc. • Supervisor, HTC Corporation (Shanghai WGO) • Supervisor, HTC Electronics (Shanghai) Co., Ltd. • Chairwoman(Representative), Yoda Co., Ltd. • Supervisor (Representative), High Tech Computer (SuZhou) • Supervisor, HTC Communication Technologies (Beijing) Co. Limited • Supervisor, HTC Communication Co., Ltd. • Supervisor, HTC Communication Technologies (Shanghai) Limited	None	None	None

Note 1: Shareholding as of 2017.04.17
Note 2: Jack Tong was relieved from the position of insider manager on 24 April 2017

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

1. Remuneration paid to Directors (including Independent Director)

2016; Unit: NT$ thousands

Title	Name	Remuneration paid to Direcotrs: Salary (A)(Note 1): HTC	Remuneration paid to Direcotrs: Salary (A)(Note 1): All Consolidated Entities (Note 6)	Retirement pay (B): HTC	Retirement pay (B): All Consolidated Entities (Note 6)	Remuneration (C) (Note 2): HTC	Remuneration (C) (Note 2): All Consolidated Entities (Note 6)	Allowance (D) (Note 3): HTC	Allowance (D) (Note 3): All Consolidated Entities (Note 6)	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 earned as employee of HTC subsidiary affiliates: Salary,Bonuses, and Allowance (E) (Note4): HTC	Salary,Bonuses, and Allowance (E) (Note4): All Consolidated Entzities (Note 6)	Retirement pay (F): HTC	Retirement pay (F): All Consolidated Entities (Note 6)	Employee compensation (G) (Note 5): HTC: Consolidated	Employee compensation (G) (Note 5): HTC: Stock	Employee compensation (G) (Note 5): All Consolidated Entities (Note 6): Cash	Employee compensation (G) (Note 5): All Consolidated Entities (Note 6): Stock	Total Compensation (A+B+C+D+E+F+G) as a percentage of net income (%): HTC	Total Compensation (A+B+C+D+E+F+G) as a percentage of net income (%): All Consolidated Entities (Note 6)	Compensation paid to Directors from non-subsidiary affiliates (Note 7)
Chairwoman	Cher Wang	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Director	HT Cho	2,650	2,650	0	0	0	0	0	0	-0.02	-0.02	0	0	0	0	0	0	0	0	-0.02	-0.02	0
Director	Wen-Chi Chen	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Director	David Bruce Yoffie	12,958	12,958	0	0	0	0	0	0	-0.12	-0.12	0	0	0	0	0	0	0	0	-0.12	-0.12	0
Independent Director	Chen-Kuo Lin	3,500	3,500	0	0	0	0	0	0	-0.03	-0.03	0	0	0	0	0	0	0	0	-0.03	-0.03	0
Independent Director	Josef Felder	10,123	10,123	0	0	0	0	0	0	-0.09	-0.09	0	0	0	0	0	0	0	0	-0.09	-0.09	0

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

2016; Unit: NT$ thousands

Title	Name	Remuneration paid to Supervisors: Salary (A) (Note 1): HTC	Salary (A) (Note 1): All Consolidated Entities (Note 4)	Remuneration (B) (Note 2): HTC	Remuneration (B) (Note 2): All Consolidated Entities (Note 4)	Allowance (C) (Note 3): HTC	Allowance (C) (Note 3): All Consolidated Entities (Note 4)	Total Remuneration (A+B+C) as a percentage of net income (%) (Note 4): HTC	Total Remuneration (A+B+C) as a percentage of net income (%) (Note 4): All Consolidated Entities (Note 4)	Compensation paid to Supervisors from non-subsidiary affiliates (Note 5)
Supervisor	Huang-Chieh Chu	1,750	1,750	0	0	0	0	-0.02	-0.02	0
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	1,944	1,944	0	0	0	0	-0.02	-0.02	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

2015; Unit: NT$ thousands

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)	Exercisable Employee Stock Options (Note 5): HTC	Exercisable Employee Stock Options (Note 5): All Consolidated Entities(Note 6)	Restricted employee shares (Note 8): HTC	Restricted employee shares (Note 8): All Consolidated Entities(Note 6)	Compensation paid to President & Vice Presidents from non-subsidiary affiliates (Note 7)
President of Smartphone & Connected Devices Business	Chialin Chang																	
Chief Operation Officer	David Chen																	
Chief Technology Officer	WH Liu																	
President of North Asia(Note a)	Jack Tong																	
General Counsel	Marcus Woo	58,638.74	104,624.30	2,471.56	2,897.64	121,423.3	121,423.3	0	0	0	0	N/A	N/A	4,450 (thousands shares)	5,150 (thousands shares)	1,912 (thousands shares)	1,912 (thousands shares)	N/A
Chief Financial Officer (Note b)	Peter Shen																	
Vice President	Crystal Liu																	
Associate Vice President	Hsiu Lai																	
Vice President (Note c)	Jason Mackenzie																	
Vice President (Note d)	Edward Wang																	

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: Since the Company did not issue restricted employee shares up to the date of printing of this annual report, the number in this column is not applicable.
Note 9: This chart lists persons who have served as HTC's General Manager and Assistant General Managers on 31 December 2016.
Note a: Jack Tong was relieved from the position of insider manager on 24 April 2017
Note b: Peter Shen was appointed as insider manager on 20 June 2016
Note c: Jason Mackenzie was relieved from the position of insider manager on 2 February 2017
Note d: Edward Wang was relieved from the position of insider manager on 1 June 2016

* 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	2 (Note 1)	1(Note 2)
NT$ 2,000,000 - NT$ 4,999,999	2 (Note 3)	2(Note 3)
NT$ 5,000,000 - NT$ 9, 999,999		
NT$ 10,000,000 - NT$ 14, 999,999	3 (Note 4)	4(Note 5)
NT$ 15,000,000 - NT$ 29, 999,999		
NT$ 30,000,000 - NT$ 49, 999,999	2(Note 6)	3(Note 7)
NT$ 50,000,000 - NT$ 99, 999,999		
Over NT$ 100,000,000		
Total	9	10

Note 1: Peter Shen, Edward Wang
Note 2: Edward Wang
Note 3: Crystal Liu, Hsiu Lai
Note 4: WH Liu, Jack Tong, Marcus Woo
Note 5: WH Liu, Jack Tong, Marcus Woo, Peter Shen
Note 6: Chialin Chang, David Chen
Note 7: Chialin Chang, David Chen, Jason Mackenzie

4. Employee profit sharing granted to Management Team

None.

(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				Increases or decreases % (Note)	
	2015		2016 (Note)			
Title	HTC	All Consolidated Entities	HTC	All Consolidated Entities	HTC	All Consolidated Entities
Directors	N/A	N/A	N/A	N/A	N/A	N/A
Supervisors	N/A	N/A	N/A	N/A	N/A	N/A
President and Vice Presidents	N/A	N/A	N/A	N/A	N/A	N/A

Note: Net income with negative numbers in fiscal 2015 and 2016.

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

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

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

The Seventh Board of Directors conducted 6(A) meetings in 2016. 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	6	0	100%	
Director	Wen-Chi Chen	6	0	100%	
Director	HT Cho	6	0	100%	
Director	David Bruce Yoffie	2	4	33.33%	
Independent Director	Chen-Kuo Lin	6	0	100%	
Independent Director	Josef Felder	2	4	33.33%	
Supervisor	Wei-Chi Investment Co., Ltd. Representative: Shao-Lun Lee	6	0	100%	
Supervisor	Huang-Chieh Chu	6	0	100%	

The Eighth Board of Directors conducted 3(A) meetings in 2016. 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	3	0	100%	
Director	Wen-Chi Chen	3	0	100%	
Director	HT Cho	3	0	100%	
Director	David Bruce Yoffie	2	1	66.67%	
Independent Director	Chen-Kuo Lin	3	0	100%	
Independent Director	Josef Felder	2	1	66.67%	
Supervisor	Wei-Chi Investment Co., Ltd. Representative: Shao-Lun Lee	3	0	100%	
Supervisor	Huang-Chieh Chu	3	0	100%	

Other matters to be included:

1. There was no independent director expressing opposition or reservation with respect to any Board of Directors meeting during the preceding fiscal year, and no written record or written statement of related board resolutions.

2. There was no Directors' abstention from discussion due to conflicts of interests in 2016.

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. HTC achieved "A+" rating in information disclosure for the first time in the sixth Information Disclosure and Transparency Ranking organized by the Securities and Future Institute (SFI) and also rated "A+" for in seventh, eighth, eleventh. HTC was recognized as one of the top 10 public companies with "A+" rating in the seventh evaluation and rated "A++" in the ninth, tenth and twelfth evaluation for listed/OTC companies. HTC has engaged in the"Corporate Governance evaluation", and listed top 6% to 20% of all TWSE TPEx listed companies in 2014-2015and top 21% to 35% in 2016.

(2) Supervisor participation in Board of Directors meetings

The Seventh Board of Directors conducted 6 (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	6	100%	
Supervisor	Huang-Chieh Chu	6	100%	

The Eighth Board of Directors conducted 6 (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	3	100%	
Supervisor	Huang-Chieh Chu	3	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 and acting spokesperson to properly handle any questions, suggestions, or disputes involving shareholders.	None
(2) Whether the company understands the major shareholders and the ultimate owners of these major shareholders.	v		The Company has a good understanding of its major shareholders through shareholder registers provided by stock agents at book closures. HTC also provides information regularly on pledges and the increase and decrease in shareholdings of shareholders with a more than 10% stake in the company.	None
(3) Whether the company sets up and executing of risk management mechanism and "firewalls" between the company and its affiliates	v		The division of responsibilities between HTC and its affiliates with respect to management of personnel, resources, and finances is clear. Risk assessments are rigorously performed and appropriate firewalls have been established. HTC conducts business with affiliates based on the principles of fairness and reasonableness and fully observe the operating Procedures for transactions with Specific Companies, Enterprise Groups and Related Parties and other related regulations. Terms and conditions, pricing, and payment methods are clearly prescribed in contracts to avoid non-arms-length transactions and financial tunneling. When it is necessary to eliminate non-competition restrictions on directors and managerial officers, requests are duly submitted to the Shareholders' Meeting and Board for approval.	None
(4) Whether the company has adopted internal rules to forbid against use of unpublicized information in the market by internal staffs for purchase of priced stocks?	v		The company has adopted the"Operational Procedures for Handling Material Inside Information and Preventing Insider Tranding". It governs purchase and sale of priced stocks by internal staffs.	None
3. Composition and Responsibilities of the Board of Directors				
(1) Whether the Board of Directors has adopted guidelines for diversity of composing members and has put the guidelines into full practice?	v		In the "Principles for practice of corporate governance", the company has specified that knowledge, skills, and trainings be considered when nominating a Board member and Supervisor. Also in consideration is gender equality that contributes to diversity of Board members. Rules given in the principles should be carried out in full.	None
(2) Whether the company is willing to set up various other functional committees, in addition to the committees for salaries/compensations and auditing set up according to the law?		v	For the purpose of developing supervision functions and strengthening management mechanisms, the Board of Directors of the Company may, taking into account the size of the Board and the number of the Independent Directors, set up remuneration or any other functional committees.	Considering the number of the Independent Directors, HTC has only set up the remuneration committees.
(3) Whether the company has adopted rules and methods for assessment on performances of the Board that will be carried out annually on a regular basis?	v		The company has adopted"Rules Regarding Organization for the Salary and Compensation Committee"where rules and methods are specified for assessment on performance of the Board. Under periodic reviews are annual and long-term goals for performance of the Board, as well as policies, rules, standards, and structures for the salary and compensation.	None

(Continued)

Item	Implementation Status			Reason for Non-implementation
	YES	NO	Summary	
3. Composition and Responsibilities of the Board of Directors				
(4) Whether the company will regularly assess independence of its certified accountants?	v		In 2008, HTC started to have its Supervisors review the independence of CPAs on an annual basis. Prior to submitting a proposal to change CPA to the Board, the CPA will be interviewed and his credentials reviewed by the Supervisors to assess his independence.	None
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
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	

(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		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 2016 can be found in Appendixes 1 and 2.	

(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 Appendix 3 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. The Company's 2016 Corporate Governance Evaluation System did not fully expose the implementation of the resolutions of the shareholder's meeting in 2015 annual report, and did not expose the full corporate governance structure on the website. The Company has fully disclosed the implementation of the resolutions of the shareholder's meeting in 2016 annual report and completely exposes the corporate governance structure on the website.				

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

Title	Name	Date of Training		Organization	Training	Hours	Notes
		From	To				
Independent Director	Chen-Kuo Lin	2016.03.04	2016.03.04	Taiwan Corporate Governance Association	Disputed Cases regarding Director's and Supervisors' Respondibilitues for Financial Statements	3	
		2016.06.16	2016.06.16	Securities and Futures Institute	2nd Corporate Governance Evaluation Award Ceremony and Lectures	3	
Supervisor	Huang-Chieh Chu	2016.03.04	2016.03.04	Taiwan Corporate Governance Association	Disputed Cases regarding Director's and Supervisors' Respondibilitues for Financial Statements	3	
Supervisor	Shao-Lun Lee	2016.05.19	2016.05.19	Taiwan Corporate Governance Association	Political, Economic Environment and Corporate Governance in India	3	

Appendix 2: Continuous Education/Training of Management Team

Title	Name	Date of Training		Organization	Training	Hours	Notes
		From	To				
Associate Vice President	Hsiu Lai	2016.03.14	2016.03.23	Accounting Research and Development Fundation	Professional Development Class for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	30	
		2017.04.17	2017.04.18	Accounting Research and Development Fundation	Continually training for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12	

Appendix 3: Board of Directors, Supervisors and Key Personnel Liability Insurance

No	Insured Object	Insurance Company	Insured Amount	Insurance Period	Notes
	A				Renewal
1	All Directors, Supervisors and juristic person directors' representatives at investee companies and key personnel appointed by HTC	Fubon Insurance Co., Ltd.	US$: 35,000,000	From: 2015.03.15 To: 2016.03.15	Renewal
2	All Directors, Supervisors and juristic person directors' representatives at investee companies and key personnel appointed by HTC	Fubon Insurance Co., Ltd.	US$: 35,000,000	From: 2016.03.15 To: 2017.03.15	Renewal

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

1. Compensation Committee Members' Information

2017.04.17

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	1	
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 2016.

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	2	0	100%	

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

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

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

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

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

(Continued)

Item	Implementation Status: Yes	No	Summary	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/ GTSM Listed Companies
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 ISO14001:2004 certification to set criteria for environmental management systems and ISO14064:2006 certification to report greenhouse gas emissions and removal. In addition, HTC received ISO 50001 certification in 2011, using its energy management system and energy saving measures to increase energy efficiency and reduce greenhouse gas emissions.	None
(3) Whether the company pays attention to the effects of climate change on its operations, investigation of greenhouse gas affairs and its establishment of a company strategy for energy conservation and carbon and greenhouse gas reduction?	V		Beginning in 2008, HTC has publically reported and verified its Greenhouse Gas Emissions (GHG) inventories and set GHG emissions reduction goals for all production facilities in Taiwan. In 2010, with the support of third-party agencies, HTC began publically reporting its GHG inventories for its Mainland China factories. Through the implementation of ISO50001, energy management systems, and effective energy reduction measures, the company has been able to increase energy efficiency while reducing greenhouse gas emissions.	None
3. Protecting the public interest				
(1) Whether the company formulated its policies and procedures on management in accordance with relevant regulations and International Covenant on Civil and Political Rights?	V		HTC periodically holds labor coordination meetings, 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. Employees with special work requirements, such as the handling of organic hazardous solvents, will receive further training pertinent to the nature of their job. For new employees entering the factory, they will receive fire prevention training on a monthly basis.	None

(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				
(4) Whether the company has set up a system for the employees to communicate periodically and informed them through reasonable approaches about changes in operations that would cause a major impact?	V		A meeting for employee and employer is held every two months, and the meeting for the safety commission is held once every three months. All meeting minutes are posted on the company intranet (my HTC).	None
(5) Whether the company has established an effective plan for the employees in training and career development?	V		HTC values the development and cultivation of our employees. In order to fulfill the commitment to grow with our employees, HTC constructs systematic learning development blueprint that provides a comprehensive curricula covering professional, managerial and personal development as well as language courses and training for new employees. These programs help staff acclimate quickly to HTC's corporate culture and acquire essential knowledge and skills. We've introduced e-Learning and Mobile Learning platforms to make learning more convenient and flexible.	None
(6) In regards to R&D, purchases, production, operation, and procedures of service, has the company formulated polices that would protect consumers' rights, as well as procedures for appealing?	V		HTC safeguards consumer rights and interests with various services and information. It provides channels of communication that allow consumers to contact HTC, including: • the limited warranty sheet included in the HTC phone package • Customer service contact numbers in all countries • Customer service center contact info card in Taiwan • Include the telephone numbers and methods of connecting to its dedicated customer service lines on its official Website • Live customer chat service • Customer service e-mail • Home pickup and delivery service • Customer service center address	None
(7) Whether the company complied with regulations and international norms on marketing and marking for its products and services?	V		HTC follows all related international norms and regulations on marketing and labeling for its products and services, in ways that also meet expectation of its customers.	None
(8) Before interacting with its suppliers, has the company reviewed and assessed records of these suppliers in regards to whether they had negatively impacted the environment and society in the past?	V		In December 2010, HTC joined the Electronic Industry Citizenship Coalition (EICC). Based on the EICC Electronic Industry 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 EICC and Global e-Sustainability Initiative (GeSI)'s mining workgroup activities and aims to join the EICC-GeSI's mining source audit plan. We require that suppliers comply with HTC's conflict-free minerals procurement policy, which means that they must lower, reduce, and eliminate the use of conflict minerals. HTC requires suppliers to complete the "Metals Mining Source Survey" and sign a "Conflict-Free Minerals Warranty," which are both included in the Supplier Code of Conduct.	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				
(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		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.	
(9) Whether the contract between the company and its major suppliers included clauses of termination and removal of the contract should the suppliers be involved in violation of its CSR policies that cause a major impact to the environment and society?		V	In December 2010, HTC joined the Electronic Industry Citizenship Coalition (EICC). Based on the EICC Electronic Industry 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. 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 Hsinchu Blood Donation Center to organize four blood drives every year. The annual blood donation target is over 1000 bags.

The HTC Fund has established three Character and English Institutes in Hualian, Yunlin, and Chiayi. In 2013, HTC plans to add another school in Taitung. Additionally, in 2012 HTC extended outside of the education realm, using the influence of Character Education to move into other areas, which is evident from the development of Character Towns and Character Hospitals.

7. If the company's products or corporate social responsibility reports have been confirmed by relevant institutions, please indicate:
Report 1 GRI31 written guidelines have passed AA100 verification by an impartial third-party SGS and received the confirmation statement.

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

Status of Implementation of Ethical Corporate Management Best Practices

Item	Implementation Status: Yes	No	Summary	Reason for Non-implementation
1. Adoption of ethical corporate management policies and programs				
(1) Whether HTC discloses clearly for adopting ethical corporate management policies and procedures in its rules and external documents, and of the board of directors and the management in undertaking to rigorously and thoroughly enforce such policies.	V		HTC 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

(Continued)

Item	Implementation Status: Yes	No	Summary	Reason for Non-implementation
2. Enforcement of ethical corporate management				
(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.
(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

(Continued)

Item	Implementation Status: Yes	No	Summary	Reason for Non-implementation
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
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:

HTC has continued to examine and revise or adopt new rules and procedures which will enhance the efficiency of its operations and strengthen risk management and corporate governance. Over the recent years, in line with the formulation or amendment of relevant securities laws and regulations, and in consideration of operational needs, HTC has adopted or revised its"Procedures for Board of Directors Meetings","Procedures for the Acquisition or Disposal of Assets","Procedures for the Handling of Derivatives Trading","Corporate Governance Principles","Procedures for Shareholders' Meetings","Bylaws for the Election of Directors and Supervisors", and"Compensation Committee Charter". In addition, it has also adopted the"Detailed Guidelines for the Handling of Derivatives Transactions","Credit Policy and Operation Procedures", and"Rules for Assignment of Directors and Supervisors at Investee Companies", and revise implementation rules that guide its internal operations, such as the"Specific Companies, Enterprise Groups and Related Parties","Budget Management Procedures","Corporate Bylaws for Subsidiaries"and"Operational Procedures for Handling Material Inside Information, and Prevention of Insider Trading".

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

1. Statement on Internal Control

HTC Corporation

Internal Control System Statement

Date: 03/06/2017

The Company states the following with regard to its internal control system for 2016, 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 12/31/2016, 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 03/06/2017, 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: 王雪紅 President: 王雪紅

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 2016 Shareholders Meeting and Board of Directors Meetings during the most recent fiscal year and the current fiscal year up to the date of printing of this annual report.

Item	Date	Material resolutions	Note
Year 2016			
Board of directors meeting	2016.02.29	1. Adopted resolution for registering a change of share status to write-off 118,060 shares of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital. 2. Adopted resolution for registering a change of share status to write-off 4,110,000 shares of the Company's treasury stocks and setting the record date for the reduction of paid-up capital.	
Board of directors meeting	2016.03.29	1. Adoption of Fiscal 2015 Deficit Compensation Proposal. 2. Adopted resolution to set the date, time and venue for the 2016 Annual General Shareholders Meeting, as well as the time period address for submission of shareholders' proposals, and time period and address for submission of shareholders' nominations.	
Board of directors meeting	2016.05.06	1. Proposal for registering a change of share status to write-off 222,410 shares of the Company's restricted employee hares and setting the record date for the reduction of paid-up capital. 2. Proposal for the capital increase from HTC America Holding Inc., a subsidiary of HTC Corp., to HTC America Inc.	
Board of directors meeting	2016.05.14	1. Proposal for the repurchase of the Company's shares and cancellation of such shares is submitted for discussion.	
Board of directors meeting	2016.06.08	1. Proposal on the appointment of Company Chief Financial Officer & Spokesperson.	
Sharehilders meeting	2016.06.24	1. Adoption of the proposal to partially amend the Articles of Incorporation. 2. Adoption of the Fiscal 2015 Business Report and Financial Statements. 3. Adoption of the Fiscal 2015 Deficit Compensation Proposal. 4. The Company's re-election of 8th of Directors and Supervisors 5. Approve the Proposal to release the newly-elected Directors from non-competition restrictions.	Please refer to the note for an execution aummary of the material resolution s of the shareholders meeting
Board of directors meeting	2016.06.24	1. Proposal on election of the Chairperson.	
Board of directors meeting	2016.08.02	1. Proposal on the appointment of the Company's Compensation Committee members is submitted for resolution. 2. Proposal for registering a change of share status to write-off 176,170 shares of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital. 3. Proposal for registering a change of share status to write-off 7,050,000 shares of the Company's treasury stocks and setting the record date for the reduction of paid-up capital.	
Board of directors meeting	2016.10.25	1. Proposal for registering a change of share status to write-off 841,230 shares of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital.	
Year 2017			
Board of directors meeting	2017.03.06	1. Proposal for the Fiscal 2016 Deficit Compensation. 2. Proposal to set the subjects, date, time and venue for the 2017 Annual General Shareholders Meeting, as well as the time period and location for submission of shareholders' proposals and shareholders' nominations. 3. Proposal for registering a change of share status to write-off 104,500 shares of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital.	
Board of directors meeting	2017.03.15	1. Proposal for sale of land and plant of Kang Qiao Plant in Shanghai, HTC Electronic (Shanghai) Co., Ltd.	

Note: HTC has acted upon and completed execution of resolutions adopted at 2016 regular shareholders meeting.

(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
Vice President	Edward Wang	2000.3.10	2016.06.01	position adjustment

3. Information on CPA Professional Fees:

(1) Scale of information on CPA professional fees

Accounting Firm	Name of CPA	Audit Period	Note
Deloitte & Touche	Wen-Yea Shyu Kwan-Chung Lai	Years Ended December 31, 2016	

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

(2) Information on CPA professional fees

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

Unit: NT$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-Audit Fee: System Design	Non-Audit Fee: Company Registration	Non-Audit Fee: Human Resource	Non-Audit Fee: Others (Note)	Non-Audit Fee: Subtotal	CPA's Audit Period	Note
Deloitte & Touche	Wen-Yea Shyu Kwan-Chung Lai	11,470	399			840	1,239	Years Ended December 31, 2016	Transfer pricing report and international tax consultation

2. **The company does not change its accounting firm.**

3. **Audit fees paid for the current year are not lower than those for the previous fiscal year by 15 percent or more.**

4. The Company 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	2016: Change in quantity of shareholding	2016: Change in quantity of pledged shares	2017.01.01 – 2017.04.17: Change in quantity of shareholding	2017.01.01 – 2017.04.17: 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	30,015	0	0	0
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	0	0	0	0
Supervisor	Huang-Chieh Chu	0	0	0	0
President of Smartphone and Connected Devices Business	Chialin Chang	0	0	0	0
Chief Operation Officer	David Chen	60,000	0	0	0
Chief Technology Officer	WH Liu	18,000	0	0	0
General Counsel	Marcus Woo	0	0	0	0
Vice President	Crystal Liu	0	0	0	0
Vice President	Hsiu Lai	(10,400)	0	0	0
Chief Finance Officer (Note1)	Peter Shen	0	0	0	0
President of North Asia (Note2)	Jack Tong	18,000	0	(9,000)	0
Former Vice President (Note3)	Jason Mackenzie	(20,000)	0	(3,974)	0
Former Vice President(Note4)	Edward Wang	0	0	0	0
Former Vice President (Note 5)	Simon Lin	0	0	0	0
Former President of EMEA (Note 6)	Philip Blair	0	0	0	0

Note 1: Peter Shen was appointed as insider manager on June20, 2016.
Note 2: Jack Tong was released as insider manager on April 24, 2017.
Note 3: Jason Mackenzie was released as insider manager on February 1, 2017.
Note 4: Edward Wang was released as insider manager on June 1, 2016.
Note 5: Simon Lin was released as insider manager on March 29, 2016.
Note 6: Philip Blair was released as insider manager on March 17, 2016.

(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.

2017.04.17

	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)		
Name (Note 1)	Shares	%	Shares	%	Shares	%	Name	Relationship	Note
Way-Chih Investment Co., LTD. (Representative: Su-Lan Chiang)	43,819,290	5.33%	0	0.00%	0	0.00%	Way-Lien Technology Inc. Hon-Mou Investment Co., Ltd.	Same chairwoman Same chairwoman	
Way-Lien Technology Inc. (Representative: Su-Lan Chiang)	37,288,231	4.54%	0	0.00%	0	0.00%	Way-Chih Technology Inc. Hon-Mou Investment Co., Ltd.	Same chairwoman Same chairwoman	
Cher Wang	32,272,427	3.93%	22,391,389	2.72%	0	0.00%	Wen-Chi Chen	Spouse	
Wen-Chi Chen	22,391,389	2.72%	32,272,427	3.93%	0	0.00%	Cher Wang	Spouse	
Hon-Mou Investment Co., Ltd. (Representative: Su-Lan Chiang)	22,291,081	2.71%	0	0.00%	0	0.00%	Way-Chih Technology Inc. Way-Lien Technology Inc.	Same chairwoman Same chairwoman	
Standard Chartered Bank custody for FIDELITY FUND	14,485,000	1.76%	0	0.00%	0	0.00%	None	None	
HTC Corporation-GDR	13,118,973	1.60%	0	0.00%	0	0.00%	None	None	
Standard Chartered Bank in custody for VANGUARD EMERGING MARKETS STOCK INDEX FUND	12,573,225	1.53%	0	0.00%	0	0.00%	None	None	
The Master Trust Bank of Japan, Ltd. as trustee for Government Pension Investment Fund - internal - MTBJ400045833	12,183,000	1.48%	0	0.00%	0	0.00%	None	None	
ABP Pension Investment Fund under the custody of JPMorgan Chase Bank	11,000,850	1.34%	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

2017.03.31 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	%
H.T.C. (B.V.I.) Corp.	1,475,202thousands Shares	100%	0	0%	1,475,202thousands Shares	100%
Communication Global Certification Inc.	29,057 thousands Shares	100%	0	0%	29,057 thousands Shares	100%
High Tech Computer Asia Pacific Pte. Ltd.	714,534 thousands Shares	100%	0	0%	714,534 thousands Shares	100%
HTC Investment Corporation	30,000 thousands Shares	100%	0	0%	30,000 thousands Shares	100%
PT. High Tech Computer Indonesia	2 thousands Shares	1%	186 thousands Shares	99%	188 thousands Shares	100%
HTC I Investment Corporation	29,500 thousands Shares	100%	0	0%	29,500 thousands Shares	100%
HTC Holding Cooperatief U.A.	NTD13 thousands	0.01%	NTD5,652,318 thousands	99.99%	NTD5,652,331 thousands	100%
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.	2,000 thousands Shares	100%	0	0%	2,000 thousands Shares	100%
DeepQ Holding (BVI) Corp.	4,000 thousands Shares	100%	0	0%	4,000 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%
Yoda Limited	0	0%	NTD20,000 thousands	100%	NTD20,000 thousands	100%
S3 Graphics Co., Ltd.	0	0%	386,339 thousands Shares	100%	386,339 thousands Shares	100%
HTC Netherlands B.V.	0	0%	143,882 thousands Shares	100%	143,882 thousands Shares	100%
HTC South Eastern Europe LLC.	0	0%	0.15 thousands Shares	100%	0.15 thousands Shares	100%
HTC EUROPE CO., LTD.	0	0%	69,270 thousands Shares	100%	69,270 thousands Shares	100%
HTC Brasil	0	0%	1,987 thousands Shares	100%	1,987 thousands Shares	100%
HTC Belgium BVBA/SPRL	0	0%	18.55 thousands Shares	100%	18.55 thousands Shares	100%
HTC NIPPON Corporation	0	0%	1 thousands Shares	100%	1 thousands Shares	100%
HTC France Corporation	0	0%	11,000 thousands Shares	100%	11,000 thousands Shares	100%
HTC Nordic ApS	0	0%	80 thousands Shares	100%	80 thousands Shares	100%
HTC Italia SRL	0	0%	NTD51,056 thousands	100%	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)

	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%	358,617 thousands Shares	100%	358,617 thousands Shares	100%
HTC America, Inc.	0	0%	1 thousands Shares	100%	1 thousands Shares	100%
One & Company Design, Inc.	0	0%	60 thousands Shares	100%	60 thousands Shares	100%
HTC America Innovation, Inc.	0	0%	1 thousands Shares	100%	1 thousands Shares	100%
HTC America Content Services, Inc.	0	0%	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 Myanmar Company Limited	0	0%	100 thousands Shares	100%	100 thousands Shares	100%
HTC Vietnam Services One Member Limited Liability Company	0	0%	USD200 thousands	100%	USD200 thousands	100%
High Tech Computer (SuZhou) Co., Ltd.	0	0%	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%	USD127,500 thousands	100%	USD127,500 thousands	100%
HTC Communication Technologies (Shanghai Limited)	0	0%	USD4,000 thousands	100%	USD4,000 thousands	100%
HTC Communication Technologies (Beijing Limited)	0	0%	RMB10,500 thousands	100%	RMB10,500 thousands	100%
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%
DeepQ (BVI) Corp	0	0	39,700 thousands Shares	100%	39,700 thousands Shares	100%

Note: Investments accounted for using the equity method.

9. Corporate Social Responsibility

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

(1) Employee health and care

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 2016, the total number of employees using all services reached 16,997, with those for the clinic having reached 9,500, health center 5,062, and participation in health promotion courses 2,435.

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, etc. Employees can pick their courses based on their interest. Also, a thoughtful employee service app system was developed to allow them to register via their cellphones and save their time from waiting in lines for onsite registration. In 2016, there were in total 9,006 counts of employees taking part in these workout courses.

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, in addition to the three outdoor basketball courts and multi-function fields, the 17-th floor in Taipei office with a height of 10 meters for sport purposes can also be used as a basketball court, tennis, or 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 2016, it has served employees for 190 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, family days, sports competitions, and art shows. Through recreation and social gatherings, employees could get in sync and understand each other better. By inviting local artists and HTC employees to host art shows in the lobby of Taipei headquarter's 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, 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, GMP, ISO, and HACCP, as well as taking priority in brand-name food products. Through annual verification of contracts, items for verification include certification for origins and items of inspection, as our way of supporting products of Taiwan with our utmost sincerity.

To foster a workplace friendly to breast-feeding, it encourages working women to continue breast-feeding, with a total of 21 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 54, 100 times as of 2016. For women and pregnant employees, health seminars such as "new mommies - start a sweet journey" and "loving mommies - proper skin cleaning and care" 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 Headquarters, comprising 30,700 square meters of outdoor space, on which up to 500 Taiwan primitive trees are planted, such as Camphor Trees, Cypresses, Koelreuteria and Elegans. In addition, ecological ponds are constructed to improve and aid the complex optimization of environmental diversity. In order to improve the quality of working environments for employees, in relation to green ecology, plants, such as Pachira Aquatica and Epipremnum Aureum have been specifically chosen to purify indoor air, and facilitate the reduction of carbon dioxide. Within working spaces, plants are arranged at an interval between 20 and 50 meters and are replaced regularly to provide a fresh, clean working environments for employees.

Taking into consideration the need of dorm-staying employees for space and comfort, available in the company are exercise facilities, library, 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. The number of participating employees has reached 61.

(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 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.

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 for employees upon their first day of reporting or during their job orientation. Should there involve use of hazardous and harmful materials as well as operation of hazardous machines and equipment, related training will be provided according to regulations. Employees performing special operations will be given training on safety and health for those special operations. Onsite firefighting training will be given to those new-arrived employees. 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. The Taoyuan plant is responsible for setting the environment-related policy 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 joined the Electronic Industry Citizenship Coalition (EICC) in December, 2012, and drew up the HTC Supplier Code of Conduct based on the code of conduct issued by EICC. Apart from requiring suppliers to sign the HTC Supplier Code of Conduct, HTC also implemented CSR compliance audits for high-risk suppliers in accordance with the "HTC Supplier Code of Conduct" and relevant regulations governing supplier factories. The audits cover labor rights, labor conditions, environment, 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 the future, HTC will also have a plan to implement CSR training according to the status and level of its suppliers, helping them enhance their ability in implementing CSR. As of 2015, HTC has completed surveys of carbon footprint for 61 important components, with 43 suppliers having received training for surveys of footprints which helps ensure completeness and accuracy of the data we analyzed.

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 EICC as well as the Global e-Sustainability Initiative (GeSI), and plan to participate in the EICC/GeSI conflict-free smelter program. At HTC, we require suppliers to conform with our conflict mineral purchasing policy 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.

For issues related to charging the cellphone, we have launched HTC Rapid Charger 3.0, a rapid-charging device with high energy-efficiency, whose charging speed is faster than used to be. In only 30 minutes would the new HTC 10 be charged up to 50% of its power. Its energy-efficiency has also reached the highest standard currently set internationally, including Energy Efficiency Level VI and EU CoC Tier 2, whose energy consumption during no load standby is lower than 0.03W and has reached the highest 5-star level. In terms of design, its volume has also seen 25% of reduction compared to its predecessors. In addition to reducing use of resource, it is also more convenient to carry.

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. Recycling rates of materials may achieve 81% - 84% for all current products, such as HTC M10 or Desire10, and exceed the material recycling rate criterion of WEEE directive of EU for phone product substantially.

To fulfill social responsibility as a manufacturer, in addition to complying with WEEE specifications required by the EU, HTC further promotes phone-related recycling programs in the United States and Canada respectively, and incentives with special offer cash discounts up to 499 USD for recycling old phones in order to contribute to reduced influence on the environments due to inappropriate disposal and treatment.

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 PVC and Brominated Flame Retardant.

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 in 2016.

4.1.2 Sustainable packaging

Environment-friendliness and sustainability will be the premise for the packaging materials used on

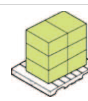
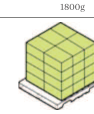
HTC's cellphones. In their design, special considerations have been given to reduced use of materials, ease of decomposition, being recyclable, and being favorable for transportation. Thus, a full-body light-weight design was specially selected for use of the cellphone cover boxes. They are made from 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 are more environment-friendly and are also lighter than regular boxes. Comparing between HTC package boxes of 2009 and 2016, the weights have been dramatically decreased from 170 grams to 111 grams, with a decrease of 35% of the weight that contributed significantly to reducing carbon footprint in transportation.

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.

	2009 Hero box	2013/2014 M7 BOX/M8 BOX	2015 M9 BOX	2016 M10 BOX
Photos				
Volume	183x89x60mm	160x160x28mm	160x160x28mm	180.5x150.5x33.5mm
Weight	170g	95g	95g	111.2g
Carbon footprint from transportation (kg CO_2 eq)	1.59	0.89	0.89	1.04
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

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

For VR materials,
used recyclable packaging materials and ultra-light-weight design

	2015 Rigid BOX	2016 Pizza Box
Photos		
Volume	574x420x212mm	415x295x181mm
Weight (g)	3000g	1800g
Number of transportation pallets	 6pcs	 24pcs
Carbon footprint from transportation (kg CO_2 eq)	28.14	16.88
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

HTC process for sustainable packaging

1. Volume: Gradually reduced in size by year. Identical to pallets but can carry higher loading.
2. Weight: Reduced weight can help reduce CO2 emitted from transportation traffic.
3. Transportation: One pallet increases the stackable amount and decreases shipping charges.
4. Material: Rapid-growing materials (sugar cane (residues from sugar factories and bamboos)

Achievements: Employing more rapidly-growing materials can increase regeneration of the materials and result in less emission left for carbon footprint.

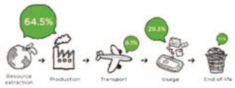
4.1.3 Sustainable product

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.



Proportion of carbon footprint emitted during the life cycle of HTC 10

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.

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.

Total greenhouse gas emissions by HTC were 35,438.37 t CO_2e in 2016. The majority of emitted gas were CO_2. It is notable that HTC’s GHG emissions contained no PFCs, SF6, SOX or other waste gases, and HTC does not use any substances that might endanger the ozonosphere. Moreover, 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.

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 2016 was 268,618 tons, and the amount of recycling for the treated waste water was 194,868 tons, which was 72.54% of all waste water treated. The amount of recycling has surpassed the projected goal of 70% for 2016 and is higher than the 68.92% in rate of recycling for 2015.

Since implementation of the water-saving plan in 2014, the accumulated total amount of waste water recycled for watering and gardening plants reached 676,381 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. For 2016, the total amount of rainwater recycled was 5,686 tons, with 3,318 tons for Taoyuan Plant and 2,368 tons for Xindian headquarters office respectively.

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 the factory, we have also introduced a waste reduction strategy in addition to everyday waste management. Waste classification and reduction education helps reduce waste at the source. Prioritization is given to reuse as well to improve the recycling rate of resources. The recycling rate reached 74.43% in 2016, totally 3,451 metric ton.

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 9,316 tons of CO2e. 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 92.9 KWH per meter square annually in 2016.

After simulation and analysis on energy, the design on energy efficiency contributed to 815,754 degree of reduction, and the total amount of reduction in carbon emission was 431 tons of CO2e during 2016.

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 2016 accounted for was 200,839.92 degrees, which translates to a reduction of 379 metric ton 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 and English Institute sets a deeper foothold in Hualien, Yunlin, Chiayi, Taitung, and Nantou counties

HTC Foundation has set up 5 Character and English Institutes in Hualien, Yunlin, Chiayi, Taitung, and Nantou counties. Through a series of courses, it hopes to encourage and assist the teams from the country that have been actively promoting character education to continue on implementing and deepening the character and civics education in the country by thoroughly promoting the education to remote areas in these five counties so that students there would be shaped up with better characters and English abilities.

Character and English Institute Hualien - the four-night summer "family camp for character education in practice"

The summer "family camp for character education in practice" held by HTC Foundation and Character and English Institute Hualien utilizes family as the unit to design courses for students and their parents. They will participate in activities separately, with two days for parents (not including lodging) and four nights for students (including lodging). Cost for the camp is to be paid for by HTC Foundation free of charge.

Character family - Parents camp
The two-night seminar for the parents camp offers a discussion for the four-night course on character and gives a course on in-depth communication techniques (including five frameworks for communication, importance of values, images and values, power of language, keys for effective communication, etc.) for an excellent life, where the participants would exercise their roles as parents to help extend the character and positive thinking those young students would learn in these four nights while working toward the goal of a family with character education in practice.

Character family - Students camp
The four-night course for the students would include teaching of characters such as "respect, focus, honesty and trust, responsibility, and gratitude", teaching of attitudes such as "positive thinking and self-confidence", and "character 123", practical techniques for handling conflicts or issues in daily life. Also included are ten English courses and activities taught and led by English-speaking foreign teachers.

Christopher leadership course

HTC Foundation has been dedicated to the development and implementation of the character education for the youths. With a hope that schools, parents, and society together would shape up a culture of character, it therefore holds onto the principle of "lighting up instead of blaming for faults" by opening Christopher leadership course for students of junior and senior high schools, during which there would be free training sessions and activities for three hours a week and five weeks for each round of the course. Through assistance from instructors and Christopher volunteers, the students get to develop their potentials and get encouraged to move forward and develop power for change. They are then to be inspired as individuals to become Christopher leaders that are positively active, serving the society, and exercising their influence 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 2016, there have been 184 people in total from the leadership teams made up of school principals and administration members from 27 schools who have participated in the five-day intensive immersion training.

This course has been taught in Missouri and other areas for 18 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 campus-based culture of character would be shaped to cultivate students' growth and development in characters.

(Continued)

5.2 Other social engagement and actions

5.2.1 Blood donation

HTC regularly cooperates with the Hsinchu Blood Center to organize blood drives four times every year. Many "hot-blooded" employees have cultivated the habit of regular blood donation since 2006 so they always roll-up their sleeves when they hear that the blood donation bus is coming. The enthusiastic participation of HTC employees has led to the company being presented with a certificate of excellence for blood donation every year by the Hsinchu Blood Center. 177,500 c.c in total was accounted for the amount of blood donation from Taoyuan Plant, and 134,000 c.c in total was accounted for the amount of blood donation from Shindian Plant for the year of 2016.

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 2016, donations from 204 employees raised a total of NT$1,862,860. The money was used to sponsor children in Taiwan, Guatemala, Indonesia, the Philippines, Senegal, Sri Lanka, Qirghiz and Paraguay.

5.2.3 Charity program

On the 2016 Family Day, HTC scheduled fun and interesting amusement park events for the employees and their family members. Many charity groups and non-profit group such as Chinese Christian Relief Association, Chinese Rock Leadership, Syin-Lu Social Welfare Foundation, and TY Angel Development Center were invited so that during this event our employees and their family members could show their support and voluntarily devote some care for many more under-privileged groups through actual participation or donations.

During Mother's Day in May, Down Syndrome Foundation was invited the Taipei headquarter office to give our employees who are also sons and daughters the opportunity to help children with down syndrome so that the under-privileged down-syndrome children or their families could receive more blessings and supports.

5

CAPITAL AND SHARES

CAPITAL AND SHARES

1. Capital and Shares

(1) Capitalization:

2017.04.17 Unit: Share; NT$

		Authorized		Paid-in		Remark		
Month/Year	Price	Shares	Amount	Shares	Amount	Sources of capital	Capital increase by assets other than cash	Other
03/1998	10	19,500,000	195,000,000	19,500,000	195,000,000	Cash offering	None	-
10/1998	10	200,000,000	2,000,000,000	100,000,000	1,000,000,000	Cash offering	None	Note 1
08/2000	40	200,000,000	2,000,000,000	125,000,000	1,250,000,000	Cash offering	None	Note 2
04/2001	163.5	200,000,000	2,000,000,000	127,600,000	1,276,000,000	Cash offering	None	Note 3
06/2002	10	200,000,000	2,000,000,000	162,720,000	1,627,200,000	Capitalization of profits	None	Note 4
09/2003	10	270,000,000	2,700,000,000	202,764,000	2,027,640,000	Capitalization of profits	None	Note 5
11/2003	131.1	270,000,000	2,700,000,000	217,164,000	2,171,640,000	Cash offering	None	Note 6
03/2004	10	270,000,000	2,700,000,000	218,731,347	2,187,313,470	Merger	None	Note 7
08/2004	10	450,000,000	4,500,000,000	271,427,616	2,714,276,160	Capitalization of profits	None	Note 8
01/2005	127.95	450,000,000	4,500,000,000	276,311,395	2,763,113,950	Conversion of ECB	None	Note 9
04/2005	127.95	450,000,000	4,500,000,000	288,763,321	2,887,633,210	Conversion of ECB	None	Note 9
09/2005	10	450,000,000	4,500,000,000	357,015,985	3,570,159,850	Capitalization of profits	None	Note 10
08/2006	10	550,000,000	5,500,000,000	436,419,182	4,364,191,820	Capitalization of profits	None	Note 11
04/2007	10	550,000,000	5,500,000,000	432,795,182	4,327,951,820	Capital reduction: Cancellation of Treasury Shares	None	Note 12
09/2007	10	650,000,000	6,500,000,000	573,133,736	5,731,337,360	Capitalization of profits	None	Note 13
08/2008	10	1,000,000,000	10,000,000,000	755,393,856	7,553,938,560	Capitalization of profits	None	Note 14
02/2009	10	1,000,000,000	10,000,000,000	745,393,856	7,453,938,560	Capital reduction: Cancellation of Treasury Shares	None	Note 15
08/2009	10	1,000,000,000	10,000,000,000	796,020,844	7,960,208,440	Capitalization of profits	None	Note 16
11/2009	10	1,000,000,000	10,000,000,000	788,935,844	7,889,358,440	Capital reduction: Cancellation of Treasury Shares	None	Note 17

(Continued)

2017.04.17 Unit: Share; NT$

		Authorized		Paid-in		Remark		
Month/Year	Price	Shares	Amount	Shares	Amount	Sources of capital	Capital increase by assets other than cash	Other
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
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 29

(Continued)

2017.04.17 Unit: Share; NT$

		Authorized		Paid-in		Remark		
Month/Year	Price	Shares	Amount	Shares	Amount	Sources of capital	Capital increase by assets other than cash	Other
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 30
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 31
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 32
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 33
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 34
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 35
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 36
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 37

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 2011 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 2014 Letter No. Financial-Supervisory-Securities-1030031492 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 29: 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 30: 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 31: 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 32: 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
The 9 November 2015 Letter No. Financial-Supervisory-Securities-1040044488 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 33: 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 34: 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 35: 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
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
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 36: 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
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 37: 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
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

2017.04.17 Unit: Share

Type of stock	Authorized Capital			Remark
	Outstanding shares	Unissued Shares	Total	
Common Stock	821,904,155	178,095,845	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:

2017.04.17

	Shareholder					
Structure	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Total
Number of shareholders	1	12	296	800	122,554	123,663
Shareholding	14	12,178,607	138,763,591	253,151,299	417,810,644	821,904,155
Holding percentage	0.00%	1.48%	16.88%	30.80%	50.84%	100.00%

(3) Distribution of ownership:

2017.04.17 Each share has a par value of NT$10

Shareholder Ownership (Unit : share)	Number of Shareholders	Ownership	Ownership (%)
1 - 999	31,040	2,885,874	0.35%
1,000 - 5,000	79,465	148,192,359	18.03%
5,001 - 10,000	7,507	57,515,380	7.00%
10,001 - 15,000	2,048	26,201,806	3.19%
15,001 - 20,000	1,200	22,013,216	2.68%
20,001 - 30,000	901	22,839,520	2.78%
30,001 - 40,000	404	14,447,367	1.76%
40,001 - 50,000	242	11,201,429	1.36%
50,001 - 100,000	444	31,628,200	3.85%
100,001 - 200,000	187	26,480,663	3.22%
200,001 - 400,000	67	18,331,569	2.23%
400,001 - 600,000	39	19,172,738	2.33%
600,001- 800,000	19	13,009,542	1.58%
800,001 - 1,000,000	15	13,843,694	1.68%
Over 1,000,001	85	394,140,798	47.96%
Total	123,663	821,904,155	100.00%

(4) List of principal shareholders:

2017.04.17 Each share has a par value of NT$10

Name of principal shareholders	Shares: Current Shareholding	Shares: Percentage
Way-Chih Investment Co., LTD.	43,819,290	5.33%
Way-Lien Technology Inc.	37,288,231	4.54%
Cher Wang	32,272,427	3.93%
Wen-Chi Chen	22,391,389	2.72%
Hon-Mou Investment Co., Ltd.	22,291,081	2.71%
Standard Chartered Bank custody for FIDELITY FUND	14,485,000	1.76%
HTC Corporation-GDR	13,118,973	1.60%
Standard Chartered Bank in custody for VANGUARD EMERGING MARKETS STOCK INDEX FUND	12,573,225	1.53%
The Master Trust Bank of Japan, Ltd. as trustee for Government Pension Investment Fund - internal - MTBJ400045833	12,183,000	1.48%
ABP Pension Investment Fund under the custody of JPMorgan Chase Bank	11,000,850	1.34%

(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			2015	2016	2017.01.01-2017.03.31
Market price per share	Highest market price		161	136.5	82.1
	Lowest market price		40.35	55.3	75.5
	Average market price		96.52	86.55	78.02
Net worth per share (Note)	Before distribution		78.27	62.98	58.43
	After distribution		78.27	62.98	58.43
Earnings (loss) per share	Weighted average shares (thousand shares)		826,784	824,084	821,941
	Earnings (loss) per share		(18.79)	(12.81)	(2.47)
	Retroactively adjusted earnings (loss) per share		(18.79)	(12.81)	(2.47)
Dividends per share	Cash dividends		0	0 (Note)	
	Stock dividends	Dividends from retained earnings	0	0 (Note)	
		Dividends from capital surplus	-	-	
	Accumulated undistributed dividend		-	-	
Return on investment	Price/Earnings ration		NA	NA	
	Price/Dividend ratio		NA	NA	
	Cash dividend yield		0%	0%	

Note : Pending on the approval of the 2017 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.)

HTC will not distribute stock dividends at the 2017 Annual Shareholders' Meeting.

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 2017 Annual Shareholders' Meeting; therefore it is not applicable.

(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.

HTC will not distribute stock dividends at the 2017 Annual Shareholders' Meeting; therefore it is not applicable.

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

HTC will not distribute Employee Compensation at the 2017 Annual Shareholders' Meeting; therefore it is not applicable.

4. The actual distribution of employee, director, and supervisor compensation for 2015

No distribute Employee Compensation at the 2015.

(9) Share repurchases:

Share buy-back status	The thirteenth time
Purpose of the share buy-back	To maintain credit of the company and interest of shareholders. According to the Regulations Governing Share Repurchase by Listed and OTC Companies, Article 2 requires off-setting of buy-back Treasury stocks.
Buy-back period	5/17/2016-5/25/2016
Buy-back price range	NT$60.3 – NT$69.5
Number of shares bought back	Common shares 7,050,000 shares
Total amount for buy-back shares	NTD 436,869,134
Cancellation of buy-back shares	Common shares 7,050,000 shares
Cumulative number of own shares held	0 share
Percentage of cumulative number of own shares to the total number of the Company's issued shares	0%

2. Issuance of Corporate Bonds

None

3. Status of Preferred Shares

None

4. Global Depository Receipts

2017.04.17

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
GDR_S outstanding		3,279,740 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 GDR_S 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 — 2016	High	USD 15.32
	Low	USD 7.12
	Average	USD 10.71
Closing price per GDR — 2017.01.01~2017.04.17	High	USD 10.40
	Low	USD 9.81
	Average	USD 10.08

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 2^{nd} 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

2017.04.17 / Unit: share and NT$

Employee Stock Options Granted	2^{nd} Grant	3^{rd} Grant	4^{th} 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%	2.31%	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	0
Value of Shares Exercised	NTD 0	NTD 0	NTD 0
Shares Unexercised	7,690,500 shares	10,916,900 shares	840,000 shares
Adjusted Exercise Price Per Share	NTD149	NTD134.5	NTD54.5
Percentage of Shares Unexercised to Outstanding Common Shares	0.94%	1.33%	0.10%
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: The information is calculated based on the issued shares, 821,904,155

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

2017.04.17 / Unit: share and NT$

<table>
<tr><th></th><th></th><th></th><th></th><th></th><th colspan="4">Exercised</th><th colspan="4">Unexercised</th></tr>
<tr><th></th><th>Title</th><th>Name</th><th>Number of Option Acquired</th><th>Number of Option Acquired / Number of Option Issued (Note1)</th><th>Number of Option</th><th>Exercise Price per Shares (NTD)</th><th>Option amount</th><th>Number of Option / Number of Option Issued (Note1)</th><th>Number of Option</th><th>Unexercised Price per Shares (NTD) (Note 4)</th><th>Option amount</th><th>Number of Option / Number of Option Issued (Note 1)</th></tr>
<tr><td rowspan="9">Managers</td><td>President, Smartphone & Connected Devices Business</td><td>Chialin Chang</td><td rowspan="9">5,150,000 shares</td><td rowspan="9">0.63%</td><td rowspan="9">0 shares</td><td rowspan="9">NTD 0</td><td rowspan="9">NTD 0</td><td rowspan="9">0%</td><td rowspan="9">5,150,000 shares</td><td rowspan="9">NTD 149, NTD134.5 and NTD 54.5</td><td rowspan="9">NTD 706,015,000</td><td rowspan="9">0.63%</td></tr>
<tr><td>Chief Operating Officer</td><td>David Chen</td></tr>
<tr><td>Chief Technology Officer</td><td>WH Liu</td></tr>
<tr><td>President of North Asia</td><td>Jack Tong (note 4)</td></tr>
<tr><td>General Counsel</td><td>Marcus Woo</td></tr>
<tr><td>Vice President</td><td>Crystal Liu</td></tr>
<tr><td>Associate Vice President</td><td>Hsiu Lai</td></tr>
<tr><td>Executive Vice President</td><td>Jason Mackenzie (note 5)</td></tr>
<tr><td>Vice President</td><td>Edward Wang (note 6)</td></tr>
<tr><td rowspan="11">Employee (Note 2)</td><td>Andre Loenne</td><td></td><td rowspan="11">2,482,000 shares</td><td rowspan="11">0.30%</td><td rowspan="11">0 shares</td><td rowspan="11">NTD 0</td><td rowspan="11">NTD 0</td><td rowspan="11">0%</td><td rowspan="11">2,482,000 shares</td><td rowspan="11">NTD 149, NTD 134.5 and NTD 54.5</td><td rowspan="11">NTD 291,070,500</td><td rowspan="11">0.30%</td></tr>
<tr><td>Andrey Kormiltsev</td><td></td></tr>
<tr><td>Claude Zellweger (note 7)</td><td></td></tr>
<tr><td>Drew Bamford</td><td></td></tr>
<tr><td>Faisal Siddiqui</td><td></td></tr>
<tr><td>Herman Chen</td><td></td></tr>
<tr><td>Johnson Chiang</td><td></td></tr>
<tr><td>Kim Dowung</td><td></td></tr>
<tr><td>Peter Frolund Moeller</td><td></td></tr>
<tr><td>Steve Wang</td><td></td></tr>
<tr><td>Simon Hsieh</td><td></td></tr>
</table>

Note 1: The information is calculated based on the issued shares, 821,904,155
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: Jack Tong was relieved from the position of insider manager on 24 Apr. 2017.
Note 5: Jason Mackenzie was relieved from the position of insider manager on 2 Feb. 2017.
Note 6: Edward Wang was relieved from the position of insider manager on 1 Jun. 2016.
Note 7: Claude Zellweger resigned on 22 Jul. 2016.

6. New Restricted Employee Shares

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

2017.04.17/Unit: Share and NT$

Restricted Employee Shares Granted	1st Restricted employee shares	2nd Restricted employee shares	3rd Restricted employee shares	4th 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 restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 30% of the shares. 2. An employee who remains employed at HTC after 2 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 30% of the shares. 3. An employee who remains employed at HTC after 3 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 40% of the shares.	1. An employee who remains employed at HTC after 1 year has elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 30% of the shares. 2. An employee who remains employed at HTC after 2 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 30% of the shares. 3. An employee who remains employed at HTC after 3 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 40% of the shares.	1. An employee who remains employed at HTC after 1 year has elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 30% of the shares. 2. An employee who remains employed at HTC after 2 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 30% of the shares. 3. An employee who remains employed at HTC after 3 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 40% of the shares.	1. An awardee who remains employed at HTC after 1 year has elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and 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 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 preceding profit-earning fiscal year, will be eligible for vesting of an installment of 25% of the shares.

(Continued)

Restricted Employee Shares Granted	1st Restricted employee shares	2nd Restricted employee shares	3rd Restricted employee shares	4th Restricted employee shares
Vesting Conditions for Exercise of Restricted Employee 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 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 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 restricted employee shares (i.e., the record date of the capital 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 moreas 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.

(Continued)

Restricted Employee Shares Granted	1st Restricted employee shares	2nd Restricted employee shares	3rd Restricted employee shares	4th Restricted employee shares
Restrictions to the Rights of New Restricted Employee Shares	The shares to be issued and awarded to employees in the current issue are common shares. The rights and obligations associated with the shares are the same as those of other issued and outstanding common stock, except as specified as follows: 1. During the vesting period, an employee may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, new restricted employee shares. 2. During the vesting period, the new restricted employee shares can still participate in stock and cash dividends and subscription to cash rights issues. The stock and cash dividends and cash rights issue subscriptions so obtained furthermore need not be placed in trust and shall not be restricted by the vesting period.	The shares to be issued and awarded to employees in the current issue are common shares. The rights and obligations associated with the shares are the same as those of other issued and outstanding common stock, except as specified as follows: 1. During the vesting period, an employee may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, new restricted employee shares. 2. During the vesting period, the new restricted employee shares can still participate in stock and cash dividends and subscription to cash rights issues. The stock and cash dividends and cash rights issue subscriptions so obtained furthermore need not be placed in trust and shall not be restricted by the vesting period.	The shares to be issued and awarded to employees in the current issue are common shares. The rights and obligations associated with the shares are the same as those of other issued and outstanding common stock, except as specified as follows: 1. During the vesting period, an employee may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, new restricted employee shares. 2. During the vesting period, the new restricted employee shares can still participate in stock and cash dividends and subscription to cash rights issues. The stock and cash dividends and cash rights issue subscriptions so obtained furthermore need not be placed in trust and shall not be restricted by the vesting period.	The shares to be issued and awarded to employees in the current issue are common shares. The rights and obligations associated with the shares are the same as those of other issued and outstanding common stock, except as specified as follows: 1. During the vesting period, an employee may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, new restricted employee shares. 2. During the vesting period, the new restricted employee shares can still participate in stock and cash dividends and subscription to cash rights issues. The stock and cash dividends and cash rights issue subscriptions so obtained furthermore need not be placed in trust and shall not be restricted by the vesting period.
Custody of Restricted Employee Shares	1. After new restricted employee shares are issued, if the employee to whom shares have been awarded is an ROC national, the shares must immediately be deposited in trust. If the employee to whom shares are awarded is a foreign national, the shares must be placed in custody with a custodian bank. Further, before the vesting conditions have been met, the employee may not for any reason or in any manner request that the trustee return the new restricted employee shares. 2. During the period in which the new restricted employee shares are placed in trust, HTC shall have full discretion to act as agent for the employee to conduct with the share trust institution matters including, without limitation, the negotiation, signing, amendment, extension, rescission, and termination of the trust agreement, and giving of instructions for the delivery, utilization, or disposition of the assets in trust.	1. After new restricted employee shares are issued, if the employee to whom shares have been awarded is an ROC national, the shares must immediately be deposited in trust. If the employee to whom shares are awarded is a foreign national, the shares must be placed in custody with a custodian bank. Further, before the vesting conditions have been met, the employee may not for any reason or in any manner request that the trustee return the new restricted employee shares. 2. During the period in which the new restricted employee shares are placed in trust, HTC shall have full discretion to act as agent for the employee to conduct with the share trust institution matters including, without limitation, the negotiation, signing, amendment, extension, rescission, and termination of the trust agreement, and giving of instructions for the delivery, utilization, or disposition of the assets in trust.	1. After new restricted employee shares are issued, if the employee to whom shares have been awarded is an ROC national, the shares must immediately be deposited in trust. If the employee to whom shares are awarded is a foreign national, the shares must be placed in custody with a custodian bank. Further, before the vesting conditions have been met, the employee may not for any reason or in any manner request that the trustee return the new restricted employee shares. 2. During the period in which the new restricted employee shares are placed in trust, HTC shall have full discretion to act as agent for the employee to conduct with the share trust institution matters including, without limitation, the negotiation, signing, amendment, extension, rescission, and termination of the trust agreement, and giving of instructions for the delivery, utilization, or disposition of the assets in trust.	1. After new restricted employee shares are issued, if the employee to whom shares have been awarded is an ROC national, the shares must immediately be deposited in trust. If the employee to whom shares are awarded is a foreign national, the shares must be placed in custody with a custodian bank. Further, before the vesting conditions have been met, the employee may not for any reason or in any manner request that the trustee return the new restricted employee shares. 2. During the period in which the new restricted employee shares are placed in trust, HTC shall have full discretion to act as agent for the employee to conduct with the share trust institution matters including, without limitation, the negotiation, signing, amendment, extension, rescission, and termination of the trust agreement, and giving of instructions for the delivery, utilization, or disposition of the assets in trust.

(Continued)

Restricted Employee Shares Granted	1st Restricted employee shares	2nd Restricted employee shares	3rd Restricted employee shares	4th Restricted employee shares
Procedures for Non-Compliance of the Conditions	1. If an employee voluntarily resigns or his or her employment is terminated or severed, then the vesting rights of any shares previously awarded to the employee but not yet vested shall be lost from the date of occurrence of the fact. HTC will withdraw and cancel the full number of the shares without compensation. 2. Any cash or property other than cash received as a return of share capital due to HTC having undergone a capital reduction during the vesting period: HTC will withdraw the full amount without compensation.	1. If an employee voluntarily resigns or his or her employment is terminated or severed, then the vesting rights of any shares previously awarded to the employee but not yet vested shall be lost from the date of occurrence of the fact. HTC will withdraw and cancel the full number of the shares without compensation. 2. Any cash or property other than cash received as a return of share capital due to HTC having undergone a capital reduction during the vesting period: HTC will withdraw the full amount without compensation.	1. If an employee voluntarily resigns or his or her employment is terminated or severed, then the vesting rights of any shares previously awarded to the employee but not yet vested shall be lost from the date of occurrence of the fact. HTC will withdraw and cancel the full number of the shares without compensation. 2. Any cash or property other than cash received as a return of share capital due to HTC having undergone a capital reduction during the vesting period: HTC will withdraw the full amount without compensation.	1. If an employee voluntarily resigns or his or her employment is terminated or severed, then the vesting rights of any shares previously awarded to the employee but not yet vested shall be lost from the date of occurrence of the fact. HTC will withdraw and cancel the full number of the shares without compensation. 2. Any cash or property other than cash received as a return of share capital due to HTC having undergone a capital reduction during the vesting period: HTC will withdraw the full amount without compensation.
Withdrawal of New Restricted Employee Shares	1,025,570 shares	37,500 shares	712,900 shares	261,000 shares
Unrestricted New Restricted Employee Shares	2,202,020 shares	109,800 shares	992,980 shares	0 shares
Restricted New Restricted Employee Shares	1,372,410 shares	252,700 shares	2,300,120 shares	2,396,000 shares
Percentage of Shares Unrestricted to Outstanding Common Shares	0.17%	0.03%	0.28%	0.29%
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, 821,904,155.

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

2017.04.17/Unit: Share and NT$

	Title	Name	Number of Restricted Employee Shares Acquired	Number of Restricted Employee Shares Acquired / Outstanding Common Shares (Note1)	Unrestricted				Restricted			
					Number of Shares Restricted	Issued Price	Issued Amount	Restricted Employee Shares amount (Note1)	Number of Shares Restricted	Issued Price	Issued Amount	Restricted Employee Shares amount (Note1)
	President, Smartphone & Connected Devices Business	Chialin Chang										
	Chief Operating Officer	David Chen										
	Chief Technology Officer	WH Liu										
Manager	President of North Asia	Jack Tong (note 3)	1,912,000 shares	0.23%	329,100 shares	NTD $0	NTD $0	0.04%	1,525,900 shares	NTD $0	NTD $0	0.19%
	General Counsel	Marcus Woo										
	Vice President	Crystal Liu										
	Associate Vice President	Hsiu Lai										
	Vice President	Edward Wang (note 4)										
	Adrian Tung											
	Allen Cheng											
	Cliff Chou											
	Elmer Peng											
	Frank Sun											
	Hsinti Chueh (note 5)											
	Jerry Chen											
Employee (Note 2)	Jimmy Ho		1,356,000 shares	0.16%	211,200 shares	NTD $0	NTD $0	0.03%	1,069,800 shares	NTD $0	NTD $0	0.13%
	Madeline Chen											
	Max Chuang											
	Morris.CY Yang											
	Richard.CT Lin											
	Saigon Tsai											
	Steve Wang											
	Simon Hsieh											

Note 1: The information is calculated based on the issued shares, 821,904,155
Note 2: The top 10 employees granted restricted employee shares are without managerial position.
Note 3: Jack Tong was relieved from the position of insider manager on 24 Apr. 2017.
Note 4: Edward Wang was relieved from the position of insider manager on 1 Jun. 2016.
Note 5: Hisnti Chueh resigned on 22 Mar. 2016.

7. Issuance of New Shares for Mergers and Acquisitions

(1) During the current fiscal year up to the date of printing of this annual report, the Company has not issued new shares for mergers and acquisitions.

(2) During the current fiscal year up to the date of printing of this annual report, the Board of Directors has not adopted any resolution to issue new shares for mergers and acquisitions.

8. Implementation of the Company's Funds Utilization Plan

The Company does not have unfinished funds utilization plans or plans that have not produced the desired benefits during the fiscal year up to the date of printing of this annual report.

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FINANCIAL STATUS, OPERATING RESULTS AND RISK MANAGEMENT

FINANCIAL STATUS, OPERATING RESULTS AND RISK MANAGEMENT

1. Financial Status

Unit: NT$ thousands

Item	2016	2015	Difference	%
Current Assets	68,562,382	86,439,402	(17,877,020)	(21)
Properties	12,025,496	15,432,130	(3,406,634)	(22)
Intangible Assets	3,878,356	5,561,444	(1,683,088)	(30)
Other Assets	18,682,948	21,960,107	(3,277,159)	(15)
Total Assets	103,149,182	129,393,083	(26,243,901)	(20)
Current Liabilities	51,274,276	64,473,478	(13,199,202)	(20)
Non-current Liabilities	103,400	127,510	(24,110)	(19)
Total Liabilities	51,377,676	64,600,988	(13,223,312)	(20)
Capital Stock	8,220,087	8,318,695	(98,608)	(1)
Capital Surplus	15,614,641	15,505,853	108,788	1
Retained Earnings	29,139,080	40,080,087	(10,941,007)	(27)
Other Equity	(1,202,302)	1,088,415	(2,290,717)	(210)
Treasury Stock	-	(200,955)	200,955	100
Total Stockholders' Equity	51,771,506	64,792,095	(13,020,589)	(20)

* All numbers above are based on consolidated financial statements.

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

Assets:

Amount of the assets in 2016 is less than that in 2015. The main reason was because the continued deficit in this period caused net outflow of cash, and the good inventory closeout also caused decrease in current assets. To effectively decrease cost and increase efficiency of operation, some lands were disposed and capital expenditures were placed under tight control, causing decrease in non-current assets.

Debt:

Due to the keen competition in its industry, the operation was in decline as compared to the previous period, causing decrease in payments such as inventory purchase and marketing costs.

Shareholders' equity:

The continued deficit in this period caused decrease in equity in 2016 as compared to 2015. Also, treasure shares decreased because of its retirement.

2. Operating Results

Unit: NT$ thousands

Item	2016	2015	Difference	%
Revenues	78,161,158	121,684,231	(43,523,073)	(36)
Gross Profit	9,434,591	21,953,107	(12,518,516)	(57)
Operating Loss	(14,608,064)	(14,203,146)	(404,918)	(3)
Non-operating Income and Expenses	4,024,116	(1,378,394)	5,402,510	392
Net Loss Before Tax	(10,583,948)	(15,581,540)	4,997,592	32
Net Loss From Continuing Operations	(10,560,103)	(15,533,068)	4,972,965	32
Non-Continuing Operations Loss	-	-	-	-
Net Loss	(10,560,103)	(15,533,068)	4,972,965	32
Other Comprehensive Income And Loss For The Year, Net of Income Tax	(2,455,613)	(43,307)	(2,412,306)	(5,570)
Total Comprehensive Income For The Year	(13,015,716)	(15,576,375)	2,560,659	16
(Loss) Profit For The Year Attributable To Owners Of The Parent	(10,560,103)	(15,533,068)	4,972,965	32
(Loss) Profit For The Year Attributable To Non-Controlling Interest	-	-	-	-
Total Comprehensive Income Attributable To Owners Of the Parent	(13,015,716)	(15,576,375)	2,560,659	16
Total Comprehensive Income Attributable To Non-Controlling Interest	-	-	-	-
Earnings Per Share	(12.81)	(18.79)	5.98	32

* All numbers above are based on consolidated financial statements.

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

The fierce competition that continued in 2016 in the worldwide mobile market resulted in lower revenues and gross profits than those of 2015. Also, because of the policy of austerity that effectively lowered operating costs, the difference in operation loss is minor compared to 2015.

Because of disposal of some lands and buildings in 2016 that generated in-pour of gains, net non-operating incomes and expenses have seen increase as compared to 2015.

Other changes in comprehensive income for 2016 and 2015 were mainly resulted from differences on variations of foreign financial statements due to fluctuations in international exchange rates.

3. Cash Flows

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

Item \ Year	2016	2015	%
Cash Flow Ratio (%)	(18.76)	(20.24)	1.48
Cash Flow Adequacy Ratio (%)	(30.23)	88.82	(119.05)
Cash Flow Reinvestment Ratio (%)	(14.49)	(16.91)	2.42

Explanation and analysis of change:

The continued deficit in 2016 resulted in decrease in net outflow of cash from operating activities as compared to 2015, with cash flow ratio therefore lowered to -18.76%, cash flow adequacy ratio lowered to 30.23%, and cash reinvestment ratio lowered to -14.49%.

(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 2017.

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

5. Investment Diversification in Recent Years

In 2016, HTC's strategic investment focused on virtual reality with new investments, including game developer Owlchemy Labs, applications developer Modrokkr, Radd3, VRChat, and Vivedu for application in VR education. HTC also partnered with world's top-notch leading VR companies to establish Asia-Pacific VR Alliance and implement the VIVE X accelerator program, with participating new ventures ranging from software, hardware, ecological circles, education, medical applications, etc..

6. Competitive Advantages, Business Growth and Assessment of Risks

(1) Potential factors that may influence HTC's competitiveness/business growth and related countermeasures

Critical competitive factors in HTC's industry include: 1) product R&D and innovation capabilities, 2) strategic partnerships with industry leaders and 3) accurate grasp of market trends. The following assesses HTC's competitiveness in terms of factors deemed to support and detract from HTC achieving its business goals.

- **Factors favorable to HTC growth**

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

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

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

(4) Instilling a positive corporate culture enhances organizational flexibility and responsiveness
HTC promotes a unique corporate culture that is designed to instill passion for innovation and commitment to the highest quality. Our lack of barriers between departments promotes synergy and dynamism even further. High criteria of design and manufacture capabilities have been certified by numerous international management requirements, including ISO 9001, TL 9000, and IECQ QC 0800000. Outstanding in-house research and development capabilities give HTC the competitive edge to reach the market first with many industry leading innovations and features.

(5) HTC VIVE takes a technological lead in the rapidly developing VR market worldwide
With the rapidly developing VR market worldwide that continues to offer new features, HTC VIVE utilized its industry-leading "spatial orientation" technology to enable users to move freely in the virtual world of a set space using the 360-degree environment detection system and tracking control. Also, the all-new designed comfort-enhancing strap that comes with the front camera offers users a more stable and balanced feeling. Its display system was upgraded with a high-resolution and refreshing rate display to offer a clearer, more real, and immersive VR experience. It is expected to obtain a significantly prominent position in the market.

- **Factors adverse to the achievement of HTC growth goals and relevant countermeasures**

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

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

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

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

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

(5) 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.

(2) 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	2016 (NT$1,000 or %)
Net Interest Income	377,252
Net Forex Income	348,061
Net Interest Income as percentage of Net Revenue	0.48%
Net Interest Income as percentage of Earnings Before Tax	-3.56%
Net Forex Income as percentage of Net Revenue	0.45%
Net Forex Income as percentage of Earnings Before Tax	-3.29%

Note: Calculated on HTC consolidated financial numbers

Working capital required to support the expansion of HTC business operations has over recent years been supplied exclusively from internal finances. As the corporation has not taken out long-term loans, fluctuations in interest rates have had no effect on the Company's liabilities. HTC is prudent in its financial policies, and our asset allocation decisions prioritize security and fluidity, with most funds kept in time deposit accounts. In 2016, HTC interest income totaled NT$ 377 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 2016, financial derivatives held by HTC related to exchange risk were valued at USD 507.5 million, EUR 40 million, GBP 6 million, JPY 5086 million, CAD 5 million, SGD 252.6 million, CNH 926.8 million and AUD 4.7 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 gain to HTC of approximately NT$30.685 million.

During 2016, the US dollar against to the NT dollar fluctuated from 1:32.93 to 1:32.25. Net exchange income earned during 2016 totaled NT$348.061 million. Under effective management by the Company, negative effects of exchange rate fluctuations on profits in recent years have been minimal.

During 2016, the inflation in Taiwan was approximately 1.4%, 1.3% in North American and 0.3% in European markets, the inflation were relatively negligible in 2016. Overall, inflation had no significant impact on HTC profits.

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

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

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

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

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

Since the launch of the widely acclaimed HTC VIVE, we've been working relentlessly aiming to bring the most immersive experience for our customers and to shape the future of virtual reality industry. We look to build HMD of higher resolutions and lighter weight to provide an even more immersive user experience. We are also working with various partners to build a VR platform that brings out the advantages of both software and hardware. In the past, HTC changed the world of mobile communication with leading technologies; in the future, HTC will continue to change people's lives in the virtual world.

Starting 2014, HTC has devoted a lot of resources on developing R&D talents and technological innovations, with a current count for R&D staffs representing close to 30% of the total worldwide staff count. Its investment on R&D resources represents approximately 14% of its operating income. HTC will continue to devote more R&D resources on various new products and technologies. In the future, virtual reality, wearables and IoT devices will be the focus, in addition to continuous innovation on major smart handheld products and continued refinement on user experiences. This signifies that HTC will offer a future product line that is rich with selections and closely match users' needs by penetrating into everyone's daily life and providing more information to the users. These smart products and technologies will also push the HTC brand to a higher position, further strengthening the company's long-term competitiveness.

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

In response to the amendment to the Labor Standards Act regarding one fixed day off and one flexible rest day on December 21, 2016 that would lead to increase in personnel costs of the company, the company has fully put the impact of the changes on the operating results into consideration and has related financial control measures in place.

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

Wireless telecommunications is an important growth sector within the IT industry and the smartphone is its flagship product. Responding to rapid mobile internet growth and communication technology migration to 4G, HTC has leveraged outstanding R&D capabilities in partnerships with global telecom leaders to launch numerous "world firsts" that include the world's first Windows Mobile, Android, dual mode GSM/WiMAX, and LTE Android mobile phones. The launch of a diverse range of products through many carriers worldwide has built up HTC's significant position in the global telecommunications industry and created exceptional business opportunities. In the meantime, in order to timely respond to the fast-growing and coming to mature LTE technology and market, HTC continues to invest more developing resources to ensure HTC devices to fully meet the demands of global telecom carriers to ensure HTC's leadership position in 4G market and technology. HTC will continue to use its resources to develop new technologies and enhance the holistic user experience in order to deliver products and services that fit all high-end, mid-end, and low-end segment market demands.

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

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

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

Mergers and acquisitions in recent years have focused on raising overall product value and enriching the HTC user experience. All such activities have been funded internally. Future mergers and acquisitions will be conducted after careful consideration of expected benefits and in accordance with all relevant government laws and corporate regulations.

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

In response to global market demand for smartphone devices 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:
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 over-reliance 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:

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

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

In June 2011, IPCom filed a new complaint against the Company alleging patent infringement of patent owned by IPCom with the High Court in London, the United Kingdom. In September 2011, the Company filed declaratory judgment action for non-infringement and invalidity in Milan, Italy. Legal proceedings in above-mentioned courts in Germany and the United Kingdom are still ongoing. The Company 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 infringe and only some old products without the alternative solution infringed one of patents-in-suit. An appeal of this decision has been started with a hearing due to be held on July 18, 2017.

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.

(b) In December 2015, Koninklijke Philips N.V. (Philips) filed a lawsuit against the Company in the District Court of Mannheim, Germany, alleging that the Company infringed four patents relating to portable/mobile device features and four patents relating to telecommunication standards. In October 2016, the Mannheim Court found that certain smartphone products sold by Company in Germany infringed the German part of European patent No. 0888687 (EP '687 patent), which relates to device user interface, and granted an injunction against the Company. However, Philips has not enforced the injunction. The litigations between the Company and Philips are ongoing. In order to protect the interests of the Company, and its customers, the Company has appealed to the court.

As of the date that the Board of Directors approved and authorized for issuing consolidated financial statements, no other court decisions were issued with respect to the EP '687 patent.

(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.

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

None.

14. Risk management organization structure

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

7. Other Important Matters

(1) Certification details of employees whose jobs are related to the release of the company's financial information

Number of Employees

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

7

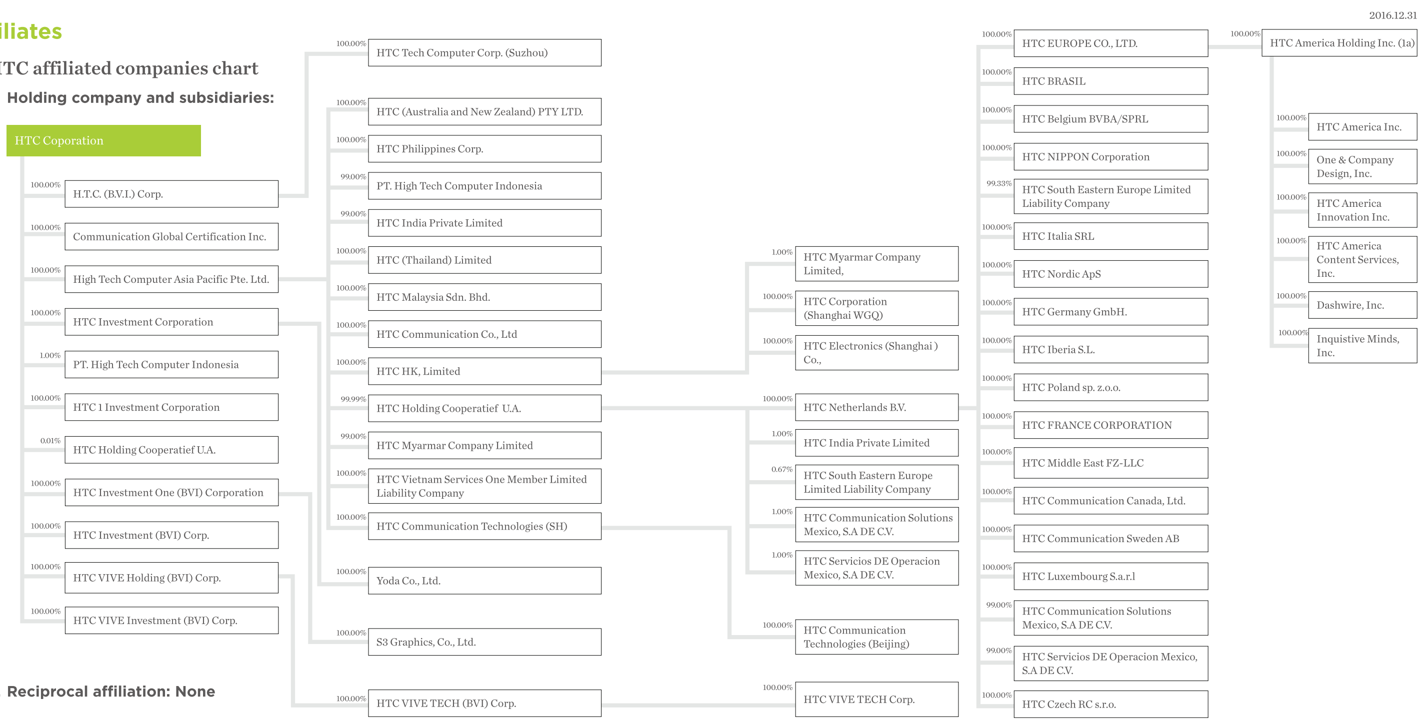
AFFILIATE INFORMATION AND OTHER SPECIAL NOTES

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

2015.12.31; Amount in thousands

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
Investor:				
HTC Corporation	1997.05.15	No.23, Xinghua Rd., Taoyuan City, Taoyuan County 330, Taiwan, R.O.C.	NTD8,220,087	Principally engaged in the design, manufacture and marketing of PDA phones, smartphones and handheld devices, as well as the provision of related technologies and after services
Investee:				
H.T.C. (B.V.I.) Corp.	2000.08.01	3F, Omar Hodge Building, Wickhams Cay I, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD 4,760,397 (USD 147,520)	International holdings
Communication Global Certification Inc.	1998.09.01	4F, No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD 290,568	Import of controlled telecommunications radio frequency devices and information software services
High Tech Computer Asia Pacific Pte. Ltd.	2007.07.12	111 Somerset Road, #11-01 Triple One Somerset, Singapore 238164	NTD20,916,864 (SGD 937,838)	Global investing activities, marketing, repair and after-sales services
HTC Investment Corporation	2008.07.24	1F, No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD 300,00	General investing activities
HTC 1 Investment Corporation	2009.09.14	4F, No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD 295,000	General investing activities
HTC Investment One (BVI) Corporation	2011.06.20	3F, Omar Hodge Building, Wickhams Cay I, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD 10,769,397 (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 580,581 (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 225,887 (US D7,000)	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 64,539 (USD 2,000)	General investing activities
HTC Tech Computer Corp. (Suzhou)	2003.01.01	Suzhou Industrial Park, China	NTD 3227 (USD100)	Manufacturing and sale of smart handheld devices and electronic components
HTC (Australia and New Zealand) PTY LTD.	2007.08.28	Unit 18 Level2 97 Pacific Highway Sydney NSW 2060,Australia	NTD 93,181 (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	NTD6,454 (USD 200)	Marketing, repair and after-sales services

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
PT. High Tech Computer Indonesia	2007.12.03	PLAZA SEMANGGI 7th Floor, unit No. Z07-006 Kawasan Bisnis Granadha Jl. Jend. Sudirman Kav. 50 Jakarta -12930 Indonesia	NTD 4,078 (IDR 1,699,313)	Marketing, repair and after-sales services
HTC (Thailand) Limited	2007.11.06	No. 53 Sivayathorn Building, 14th Floor, Room No. 1401, Wittayu Road, Lumpini Sub-district, Patumwan District, Bangkok, Thailand	NTD22,522 (THB 25,000)	Marketing, repair and after-sales services
HTC India Private Limited	2008.01.30	Unit No.4, Ground Floor, BPTP Park Centra, Sector 30, NH8, Gurgaon 12200, Haryana, India	NTD2,374 (INR 5,000)	Marketing, repair and after-sales services
HTC Malaysia Sdn. Bhd.	2007.11.07	Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia	NTD 1,798 (MYR 250)	Marketing, repair and after-sales services
HTC Communication Co., Ltd.	2008.12.29	2F South, No.1000, Xinmiao Village, Kangqiao Town, Pudong New Area, Shanghai, China	NTD 4,114,361 (USD 127,500)	Manufacturing and sale of smart handheld devices, electronic components and after-sales services
HTC HK, Limited	2006.08.26	Unit A, 32/F, @ Convoy, 169 Electric Road, Hong Kong	NTD 4,345,638 (HKD 1,044,376)	Global investing activities, marketing, repair and after-sales service
HTC Holding Cooperatief U.A.	2009.08.18	Secoya Building, Papendorpseweg 99, 3528 BJ, Utrecht, Netherlands	NTD5,941,691 (EUR 175,234)	International holdings
HTC Communication Technologies (SH)	2011.08.01	Room 102, No.2, Boujun Road, Zhang Jiang Hi-Tech Park, Shanghai, China	NTD 129,078 (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 2,344 (MMK 98,978)	Marketing, repair and after-sales services
HTC Vietnam Services One Member Limited Liability Company	2014.09.27	No. 1-5, Le Duan Street, Beb Nghe Ward, District1, Ho Chi Minh City, Vietnam	NTD 6,007 (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 9,939 (USD 308)	Design, research and development of graphics technology
Yoda Co., Ltd.	2012.09.24	4F, No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD 20,000	Restaurants and parking lot business, and building cleaning services
HTC Corporation (Shanghai WGQ)	2007.07.09	6A, No.288, Hedan Rd., Waigaoqiao Free Trade Zone, Shanghai, China	NTD 48,404 (USD 1,500)	detect, after-sales services, and technical advisory of smart handheld devices
HTC Electronics (Shanghai) Co., Ltd.	2007.01.22	Room 123, No. 2502, Hunan Road, Kangqiao Industrial Zone, Nanhui District, Shanghai, China	NTD 4,288,907 (USD 132,909)	Manufacture and sale of smart handheld devices and electronic components

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
HTC Communication Technologies (Beijing)	2014.06.04	Floor 4 401 South Zone, No.7, Courtyard 1, Zhongguancun East Road, Haidian District, Beijing	NTD 48,515 (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 4,878,633 (EUR 143,882)	Global investing activities, marketing, repair and after-sales service
HTC EUROPE CO., LTD.	2003.07.09	Salamanca Wellington Street Slough Berkshire England SL1 1YP	NTD 2,742,947 (GBP 69,270)	Global investing activities, marketing, repair and after-sales service
HTC BRASIL	2006.10.25	Rua James Joule, No.92, Suite 82, 7th Floor, Edificio Plaza.1, in the City of Sao Paulo, State of Sao Paulo.	NTD19,701 (BRL 1,987)	Marketing, repair and after-sales services
HTC Belgium BVBA/SPRL	2006.10.12	Havenlaan 86/c , box 204 – 1000 Brussels	NTD 644 (EUR 19)	Marketing, repair and after-sales services
HTC NIPPON Corporation	2006.03.22	13F, Ark Mori Building, 1-12-32 Akasaka, Minato-ku, Tokyo Japan	NTD 2,756 (JPY 10,000)	Sale of smart handheld devices and electronic components
HTC FRANCE CORPORATION	2010.04.02	47-49 rue de Sevres 92100 Boulogne-Billancourt France	NTD 372,979 (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 153 (EUR 4.5)	Marketing, repair and after-sales services
HTC Nordic ApS.	2010.07.01	c/o Redmark, Sommervej 31 C, Hasle, 8210 Aarhus V	NTD 365 (DKK 80)	Marketing, repair and after-sales services
HTC Italia SRL	2007.02.19	Viale dell' Esperanto, 71 00144 Roma	NTD339 (EUR 10)	Marketing, repair and after-sales services
HTC Germany GmbH.	2010.09.06	4th Floor, Zeil 83 60313 Frankfurt am Main	NTD 848 (EUR 25)	Marketing, repair and after-sales services
HTC Iberia S.L.	2010.10.08	Avda. de la Industria 4, Natea Business Park, Edif 3. planta 3 D 28108 Alcobendas, Madrid Spain	NTD 102 (EUR 3)	Marketing, repair and after-sales services
HTC Poland sp. z o.o.	2010.09.01	ul. Postępu 21B 02-676 Warszawa Poland	NTD 1,795 (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 48,404 (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 3,539 (SEK 1,000)	Marketing, repair and after-sales services
HTC Luxembourg S.a.r.l.	2011.05.31	9, rue Gabriel Lippmann, L-5365 Munsbach, Grand Duche de Luxembourg	NTD 424 (EUR 12.5)	Online/download media services
HTC Middle East FZ-LLC	2012.07.08	3701A&3704A, 37 Floor, Business Central Towers, Dubai, United Arab Emirates	NTD 30,751 (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 Czech RC s.r.o.	2015.06.01	Lidická 700/19, Veveří, 602 00 Brno, Česká republika	NTD 31,013 (CZK 24,715)	Sale of smart handheld devices and electronic components

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
HTC America Holding Inc.	2010.04.23	13920 SE Eastgate Way, Suite 400 Bellevue, Washington 98005	NTD 7,522,859 (USD 233,126)	International holdings
HTC America Inc.	2003.01.06	308 Occidental Ave S 3rd floor, Seattle, WA 98104	NTD 5,421,276 (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	NTD1,162 (USD 36)	Design, research and development of application software
HTC America Innovation Inc.	2010.04.23	13920 SE Eastgate Way, Suite 400 Bellevue, Washington 98005	NTD 96,809 (USD 3,000)	Design, research and development of application software
HTC America Content Services, Inc.	2011.03.28	13920 SE Eastgate Way, Suite 400, Bellevue, WA 98005	NTD 261,383 (USD 8,100)	Online/download media services
Dashwire, Inc.	2006.08.11	936 N. 34th Street, Suite 200 Seattle, WA 98103	NTD 0.003 (USD 0.0001)	Cloud Synchronization Technology design and management
Inquisitive Minds, Inc.	2008.12.04	655 W Evelyn Ave, Suite 3, Mountain View, CA94041	NTD 0.032 (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 225,887 (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

Note: Paid-in capital is translated at the exchange rates prevailing on 2016.12.31.

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

None.

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

1. **Industries covered by the businesses operated by all affiliates:**

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

2. **Division of labor among all affiliates:**

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

1. The primary business of HTC Holding Cooperatief U.A, HTC VIVE Holding (BVI) Corp., HTC America Holding Inc., and HTC VIVE TECH (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. Communication Global Certification Inc. engages in the import of controlled telecommunications radio frequency devices and information software services.
4. The primary business of HTC Investment Corporation ,HTC I Investment Corporation, HTC Investment (BVI) Corp.and HTC VIVE Investment (BVI) Corp. is general investing activities.
5. High Tech Computer Corp. (Suzhou) , HTC Electronics (Shanghai) Co., Ltd. and HTC Czech RC s.r.o.engage in the manufacture and sale of smart handheld devices.
6. HTC Corporation (Shanghai WGQ) engages in detect, after-sales services, and technical advisory of smart handheld devices.
7. HTC Communication Co., Ltd. engages in manufacturing and sale of smart handheld devices, electronic components and after-sales services.
8. HTC America Innovation Inc., One & Company Design Inc., HTC Communication Technologies (Beijing) and HTC Communication Technologies (SH) engage in design, research and development of application software.
9. HTC America Inc., and HTC NIPPON Corporation, engage in the sale of smart handheld devices and electronic components.
10. High Tech Computer Asia Pacific Pte. Ltd., HTC HK, Limited, and HTC Netherlands B.V., and HTC EUROPE CO., LTD. engage in global investing activities, marketing, repair and after-sales service.
11. HTC Luxembourg S.a.r.l. ,and HTC America Content Services, Inc. engage in online and download media services.
12. Dashwire, Inc. engages in design and management of cloud synchronization technology.
13. Inquisitive Minds, Inc. is mainly engaged in development and sale of digital education platform.
14. HTC Investment One (BVI) Corporation is mainly engaged in acquisitions and general investment for S3 Graphics Co., Ltd.
15. The primary business of S3 Graphics Co, Ltd. is design, research and development of graphics technology.
16. Yoda Co., Ltd. is mainly engaged in restaurant and parking lot business as well as building cleaning services.
17. HTC Servicios DE Operacion Mexico, S.A DE C.V. is mainly engaged in human resource management.
18. HTC VIVE TECH Corp. is mainly engaged in research, development and sale of virtual reality devices.
19. The remaining companies engage in marketing, repair and after-sales services.

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

2015.12.31 Unit: NT$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
Investor:				
HTC Corporation	Chairwoman	Cher Wang	32,272,427 shares	3.93%
	Director	Wen-Chi Chen	22,391,389 shares	2.72%
	Director	HT Cho	96,530 shares	0.01%
	Director	David Bruce Yoffie	-	-
	Independent Director	Chen-Kuo Lin	-	-
	Independent Director	Josef Felder	260,000 shares	0.03%
	Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	43,819,290 shares	5.33%
	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%
Communication Global Certification Inc.	Chairperson	HTC Corporation Representative: David Chen	29,056,807 shares	100.00%
	Director	HTC Corporation Representative: Simon Hsieh, Hsiu Lai	29,056,807 shares	100.00%
	Supervisor	HTC Corporation Representative: Ken Wang	29,056,807 shares	100.00%
High Tech Computer Asia Pacific Pte. Ltd.	Director	HTC Corporation Representative: Cher Wang, Marcus Woo, Lim Tiong Beng	714,534,059 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: Ken Wang	30,000,000 shares	100.00%
HTC 1 Investment Corporation	Chairperson	HTC Corporation Representative: Cher Wang	29,500,000 shares	100.00%
	Director	HTC Corporation Representative:Peter Shen , Marcus Woo	29,500,000 shares	100.00%
	Supervisor	HTC Corporation Representative: Ken Wang	29,500,000 shares	100.00%
HTC Investment One (BVI) Corporation	Director	HTC Corporation Representative: Cher Wang	333,733,246 shares	100.00%
HTC Investment (BVI) Corp.	Director	HTC Corporation Representative: Peter Shen	18,000,000shares	100.00%

(Continued)

2015.12.31 Unit: NT$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
HTC VIVE Holding (BVI) Corp.	Director	HTC Corporation Representative: Peter Shen,Dannie Liu	7,000,000shares	100.00%
HTC VIVE Investment (BVI) Corp.	Director	HTC Corporation Representative: Peter Shen,Dannie Liu	2,000,000shares	100.00%
HTC Tech Computer Corp. (Suzhou)	Chairperson	H.T.C. (B.V.I.) Corp. Representative: David Chen	USD 100 thousands	100.00%
HTC (Australia and New Zealand) PTY LTD	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Ralph Wang, 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, Ralph Wang	10,000,000 shares	100.00%
HTC India Private Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Ralph Wang, Dannie Liu, Faisal Siddiqui	495,000 shares	99.00%
	Director	HTC Holding Cooperatief U.A. Representative: Ralph WangWang, Dannie Liu, Faisal Siddiqui	5,000 shares	1.00%
HTC Malaysia Sdn. Bhd.	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: RalphWang, Faisal Siddiqui, 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: Jack Tong	USD1 27,500 thousands	100.00%
HTC HK, Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Jack Tong, 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%

(Continued)

2015.12.31 Unit: NT$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
HTC Communication Technologies (SH)	Chairperson	High Tech Computer Asia Pacific Pte. Ltd. Representative: David Chen	USD 4,000 thousands	100.00%
HTC Myanmar Company Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Edward Wang, James Chen	99,000 shares	99.00%
	Director	HTC HK Limited Representative: Edward Wang, James Chen	1,000 shares	1.00%
HTC Vietnam Services One Member Limited Liability Company	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Jack Tong	USD 200 thousands	100.00%
S3 Graphics Co, Ltd.	Director	HTC Investment One (BVI) Corporation Representative: Peter Shen, Marcus Woo	386,338,516 shares	100.00%
Yoda Co., Ltd.	Chairperson	HTC Investment Corporation Representative: Hsiu Lai	20,000 thousands	100.00%
HTC Corporation (Shanghai WGQ)	Executive Director	HTC HK, Limited Representative: Georges Boulloy	USD 1,500 thousands	100.00%
HTC Electronics (Shanghai) Co., Ltd.	Chairperson	HTC HK, Limited Representative: David Chen	USD 132,909 thousands	100.00%
HTC Communication Technolegy (Beijing) Co., Ltd	Chairperson	HTC Communication Technologies (Shanghai Limited) Representative: David Chen	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	69,270,132 shares	100.00%
HTC BRASIL	Representative	HTC Netherlands B.V.	1,987,399 shares	99.99%
	Representative	HTC Cooperatief U.A.	1 share	0.01%
HTC Belgium BVBA/SPRL	Director	HTC Netherlands B.V. Representative: Gilbert Ng, TMF Management	18,549 shares	100.00%
HTC NIPPON Corporation	Director	HTC Netherlands B.V. Representative: Jack Tong, Hiroshi Tamano, Edward Wang	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, RalphWang	80,000 shares	100.00%
HTC Italia SRL	Director	HTC Netherlands B.V. Representative: (Liquidator) Giovanni Gargani	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, Ralph Wang	4,687 shares	100.00%

(Continued)

2015.12.31 Unit: NT$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
HTC Communication Canada, Ltd.	Director	HTC Netherlands B.V. Representative: Jason Makenzie, RalphWang	1,500,000 shares	100.00%
HTC Communication Sweden AB	Director	HTC Netherlands B.V. Representative: Graham Wheeler, Ralph Wang	1,000,000 shares	100.00%
HTC Luxembourg S.a.r.l.	Director	HTC Netherlands B.V. Representative: Ralph Wang,	12,500 shares	100.00%
HTC Middle East FZ-LLC	Director	HTC Netherlands B.V. Representative: Crystal Liu, RalphWang	3,500 shares	100.00%
HTC Communication Solutions Mexico, S.A DE C.V.	Director	HTC Netherlands B.V. Representative: Jason Buchanan Mackenzie, Edward Wang	49,500 shares	99.00%
	Director	HTC Holding Cooperatief U.A. Representative: Jason Buchanan Mackenzie, Edward Wang	500 shares	1.00%
HTC Servicios DE Operacion Mexico, S.A DE C.V.	Director	HTC Netherlands B.V. Representative: Jason Buchanan Mackenzie, Edward Wang	49,500 shares	99.00%
	Director	HTC Holding Cooperatief U.A. Representative: Jason Buchanan Mackenzie, Edward Wang	500 shares	1.00%
HTC Czech RC s.r.o.	Director	HTC Netherlands B.V. Representative: Bruce Lee	CZK 25,300 thoudands	100.00%
HTC America Holding, Inc.	Director	HTC EUROPE CO. LTD Representative: Peter Shen	358,617,151 shares	100.00%
HTC America, Inc.	Director	HTC America Holding, Inc. Representative: Peter Shen	1,000 shares	100.00%
One & Company Design, Inc.	Director	HTC America Holding, Inc. Representative: Ralph Wang	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: Ralph Wang	31,000 shares	100.00%
Dashwire, Inc.	Director	HTC America Holding, Inc. Representative: RalphWang	100 shares	100.00%
Inquisitive Minds, Inc.	Director	HTC America Holding, Inc. Representative: RalphWang	100 shares	100.00%
HTC VIVE TECH (BVI) Corp	Director	HTC VIVE Holding (BVI) Corp. Representative: Peter Shen,Dannie Liu	700,000 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: Dannie Liu	100,000 shares	100.00%
	Director	HTC VIVE TECH (BVI) Corp. Representative: Marcus Woo	100,000 shares	100.00%
	Supervisor	HTC VIVE TECH (BVI) Corp. Representative: Ralph Wang	100,000 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	$ 8,220,087	$102,610,314	$50,838,808	$ 51,771,506	$74,228,118	($ 11,462,190)	($ 10,560,103)	($ 12.81)
Investee:								
H.T.C. (B.V.I.) Corp.	4,760,397	3,734,361	-	3,734,361	28,697	28,585	30,209	0.02
Communication Global Certification Inc.	290,568	441,242	34,588	406,654	257,865	8,845	5,671	0.2
High Tech Computer Asia Pacific Pte. Ltd.	20,916,864	28,164,150	5,898	28,158,252	103,964	(1,875,810)	(1,720,554)	(2.41)
HTC Investment Corporation	300,000	290,481	118	290,363	3,544	3,418	3,241	0.11
HTC 1 Investment Corporation	295,000	266,945	179	266,766	5,074	4,948	4,770	0.16
HTC Investment One (BVI) Corporation	10,769,397	3,682,415	-	3,682,415	12,643	(1,201,832)	(1,202,877)	(3.6)
HTC Investment (BVI) Corp.	580,851	844,950	-	844,950	81,581	81,480	81,804	6.34
HTC VIVE Holding (BVI) Corp.	225,887	225,583	-	225,583	-	(314)	(309)	(0.04)
HTC VIVE Investment (BVI) Corp	64,539	64,473	-	64,473	-	(67)	(65)	(0.12)
HTC Tech Computer Corp.(Suzhou)	3,227	742,044	641,317	100,727	-	(1,070)	14,913	-
HTC (Australia and New Zealand) PTY LTD.	93,181	263,091	53,812	209,279	163,801	7,984	5,882	14.71
HTC Philippines Corporation	6,454	6,280	-	6,280	-	-	-	-
PT. High Tech Computer Indonesia	4,078	38,237	10,387	27,850	15,053	715	(267)	(1.42)
HTC (Thailand) Limited	22,522	55,685	10,105	45,580	10,171	484	375	0.04
HTC India Private Limited	2,374	353,070	301,947	51,130	510,320	26,182	(46,629)	(93.26)
HTC Malaysia Sdn. Bhd.	1,798	24,887	947	23,940	27,479	1,309	1,810	72.4
HTC Communication Co., Ltd.	4,114,361	5,711,772	2,353,993	3,357,779	2,546,538	(672,980)	(1,052,103)	-
HTC HK, Limited	4,345,638	7,623,150	18,023	7,605,127	143,237	53,578	47,483	0.05
HTC Holding Cooperatief U.A.	5,941,691	10,160,899	5,548	10,155,351	-	(905,166)	(877,548)	-
HTC Communication Technologies (SH)	129,078	549,611	171,763	377,848	789,853	51,738	56,102	-
HTC Myarmar Company Limited	2,344	2,340	-	2,340	-	-	-	-

(Continued)

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income (Loss) from Operation	Net Income (Net of Tax)	EPS (Net of Tax)
HTC Vietnam Services One Member Limited Liability Company	$ 6,007	$ 17,938	$ 10,695	$ 7,243	$ 40,766	$ 2,088	$ 1 ,170	$ -
S3 Graphics Co, Ltd.	9,939	99,289	-	99,289	12,487	12,487	12,967	0.03
Yoda Co., Ltd.	20,000	22,036	1,189	20,847	8,889	468	372	-
HTC Corporation (Shanghai WGQ)	48,404	156,610	34,060	122,550	115,762	5,512	16,557	-
HTC Electronics (Shanghai) Co., Ltd.	4,288,907	7,423,808	101,960	7,321,848	82,303	-297,639	27,966	-
HTC Communication Technologies (Beijing)	48,515	71,938	2,763	69,175	171,372	11,211	7,790	-
HTC Netherlands B.V.	4,878,633	10,280,468	120,368	10,160,100	526,803	-980,461	-876,329	-6.09
HTC EUROPE CO., LTD.	2,742,947	9,553,481	310,602	9,242,879	2,304,174	346,509	470,966	6.8
HTC BRASIL	19,701	26,110	5,598	20,512	9,833	515	383	0.19
HTC Belgium BVBA/ SPRL	644	32,383	21,209	11,174	61,224	2,767	1,003	54.07
HTC NIPPON Corporation	2,756	712,427	584,030	128,397	1,466,487	15,918	12,356	12,356.00
HTC FRANCE CORPORATION	372,979	52,459	18,385	34,074	57,494	7,162	7,141	0.65
HTC South Eastern Europe Limited Liability Company	153	6,162	1,083	5,079	-	352	378	2,520.00
HTC Nordic ApS.	365	17,403	7,676	9,727	6,456	626	563	7.04
HTC Italia SRL	339	30,103	5,815	24,288	4,887	-5,231	-5,595	-
HTC Germany GmbH.	848	114,464	17,864	96,600	103,282	16,510	12,749	509.96
HTC Iberia S.L.	102	27,707	3,064	24,643	33,024	766	733	244.33
HTC Poland sp. z o.o.	1,795	6,874	3,762	3,112	26,469	1,233	782	166.38
HTC Communication Canada, Ltd.	48,404	90,607	16,018	74,589	53,711	2,558	2,101	1.4
HTC Communication Sweden AB.	3,539	5,416	26	5,390	1,155	55	188	0.19
HTC Luxembourg S.a.r.l..	424	215,800	2,777	213,023	-	-1,588	12,096	967.68
HTC Middle East FZ-LLC	30,751	168,119	119,482	48,637	375,925	7,779	6,384	1,824.00
HTC Communication Solutions Mexico, S.A DE C. V.	78	12,089	8,219	3,870	41,498	1,403	1,677	33.54
HTC Servicios DE Operation Mexico, S.A DE C. V.	78	5,899	2,334	3,565	32,867	802	631	12.62
HTC Czech RC s.r.o.	31,013	38,000	6,027	31,973	-	-10,165	-866	-
HTC America Holding Inc.	7,522,859	8,172,107	3,931	8,168,176	321,260	269,819	274,132	0.76
HTC America Inc.	5,421,276	13,499,935	6,012,929	7,487,006	29,919,464	277,439	328,667	328,667.00
One & Company Design, Inc.	1,162	3,976	68	3,908	-	-21	-21	-0.35

(Continued)

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income (Loss) from Operation	Net Income (Net of Tax)	EPS (Net of Tax)
HTC America Innovation Inc.	$ 96,809	$ 553,925	$ 85,045	$ 468,880	$ 803,906	$ 38,373	36,272	$ 36,272.00
HTC America Content Services, Inc.	261,383	106,351	50,243	56,108	20,983	-43,115	-42,755	-1,379.19
Dashwire, Inc.	0.003	2,747	60,124	-57,377	78	-1,095	-1,103	-11,030.00
Inquisitive Minds, Inc.	0.032	47,255	4,238	43,017	10,569	-1,966	574	5,740.00
HTC VIVE TECH (BVI) Corp.	225,887	225,583	-	225,583	-	-314	-309	-
HTC VIVE TECH Corp.	1,000	887	-	887	-	-113	-113	-1.13

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 2016 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 2016 as of the Date of This Annual Report:

None.

4. Any Events in 2016 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.

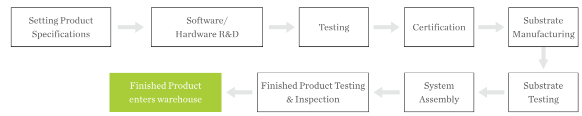
5. Other Necessary Supplement:

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

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

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



(2) Environmental protection expenditures

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

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

HTC is certified OHSAS18001:2007 occupational health and safety management system, ISO 14001:2004 environmental management, ISO 14064-1:2006 greenhouse gas emission standards and ISO50001:2011 energy management standard. Certification-mandated procedures and requirements further reduce HTC pollution emissions and energy consumption and move us forward toward clean production objectives.

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

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

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

a. Continue to strengthen the operations management on environmental protection equipment in order to comply with government 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

Item / Fiscal Year	Anticipated Equipment Purchases / Expenditures	Anticipated Benefits	Expenditures (estimated)
2017	1. Energy efficient lighting system 2. Energy efficientair conditioning equipment 3. Inverters for air compressors 4. Waste water recycling to provide for campus watering system 5. Water / power conservation promotion activities 6. Waste reduction and recycling promotion activities 7. Campus greening efforts	1. Reduce energy consumption by using LED lighting system 2. Reduce energy consumption through transformer for air conditioning equipment 3. Reduce energy consumption through the inverters for air compressors 4. Promote waste water recycling ,and reduce tap water useage 5. Conserve water resources 6. Reduce waste by promoting waste reduction and recycling 7. Reduce energy consumption through campus greenification	10,190
2018	1. Energy efficient lighting system 2. Water conservation facilities in pantry, shower rooms and toilets 3. Water/power conservation promotion activities 4. Implementation of energy efficient air conditioning equiopments 5. Waste water facilities	1. Reduce energy consumption by using motion sensing lighting system 2. Deploy efficient water saving utilities in pantry, shower rooms and toilets 3. Conserve water resource 4. Reduce energy consumption through the inverters ,temperature and time controller set-up 5. Reinforce waste system.	9,500
2019	1. Energy efficient lighting system 2. Setup for water conservation devices. 3. Implementation of energy efficient air conditioning equiopments 4. Addition of inverters to elevators, air compressors, and motor pumps. 5. Waste water recycling to provide for campus watering system 6. Water / power conservation promotion activities 7. Waste reduction and recycling promotion activities 8. Campus greening efforts	1. Using LED power-saving lamps helps reduce energy waste, and using light-sensing switches and independent switches for personal lighting equipment effectively saves from power consumption 2. Deploy efficient water saving utilities in pantry, shower rooms and toilets 3. Reduce energy consumption through the inverters, temperature and time controller set-up 4. Adding inverters in elevators, air compressors, and motor pumps helps save energy 5. Promote waste water recycling, and reduce tap water useage 6. Conserve water resources 7. Reduce waste by promoting waste reduction and recycling 8. Reduce energy consumption through campus greenification	6,000

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, UL Environment certification as Platinum level, 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.

(3) Labor relations management

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

1. Employee recruitment

Hiring and retaining exceptional employees is a key objective of HTC's human resources strategy. We are an equal opportunity employer and recognize the practical benefits that employee diversity brings to HTC's corporate culture and to our innovative spirits. HTC hires new employees through open selection procedures, with candidates offered positions based on merit. We permit no discrimination based on ethnicity, skin color, social status, language, religion, political affiliation, country / region of origin, gender, sexual orientation, marital status, appearance, disability, professional association membership or other similar considerations not relevant to job performance. HTC works through cooperative programs with universities, internship programs and summer work programs to provide work opportunities to a large number of students each year. In addition, we actively restructure our work environment to provide more job opportunities for disability so they can also have the great o pportunity 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 2016, total training related expenditure were NT$6.93 million and training hours were 193,313 hours.

3. Employee benefits and employee satisfaction

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

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

Open and responsive lines of communication
HTC operates an internal system to receive employee complaints. This system includes a hotline, mailbox, and e-mail address dedicated to receiving employee complaints and suggestions as well as a regularly convened joint labor-management committee. HTC regularly canvasses employee opinions. Results are made available to executives and managers and used to measure changes in employee satisfaction and commitment.

Regular activities and events
HTC holds regular sports rallies, family days, athletic competitions and artistic / literary contests to increase opportunities for employees to enjoy informal interactions outside of their regular work.

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

4. Employee retention

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

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

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

5. Compensation and retirement benefits

HTC employees earn market-competitive salaries that take into consideration academic background, work experience, seniority and current professional responsibilities / position level. The amount of annual employee performance bonuses is proposed by the president and approved by the board of directors based on current year business performance. Additionally, HTC appropriate a percentage of annual earnings bonuses to employee approved by the board of directors and adopted by shareholders' meeting. Performance and earnings bonus are allocated based on work performance and relative level of contribution in order to motivate employees effectively.

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

6. Labor negotiations and measures to protect employee rights

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

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

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FINANCIAL INFORMATION

FINANCIAL INFORMATION

1. Abbreviated Balance Sheets for the Past Five Fiscal Years

(1) Abbreviated Balance Sheets - IFRS

Unit: NT$ thousands

Item		2016	2015	2014	2013	2012
Current Assets		41,119,540	58,086,219	85,050,267	86,792,110	120,322,646
Properties		10,501,997	13,152,866	18,660,108	19,773,608	19,726,836
Intangible Assets		309,321	622,138	1,222,721	1,650,891	1,717,150
Other Assets		50,679,456	55,613,798	58,079,118	59,337,585	55,213,207
Total Assets		102,610,314	127,475,021	163,012,214	167,554,194	196,979,839
Current Liabilities	Before Appropriation	50,831,122	62,664,620	82,556,301	89,731,340	116,556,611
	After Appropriation	*	62,664,620	82,870,937	89,731,340	118,219,066
Non-current Liabilities		7,686	18,306	122,540	115,194	150,534
Total Liabilities	Before Appropriation	50,838,808	62,682,926	82,678,841	89,846,534	116,707,145
	After Appropriation	*	62,682,926	82,993,477	89,846,534	118,369,600
Capital Stock		8,220,087	8,318,695	8,349,521	8,423,505	8,520,521
Capital Surplus		15,614,641	15,505,853	15,140,687	15,360,307	16,601,557
Retained Earnings	Before Appropriation	29,139,080	40,080,087	59,531,103	66,286,308	70,102,031
	After Appropriation	*	40,080,087	59,216,467	66,286,308	68,439,576
Other Equity		(1,202,302)	1,088,415	1,062,118	557,698	(885,925)
Treasury Stock		-	(200,955)	(3,750,056)	(12,920,158)	(14,065,490)
Total Stockholders' Equity	Before Appropriation	51,771,506	64,792,095	80,333,373	77,707,660	80,272,694
	After Appropriation	*	64,792,095	80,018,737	77,707,660	78,610,239

* Subject to change after shareholders' meeting resolution

(2) Abbreviated Balance Sheets - ROC GAAP

Unit: NT$ thousands

Item		2016	2015	2014	2013	2012
Current Assets		Abbreviated balance sheet was based on IFRS				127,271,142
Long-term Investments						42,652,154
Properties						19,935,586
Intangible Assets						1,625,340
Other Assets						12,702,516
Total Assets						199,186,738
Current Liabilities	Before Appropriation					118,817,523
	After Appropriation					120,479,978
Long-term Liabilities						-
Other Liabilities						-
Total Liabilities	Before Appropriation					118,817,523
	After Appropriation					120,479,978
Capital Stock						8,520,521
Capital Surplus						16,619,594
Retained Earnings	Before Appropriation					70,148,728
	After Appropriation					68,486,273
Unrealized Loss on Financial Instruments						203,768
Cumulative Translation Adjustments						(1,057,559)
Net Loss Not Recognized As Pension Cost						(374)
Treasury Stock						(14,065,490)
Total Stockholders' Equity	Before Appropriation					80,369,215
	After Appropriation					78,706,760

(3) Abbreviated Consolidated Balance Sheets - IFRS

Unit: NT$ thousands

Item		Year 2016	2015	2014	2013	2012	As of 2017.03.31
Current Assets		68,562,382	86,439,402	110,286,950	111,507,281	136,132,425	61,030,115
Properties		12,025,496	15,432,130	23,435,556	25,561,399	25,990,766	11,712,682
Intangible Assets		3,878,356	5,561,444	7,209,291	8,664,066	11,683,170	3,316,074
Other Assets		18,682,948	21,960,107	22,906,477	26,896,441	33,442,631	16,733,097
Total Assets		103,149,182	129,393,083	163,838,274	172,629,187	207,248,992	92,791,968
Current Liabilities	Before Appropriation	51,274,276	64,473,478	83,258,739	94,513,990	126,268,363	44,677,230
	After Appropriation	*	64,473,478	83,573,375	94,513,990	127,930,818	*
Non-Current Liabilities		103,400	127,510	246,162	407,537	707,935	92,112
Total Liabilities	Before Appropriation	51,377,676	64,600,988	83,504,901	94,921,527	126,976,298	44,769,342
	After Appropriation	*	64,600,988	83,819,537	94,921,527	128,638,753	*
Capital Stock		8,220,087	8,318,695	8,349,521	8,423,505	8,520,521	8,219,042
Capital Surplus		15,614,641	15,505,853	15,140,687	15,360,307	16,601,557	15,626,493
Retained Earnings	Before Appropriation	29,139,080	40,080,087	59,531,103	66,286,308	70,102,031	27,106,535
	After Appropriation	*	40,080,087	59,216,467	66,286,308	68,439,576	*
Other Equity		(1,202,302)	1,088,415	1,062,118	557,698	(885,925)	(2,929,444)
Treasury Stock		-	(200,955)	(3,750,056)	(12,920,158)	(14,065,490)	-
Non-Controlling Interest		-	-	-	-		-
Total Stockholders' Equity	Before Appropriation	51,771,506	64,792,095	80,333,373	77,707,660	80,272,694	48,022,626
	After Appropriation	*	64,792,095	80,018,737	77,707,660	78,610,239	*

* Subject to change after shareholders' meeting resolution

(4) Abbreviated Consolidated Balance Sheets – ROC GAAP

Unit: NT$ thousands

Item		Year 2016	2015	2014	2013	2012
Current Assets		Abbreviated consolidated balance sheet was based on IFRS				139,658,980
Long-term Investments						10,197,272
Properties						25,651,292
Intangible Assets						11,520,674
Other Assets						19,575,908
Total Assets						206,604,126
Current Liabilities	Before Appropriation					126,174,912
	After Appropriation					127,837,367
Long-term Liabilities						-
Other Liabilities						59,999
Total Liabilities	Before Appropriation					126,234,911
	After Appropriation					127,897,366
Capital Stock						8,520,521
Capital Surplus						16,619,594
Retained Earnings	Before Appropriation					86,616,845
	After Appropriation					53,367,760
Unrealized Loss on Financial Instruments						203,768
Cumulative Translation Adjustments						(1,057,559)
Net Loss Not Recognized As Pension Cost						(374)
Treasury						(14,065,490)
Equity Attribute To The Stockholders Of The Parent						80,369,215
Minority Interest						-
Total Stockholders' Equity	Before Appropriation					80,369,215
	Before Appropriation					78,706,760

2. Abbreviated Income Statements for the Past Five Fiscal Years

(1) Abbreviated Statements of Comprehensive income – IFRS

Unit: NT$ thousands

Item	Year 2016	2015	2014	2013	2012
Revenues	74,228,118	117,083,037	174,793,564	194,294,044	270,701,687
Gross Profit	7,368,471	16,250,255	31,264,301	33,969,488	56,994,793
Operating (Loss) Income	(11,462,190)	(13,625,809)	481,485	(1,636,453)	14,770,387
Non-operating Income and Expenses	369,761	(3,155,735)	1,049,730	351,246	2,162,323
Net (Loss) Income Before Tax	(11,092,429)	(16,781,544)	1,531,215	(1,285,207)	16,932,710
Net (Loss) Income from Continuing Operations	(10,560,103)	(15,533,068)	1,483,046	(1,323,785)	16,813,575
Non-Continuing Operations Loss	-	-	-	-	-
Net (Loss) Income	(10,560,103)	(15,533,068)	1,483,046	(1,323,785)	16,813,575
Other Comprehensive Income and Loss For The Year –Net of Income Tax	(2,455,613)	(43,307)	873,654	1,428,310	(893,331)
Total Comprehensive (Loss) Income For The Year	(13,015,716)	(15,576,375)	2,356,700	104,525	15,920,244
Basic (Loss) Earnings Per Share	(12.81)	(18.79)	1.80	(1.60)	20.21

(2) Abbreviated Income Statement – ROC GAAP

Unit: NT$ thousands

Item	Year 2016	2015	2014	2013	2012
Revenues	Abbreviated income statement was based on IFRS				270,701,687
Gross Profit					56,989,072
Operating Income					14,762,895
Non-operating Income and Gains					2,317,531
Non-operating Expenses and Losses					155,323
Income from Continuing Operation before Income Tax					16,925,103
Income from Continuing Operations					16,780,968
Income (Loss) from Discontinued Operations					-
Income (Loss) from Extraordinary Items					-
Cumulative Effect of Changes in Accounting Principle					-
Net Income					16,780,968
Basic Earnings Per Share					20.17

(3) Abbreviated Consolidated Statements of Comprehensive income– IFRS

Unit: NT$ thousands

Item	Year 2016	2015	2014	2013	2012	As of 2017. 03.31
Revenue	78,161,158	121,684,231	187,911,200	203,402,648	289,020,175	14,530,823
Gross Profit	9,434,591	21,953,107	40,755,095	42,270,753	72,930,849	2,363,186
Operating (Loss) Income	(14,608,064)	(14,203,146)	668,770	(3,970,522)	18,827,314	(2,357,601)
Non-operating Income and Expenses	4,024,116	(1,378,394)	1,314,656	3,774,878	630,751	316,861
Net (Loss) Income Before Tax	(10,583,948)	(15,581,540)	1,983,426	(195,644)	19,458,065	(2,040,740)
Net (Loss) Income from Continuing Operations	(10,560,103)	(15,533,068)	1,483,046	(1,323,785)	17,621,793	(2,032,545)
Non-Continuing Operations Loss	-	-	-	-	-	-
Net (Loss) Income	(10,560,103)	(15,533,068)	1,483,046	(1,323,785)	17,621,793	(2,032,545)
Other Comprehensive Income and Loss for the Period, Net of Income Tax	(2,455,613)	(43,307)	873,654	1,428,310	(893,331)	(1,768,653)
Total Comprehensive (Loss) Income for the Period	(13,015,716)	(15,576,375)	2,356,700	104,525	16,728,462	(3,801,198)
Allocations of Profit or Loss for the Period Attributable to: Owners of the Parent	(10,560,103)	(15,533,068)	1,483,046	(1,323,785)	16,813,575	(2,032,545)
Allocations of Profit or Loss for the Period Attributable to: Non-controlling Interest	-	-	-	-	808,218	-
Allocations of Total Comprehensive Income for the Period Attributable to: Owners of the Parent	(13,015,716)	(15,576,375)	2,356,700	104,525	15,920,244	(3,801,198)
Allocations of Total Comprehensive Income for the Period Attributable to: Non-controlling Interest	-	-	-	-	808,218	-
Basic Earnings (Loss) Per Share	(12.81)	(18.79)	1.80	(1.60)	20.21	(2.47)

(4) Abbreviated Consolidated Income Statement – ROC GAAP

Unit: NT$ thousands

Item	Year 2016	2015	2014	2013	2012
Revenues	Abbreviated consolidated income statement was based on IFRS				289,020,175
Gross Profit					72,925,077
Operating Income					18,819,707
Non-operating Income and Gains					2,240,310
Non-operating Expenses and Losses					1,609,559
Income from Continuing Operations Before Income Tax					19,450,458
Income from Continuing Operations After Tax					17,589,186
Income (Loss) from Discontinued Operations					-
Income (Loss) from Extraordinary Items					-
Cumulative Effect of Changes in Accounting Principle					-
Net Income					17,589,186
Net Income Attribute to Shareholders of the Parent					16,780,968
Basic Earnings Per Share					20.17

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

Year	CPA Firm	Certified Public Accountant	Auditor's Opinion
2012	Deloitte & Touche	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion
2013	Deloitte & Touche	Ming-Hsien Yang and Wen-Yea Shyu	Unqualified 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

3. Financial Analysis for the Past Five Fiscal Years

(1) Financial Analysis for the Past Five Fiscal Years

Item		Year 2016	2015	2014	2013	2012
Capital Structure Analysis	Debt Ratio (%)	50	49	51	54	59
	Long-term Fund to Fixed Assets Ratio (%)	493	493	431	393	407
Liquidity Analysis	Current Ratio (%)	81	93	103	97	103
	Quick Ratio (%)	54	62	80	72	82
	Debt Services Coverage Ratio (%)	(2,150)	(2,145)	94	(195)	52,916
Operating Performance Analysis	Average Collection Turnover(Times)	4.74	4.81	5.65	5.43	5.02
	Days Sales Outstanding	77	76	65	67	73
	Average Inventory Turnover (Times)	3.86	5.68	7.66	7.12	7.85
	Average Payment Turnover (Times)	2.28	2.61	3.65	2.62	2.84
	Average Inventory Turnover Days	95	64	48	51	46
	Fixed Assets Turnover (Times)	6.28	7.36	9.10	9.84	15.45
	Total Assets Turnover (Times)	0.65	0.81	1.06	1.07	1.22
Profitability Analysis	Return on Total Assets (%)	(9.18)	(10.69)	0.90	(0.72)	7.57
	Return on Equity (%)	(18.12)	(21.41)	1.88	(1.68)	18.52
	Ratio of income before tax to paid-in capital (%)	(134.94)	(202)	18.34	(15.26)	198.73
	Net Margin (%)	(14.23)	(13.27)	0.85	(0.68)	6.21
	Basic Earnings Per Share (NT$)	(12.81)	(18.79)	1.80	(1.60)	20.21
Cash Flow	Cash Flow Ratio (%)	(24.22)	(20.87)	0.72	(14.76)	19.50
	Cash Flow Adequacy Ratio (%)	(31.85)	94.56	110.33	113.13	128.67
	Cash Flow Reinvestment Ratio (%)	(19.80)	(17.81)	0.65	(17.28)	(12.04)
Leverage	Operating Leverage	(0.37)	(0.71)	37.00	(5.87)	2.37
	Financial Leverage	1	1	1	1	1

1. Capital Structure & Liquidity Analyses

HTC continuously suffered loss in 2016, such that the net cash outflows for operating activities, which results in decreased quick ratio and liquidity ratio. Moreover, since revenue keeps on decreasing due to high competition in its industrial environment, ending payables related to inventory purchasing and operating expenses decreased with ending assets in the same proportion, so that there is no significant change in debt ratio. In this term, in order to reduce cost and increase operating efficiency effectively, partial lands are disposed. Moreover, capital expense is controlled strictly to result in decreased real properties, plants and equipment. Furthermore, long term fund decreased with real properties, plants and equipment in the same proportion in this term, so that the proportion of long term fund to real properties, plants and equipment ratio does not change significantly.

2. Operating Performance Analysis

Various operating capability ratios decrease in 2016 in comparison to 2015 because there is still high competition in its industrial environment, and entire global economy degrades to result in low revenue.

3. Profitability Analysis

HTC continuously suffered loss due to fierce competition in international market in 2016. However, profitability ratios rise slightly in comparison to 2015 because the loss converges in comparison to 2015 due to effective control of cost & expense.

4. Cash Flow Analysis

In 2016, HTC continuously suffered loss with continuous net cash outflow for operating activities and decreased overall asset & liability in comparison to 2015, so that cash flow ratios all decrease in comparison to 2015.

(2) Financial Analysis – ROC GAAP

Item			Year 2016	2015	2014	2013	2012
Capital Structure Analysis	Debt Ratio (%)						60
	Long-term Fund to Fixed Assets Ratio (%)						403
Liquidity Analysis	Current Ratio (%)						103
	Quick Ratio (%)						80
	Debt Services Coverage Ratio (%)						52,892
Operating Performance Analysis	Average Collection Turnover (Times)						5.02
	Days Sales Outstanding						73
	Average Inventory Turnover (Times)						7.85
	Average Payment Turnover (Times)						2.78
	Average Inventory Turnover Days						46
	Fixed Assets Turnover (Times)		Financial analysis was based on IFRS				15.31
	Total Assets Turnover (Times)						1.12
Profitability Analysis	Return on Total Assets (%)						8
	Return on Equity (%)						18
	Paid-in Capital Ratio (%)	Operating Income					173
		Pre-tax Income					199
	Net Margin (%)						6
	Basic Earnings Per Share (NT$)						20.17
Cash Flow	Cash Flow Ratio (%)						19
	Cash Flow Adequacy Ratio (%)						129
	Cash Flow Reinvestment Ratio (%)						(12)
Leverage	Operating Leverage						2.37
	Financial Leverage						1

(3) Consolidated Financial Analysis - IFRS

Item		Year 2016	2015	2014	2013	2012	As of 2017.03.31
Capital Structure Analysis	Debt Ratio (%)	50	50	51	55	61	48
	Long-term Fund to Fixed Assets Ratio (%)	431	420	343	304	309	410
Liquidity Analysis	Current Ratio (%)	134	134	132	118	108	137
	Quick Ratio (%)	103	98	104	87	85	96
	Debt Services Coverage Ratio (%)	(1,997)	(1,917)	118	(22)	11,347	(826)
Operating Performance Analysis	Average Collection Turnover (Times)	3.89	4.53	6.41	5.83	5.27	4.35
	Days Sales Outstanding	94	81	57	63	69	84
	Average Inventory Turnover (Times)	3.48	4.80	6.34	5.81	6.96	2.66
	Average Payment Turnover (Times)	2.46	2.72	3.27	2.69	2.84	2.06
	Average Inventory Turnover Days	105	76	58	63	52	137
	Fixed Assets Turnover (Times)	5.69	6.26	7.67	7.89	12.12	1.22
	Total Assets Turnover (Times)	0.67	0.83	1.12	1.07	1.25	0.15
Profitability Analysis	Return on Total Assets (%)	(9.08)	(10.59)	0.88	(0.69)	7.61	(2.07)
	Return on Equity (%)	(18.12)	(21.41)	1.88	(1.68)	19.3	(4.07)
	Ratio of income before tax to paid-in capital (%)	(128.76)	(187.31)	23.75	(2.32)	228.37	(24.83)
	Net Margin (%)	(13.51)	(12.77)	0.79	(0.65)	6.1	(13.99)
	Basic Earnings Per Share (NT$)	(12.81)	(18.79)	1.80	(1.60)	20.21	(2.47)
Cash Flow	Cash Flow Ratio (%)	(18.76)	(20.24)	(0.41)	(17.17)	18.69	(12.61)
	Cash Flow Adequacy Ratio (%)	(30.23)	88.82	105.69	109.71	126.39	(319.91)
	Cash Flow Reinvestment Ratio (%)	(14.49)	(16. 91)	(0.36)	(19.78)	(10.66)	(15.16)
Leverage	Operating Leverage	(0.37)	(0.71)	37.00	(5.87)	2.37	(0.77)
	Financial Leverage	1	1	1	1	1	1

1. Capital Structure & Liquidity Analyses

In 2016, HTC continuously suffered loss to result in net cash outflow for operating activities, but cost and expense are controlled well and current liability decreases accordingly, so that there is no significant change in debt ratio and current ratio, while quick ratio rises in comparison to last term. In this term, in order to reduce cost and increase operating efficiency, partial lands are disposed, and capital expense is controlled strictly to result in decreased real properties, plants and equipments. Moreover, long term fund decreases with real properties, plants and equipments in the same proportion due to loss in this term, so that there is no significant change for the proportion of long term fund to real properties, plants and equipments ratio.

2. Operating Performance Analysis

Various operating capability ratios decrease in 2016 in comparison to 2015 because there is still high competition in its industrial environment, and entire global economy degrades to result in low revenue.

3. Profitability Analysis

HTC continuously suffered loss due to fierce competition in international market in 2016. However, profitability ratios rise slightly in comparison to 2015 because the loss converges in comparison to 2015 due to effective control of cost & expense.

4. Cash Flow Analysis

In 2016, HTC continuously suffered loss with continuous net cash outflow for operating activities and decreased overall asset & liability in comparison to 2015, so that cash flow ratios all decrease in comparison to 2015.

(4) Consolidated Financial Analysis – ROC GAAP

Item (Note 1)			Year 2016	2015	2014	2013	2012
Capital Structure Analysis	Debt Ratio (%)		Financial analysis was based on IFRS				61
	Long-term Fund to Fixed Assets Ratio (%)						313
Liquidity Analysis	Current Ratio (%)						111
	Quick Ratio (%)						85
	Debt Services Coverage Ratio (%)						11,342
Operating Performance Analysis	Average Collection Turnover (Times)						5.27
	Days Sales Outstanding						69
	Average Inventory Turnover (Times)						6.96
	Average Payment Turnover (Times)						2.79
	Average Inventory Turnover Days						52
	Fixed Assets Turnover (Times)						12.26
	Total Assets Turnover (Times)						1.25
Profitability Analysis	Return on Total Assets (%)						8
	Return on Equity (%)						19
	Paid-in Capital Ratio (%)	Operating Income					221
		Pre-tax Income					228
	Net Margin (%)						6
	Basic Earnings Per Share (NT$)						20.17
Cash Flow	Cash Flow Ratio (%)						18
	Cash Flow Adequacy Ratio (%)						126
	Cash Flow Reinvestment Ratio (%)						(11)
Leverage	Operating Leverage						2.37
	Financial Leverage						1

Note 1: Glossary

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

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

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

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

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

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

4. 2016 Supervisors' Report

HTC CORPORATION
Supervisors Audit Report

The Board of Directors has prepared the Company's 2016 Business Report, Financial Statements and Deficit Compensation Proposal. HTC Corporation's Financial Statements have been audited and certified by Hsu, Wen-Ya, CPA, and Casey Lai, CPA, of Deloitte & Touche and an audit report relating to the Financial Statements has been issued. The Business Report, Financial Statements and Deficit Compensation Proposal have been reviewed and considered to be complied with relevant rules by the undersigned, the supervisor of HTC Corporation. According to Article 219 of the Company Law, I hereby submit this report.

HTC CORPORATION
Supervisor:
Huang-Chieh Chu

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

March 6, 2017

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 (the Company), which comprise the parent company only balance sheets as of December 31, 2016 and 2015, 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 the Company as of December 31, 2016 and 2015, 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 the Company 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.

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, 2016. 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, 2016 are as follow:

Allowances for Doubtful Debts

As of December 31, 2016, the balance of allowances for doubtful debts amounted to NT$2,712,869 thousand. The evaluation of ratio to allowances for doubtful debts was arrived at by reference to the aging of receivables and credit risk scoring by customers. The credit risk may be different due to the diversity of customer base from customers in various economics areas. Since the Company's management needs to apply judgment to evaluate the allowance for doubtful debts and as changes in the balance of trade receivables would have a significant influence on the parent company only financial statements for the year ended December 31, 2016, the valuation of the allowances for doubtful debts was deemed to be a key audit matter.

We had evaluated the accounting policy of allowances for doubtful debts recognized by the Company, reviewed the classification of credit risk to customers and the reasonableness to the distribution of aging schedule, and verified the data accuracy of aging. By assessing the balance of allowances for doubtful debts as of December 31, 2016, the adequacy of accounting policy was based on the past experience of bad debt recognition.

For the accounting policy of allowance for doubtful debts, refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty, refer to Note 5; and, for other relevant disclosure, refer to Notes 10 and 28.

Valuation of Inventories

The Company's operations are mainly in the research, manufacture and sale of smart mobile devices, and the balance of inventories amounted to NT$12,685,394 thousand as of December 31, 2016. Due to the rapid change in technology, the industry is highly competitive; in addition, since the management needs to apply judgment to evaluate the impairment of net realizable value and as the balance of inventories has a significant weight on the parent company only financial statements for the year ended December 31, 2016, the valuation of inventories was deemed to be a key audit matter.

We evaluated the accounting policy of the assessment of inventory write-downs recognized by the Company at the end of the reporting period, reviewed the classification of inventories by products sold, and verified the source of evaluation for net realizable value and the adequacy of marketing planning within a specified period.

For the accounting policy of the assessment of inventory write-downs, refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty, refer to Note 5; and, for other relevant disclosure, refer to Note 11.

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

As of December 31, 2016, the balance of property, plant and equipment, prepayments, intangible assets and deferred tax assets were NT$10,501,997 thousand, NT$3,665,492 thousand, NT$309,321 thousand and NT$8,431,842 thousand respectively. The Company is now in a highly competitive business environment. In contrast with previous periods, the operating conditions and earnings are significantly deteriorated, indicating potential impairments on the aforementioned asset items. Since there exists uncertainty regarding estimations of cash flow forecast, growth rate and discount rate, which were used in the process of evaluating asset impairment by the Company's management, and, as the parent company only financial statements for the year ended December 31, 2016, were highly influenced by the change in the balance of the aforementioned asset items, the valuation of impairment thereof was deemed to be a key audit matter.

We have evaluated the reasonableness of assessment and method to impairment testing process performed by the Company's management, the adequacy of material impact related to revenue growth and profit ratio of smart phone devices, and the effectiveness of cash flow forecast and growth rate in previous years. The aforementioned uncertainty of the various estimates would also be reevaluated by our internal experts for its adequacy.

For the accounting policy of the impairment of property, plant and equipment, prepayments, intangible assets and deferred tax assets, refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty, refer to Note 5; and, for other relevant disclosure, refer to Notes 12, 15, 16 and 24.

Revenue Recognition

According to the accounting policy stated in Note 4, revenue from the sale of goods is recognized when the significant risks and ownership are transferred to the buyers. The conditions of risks and ownership transferring to a part of the customers, which accounts for 72.21% of the Company's parent only operating revenues are more complicated than those applied to sale transactions. Since the recognition of revenue has significant influence on the parent company only financial statements for the year ended December 31, 2016, the revenue recognition was deemed to be a key audit matter.

We have obtained necessary understanding and have verified the accounting policy of revenue recognition and the design and implementation of internal controls with respect to the Company's revenue recognition. The compliance of accounting treatments and the policy of revenue recognition by the Company have been verified by reviewing the relevant contractual provisions. For ensuring the Company's compliance with IAS 18, samples from the recognized revenue have been drawn to verify if the conditions of revenue recognition were met.

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 from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company'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 the Company 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 the Company'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 the Company'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 the Company'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 the Company 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 the Company 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, 2016 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 6, 2017

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and 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 financial statements shall prevail. Also, as stated in Note 4 to the 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, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

	2016		2015	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	$ 15,299,273	15	$ 20,688,988	16
Financial assets at fair value through profit or loss - current (Notes 7 and 28)	143,642	-	95,493	-
Trade receivables, net (Note 10)	4,951,500	5	6,011,023	5
Trade receivables - related parties, net (Notes 10 and 29)	6,659,174	7	7,955,352	6
Other receivables (Note 10)	84,714	-	257,500	-
Current tax assets (Note 24)	33,505	-	43,707	-
Inventories (Note 11)	12,685,394	12	15,834,166	13
Prepayments (Notes 12 and 29)	1,084,696	1	3,377,222	3
Non-current assets held for sale (Note 13)	-	-	3,768,277	3
Other current financial assets (Note 30)	112,943	-	-	-
Other current assets	64,699	-	54,491	-
Total current assets	41,119,540	40	58,086,219	46
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Note 28)	86	-	75	-
Financial assets measured at cost - non-current (Notes 9 and 28)	515,861	1	515,861	-
Investments accounted for using equity method (Note 14)	37,673,892	37	41,480,856	33
Property, plant and equipment (Notes 15 and 29)	10,501,997	10	13,152,866	10
Intangible assets (Note 16)	309,321	-	622,138	-
Deferred tax assets (Note 24)	8,431,842	8	7,630,919	6
Refundable deposits (Note 28)	1,435,391	1	1,387,578	1
Net defined benefit asset - non-current (Note 20)	41,588	-	79,978	-
Other non-current assets (Note 12)	2,580,796	3	4,518,531	4
Total non-current assets	61,490,774	60	69,388,802	54
TOTAL	$ 102,610,314	100	$ 127,475,021	100

(Continued)

	2016		2015	
LIABILITIES AND EQUITY	Amount	%	Amount	%
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 7 and 28)	$ 133,420	-	$ 36,544	-
Note and trade payables (Note 17)	26,647,483	26	29,654,545	23
Trade payable - related parties (Notes 17 and 29)	803,638	1	384,914	-
Other payables (Notes 18 and 29)	17,849,265	18	24,106,616	19
Current tax liabilities (Note 24)	12,202	-	12,495	-
Provisions - current (Note 19)	3,065,589	3	5,451,807	4
Other current liabilities (Note 18)	2,319,525	2	3,017,699	3
Total current liabilities	50,831,122	50	62,664,620	49
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Note 24)	6,218	-	16,672	-
Guarantee deposits received (Note 28)	1,468	-	1,634	-
Total non-current liabilities	7,686	-	18,306	-
Total liabilities	50,838,808	50	62,682,926	49
EQUITY (Note 21)				
Share capital - ordinary shares	8,220,087	8	8,318,695	7
Capital surplus	15,614,641	15	15,505,853	12
Retained earnings				
Legal reserve	18,297,655	18	18,297,655	14
Unappropriated earnings	10,841,425	10	21,782,432	17
Other equity	(1,202,302)	(1)	1,088,415	1
Treasury shares	-	-	(200,955)	-
Total equity	51,771,506	50	64,792,095	51
TOTAL	$ 102,610,314	100	$ 127,475,021	100

(Concluded)

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

HTC CORPORATION

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 8, 22 and 29)	$ 74,228,118	100	$ 117,083,037	100
OPERATING COSTS (Notes 11, 20, 23 and 29)	66,859,647	90	100,832,782	86
GROSS PROFIT	7,368,471	10	16,250,255	14
UNREALIZED GAINS	(688,022)	(1)	(1,178,011)	(1)
REALIZED GAINS	1,178,011	2	955,021	1
REALIZED GROSS PROFIT	7,858,460	11	16,027,265	14
OPERATING EXPENSES (Notes 20, 23 and 29)				
Selling and marketing	6,289,362	9	13,471,147	11
General and administrative	3,040,714	4	3,467,788	3
Research and development	9,990,574	13	12,714,139	11
Total operating expenses	19,320,650	26	29,653,074	25
LOSS FROM OPERATIONS	(11,462,190)	(15)	(13,625,809)	(11)
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 23)	192,955	-	287,500	-
Other gains and losses (Notes 8, 12, 13, 15 and 23)	3,005,805	4	(2,066,354)	(2)
Finance costs	(5,156)	-	(7,819)	-
Share of the profit or loss of subsidiaries and joint ventures (Note 14)	(2,823,843)	(4)	(1,369,062)	(1)
Total non-operating income and expenses	369,761	-	(3,155,735)	(3)
LOSS BEFORE INCOME TAX	(11,092,429)	(15)	(16,781,544)	(14)
INCOME TAX BENEFIT (Note 24)	(532,326)	(1)	(1,248,476)	(1)
LOSS FOR THE YEAR	(10,560,103)	(14)	(15,533,068)	(13)

(Continued)

	2016		2015	
	Amount	%	Amount	%
OTHER COMPREHENSIVE LOSS				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans (Note 20)	$ (53,143)	-	$ (47,667)	-
Share of the profit or loss of subsidiaries - items that will not be reclassified to profit or loss	(683)	-	(456)	-
Income tax relating to the components of other comprehensive loss - items that will not be reclassified to profit or loss (Note 24)	6,377	-	5,720	-
	(47,449)	-	(42,403)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(2,254,715)	(3)	10,562	-
Unrealized gains (losses) on available-for-sale financial assets	11	-	(18)	-
Share of the profit or loss of subsidiaries - items that may be reclassified to profit or loss	(153,460)	(1)	(11,448)	-
	(2,408,164)	(4)	(904)	-
Other comprehensive loss for the year, net of income tax	(2,455,613)	(4)	(43,307)	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	$ (13,015,716)	(18)	$ (15,576,375)	(13)
LOSS PER SHARE (Note 25)				
Basic	$ (12.81)		$ (18.79)	

(Concluded)

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

HTC CORPORATION

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

	Share Capital		Retained Earnings		Other Equity				
	Ordinary Shares	Capital Surplus	Legal Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Losses on Available-for- sale Financial Assets	Unearned Employee Benefit	Treasury Shares	Total Equity
BALANCE, JANUARY 1, 2015	$ 8,349,521	$ 15,140,687	$ 18,149,350	$ 41,381,753	$ 1,462,855	$ (2,167)	$ (398,570)	$ (3,750,056)	$ 80,333,373
Appropriation of 2014 earnings									
Legal reserve	-	-	148,305	(148,305)	-	-	-	-	-
Cash dividends	-	-	-	(314,636)	-	-	-	-	(314,636)
Net loss for the year ended December 31, 2015	-	-	-	(15,533,068)	-	-	-	-	(15,533,068)
Other comprehensive income and loss for the year ended December 31, 2015	-	-	-	(42,403)	10,562	(11,466)	-	-	(43,307)
Buy-back of treasury shares	-	-	-	-	-	-	-	(200,955)	(200,955)
Retirement of treasury shares	(69,140)	(120,007)	-	(3,560,909)	-	-	-	3,750,056	-
Share-based payments	38,314	485,173	-	-	-	-	27,201	-	550,688
BALANCE, DECEMBER 31, 2015	8,318,695	15,505,853	18,297,655	21,782,432	1,473,417	(13,633)	(371,369)	(200,955)	64,792,095
Net loss for the year ended December 31, 2016	-	-	-	(10,560,103)	-	-	-	-	(10,560,103)
Other comprehensive income and loss for the year ended December 31, 2016	-	-	-	(47,449)	(2,254,715)	(153,449)	-	-	(2,455,613)
Buy-back of treasury shares	-	-	-	-	-	-	-	(436,869)	(436,869)
Retirement of treasury shares	(111,600)	(192,769)	-	(333,455)	-	-	-	637,824	-
Share-based payments	12,992	301,557	-	-	-	-	117,447	-	431,996
BALANCE, DECEMBER 31, 2016	$ 8,220,087	$ 15,614,641	$ 18,297,655	$ 10,841,425	$ (781,298)	$ (167,082)	$ (253,922)	$ -	$ 51,771,506

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

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HTC CORPORATION

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	$ (11,092,429)	$ (16,781,544)
Adjustments for:		
Depreciation expense	1,121,095	1,579,960
Amortization expense	361,804	682,553
Reversal gain of bad debt expenses	(299,951)	-
Finance costs	5,156	7,819
Interest income	(121,919)	(179,328)
Compensation costs of employee share-based payments	404,461	513,002
Share of the profit or loss of subsidiaries and joint ventures	2,823,843	1,369,062
(Gain) loss on disposal of property, plant and equipment	(3,199,503)	33
Transfer of property, plant and equipment to expenses	-	8,339
Net gain on sale of investments	-	(327)
Impairment losses on non-financial assets	1,956,188	3,943,192
Unrealized gains on sales	688,022	1,178,011
Realized gains on sales	(1,178,011)	(955,021)
Changes in operating assets and liabilities		
Decrease in financial instruments held for trading	48,727	181,171
Decrease in trade receivables	1,359,474	6,394,021
Decrease in trade receivables - related parties	1,296,178	8,294,882
Decrease in other receivables	174,371	59,348
Decrease (increase) in inventories	1,192,584	(3,554,159)
Decrease in prepayments	2,292,526	1,253,557
(Increase) decrease in other current assets	(10,208)	40,655
Decrease in other non-current assets	1,903,888	2,551,946
Decrease in trade payables	(3,007,062)	(11,161,265)
Increase (decrease) in trade payable - related parties	418,724	(6,123,607)
Decrease in other payables	(6,217,185)	(5,079,584)
(Decrease) increase in provisions	(2,386,218)	9,427
(Decrease) increase in other current liabilities	(698,174)	2,508,568
Cash used in operations	(12,163,619)	(13,259,289)
Interest received	120,334	186,907
Interest paid	(5,156)	(7,819)
Income tax (paid) refund	(262,765)	5,040
Net cash used in operating activities	(12,311,206)	(13,075,161)

(Continued)

	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial assets measured at cost	$ -	$ 327
Proceeds from disposal of investments accounted for using equity method	182,579	-
Proceeds from disposal of non-current assets held for sale	6,060,000	-
Payments for property, plant and equipment	(463,690)	(385,477)
Disposal of property, plant and equipment	2,880,172	-
Increase in refundable deposits	(47,813)	(1,318,594)
Payments for intangible assets	(48,987)	(81,970)
Increase in other current financial assets	(112,943)	-
Dividend received	1,926	38,362
Net cash generated from (used in) investing activities	8,451,244	(1,747,352)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in guarantee deposits received	(166)	474
Dividends paid to owners of the Company	-	(314,636)
Payments for treasury shares	(436,869)	(200,955)
Net cash outflow on acquisition of subsidiaries	(1,092,718)	(579,172)
Net cash used in financing activities	(1,529,753)	(1,094,289)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,389,715)	(15,916,802)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	20,688,988	36,605,790
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 15,299,273	$ 20,688,988

(Concluded)

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

HTC CORPORATION

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The parent company only financial statements were approved by the Company's Board of Directors and authorized for issue on March 6, 2017.

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

a. 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) endorsed by the Financial Supervisory Commission (FSC) and applicable from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Company should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

(Continued)

(Concluded)

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

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

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Company's accounting policies, except for the following:

Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Company are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Company has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Company's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

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

The Company has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC. The FSC announced that amendments to IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the parent company only financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018

(Continued)

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IFRS 15 "Clarifications to IFRS 15"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of investment property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

(Concluded)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.
Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Company's accounting policies, except for the following:

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

The impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the "Expected Credit Losses Model". The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Company takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

Hedge accounting

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

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

2) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2018.

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

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

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

3) IFRS 16 "Leases"

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

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Company as lessor.

When IFRS 16 becomes effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

4) **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"**

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Company shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

Except for the above impact, 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 other standards and interpretations will have on the Company's financial position and financial performance, and will disclose the relevant impact when the assessment is 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 consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for by equity method, share of profit or loss of subsidiaries, associates and joint ventures, share of other comprehensive income of subsidiaries, associates and joint ventures and accumulated earnings, as appropriate, in the parent company only financial statements.

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

Classification of Current and Non-current Assets and Liabilities

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

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

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

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

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, 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.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

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

Inventories

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

Investments in Subsidiaries

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.

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

When the Company ceases to have control over a subsidiary, any retained investment is measured at fair value at that date and the difference between the previous carrying amount of the subsidiary attributable to the retained interest and its fair value is included in the determination of the gain or loss. Furthermore, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits and losses from downstream transactions with a subsidiary are eliminated in full. Profits and losses from upstream with a subsidiary and sidestream transactions between subsidiaries are recognized in the Company' parent company only financial statements only to the extent of interests in the subsidiary that are not related to the Company.

Investments in Joint Ventures

Joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

When the Company subscribes for additional new shares of the joint venture 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 joint venture. 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 joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that joint venture 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 a joint venture equals or exceeds its interest in that joint venture (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 joint venture), 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 joint venture.

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 a joint venture 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 the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

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

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

Property, Plant and Equipment

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

Properties, 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.

Goodwill

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

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

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

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

Intangible Assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

Derecognition of intangible assets

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

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

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

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 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 fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

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

a. Measurement category

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

1) Financial assets at fair value through profit or loss (FVTPL)

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

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item. Fair value is determined in the manner described in Note 28.

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

2) Available-for-sales (AFS) financial assets

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

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

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

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

3) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalent, and other receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

b. Impairment of financial assets

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

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

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

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

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

For all other financial assets, objective evidence of impairment include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization and the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

c. Derecognition of financial assets

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

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

Equity instruments

Debt and equity instruments issued by the Company 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 the Company are recognized at the proceeds received, net of direct issue costs.

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

Financial liabilities

a. Subsequent measurement

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

Financial liabilities at fair value through profit or loss (FVTPL)

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

A financial liability may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information and if:

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

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

3) The contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at fair value through profit or loss.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest and dividend paid on the financial liability. Fair value is determined in the manner described in Note 28.

b. Derecognition of financial liabilities

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

Derivative financial instruments

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

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

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

Hedge Accounting

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

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued prospectively when the Company revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting.

Cash flow hedges

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

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

Hedge accounting is discontinued prospectively when the Company revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

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

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

a. Warranty provisions

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

b. Provisions for contingent loss on purchase orders

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

Revenue Recognition

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

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

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

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.

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

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

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

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

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

Taxation

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

a. Current tax

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

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

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

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

c. Current and deferred tax for the year

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

Accrued Marketing Expenses

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

Treasury Share

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

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

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. Accrued marketing and advertising expenses

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

As of December 31, 2016 and 2015, the carrying amounts of accrued marketing and advertising expenses were NT$8,825,162 thousand and NT$13,520,221 thousand, respectively.

b. Allowances for doubtful debts

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

As of December 31, 2016 and 2015, the carrying amounts of allowances for doubtful debts were NT$2,712,869 thousand and NT$3,012,869 thousand, respectively.

c. Impairment of tangible and intangible assets other than goodwill

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

The Company recognized impairment loss on tangible and intangible assets other than goodwill for NT$1,792,890 thousand for the year ended December 31, 2015.

d. 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, 2016 and 2015, the carrying amounts of inventories were NT$12,685,394 thousand and NT$15,834,166 thousand, respectively.

e. Realization of deferred tax assets

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

As of December 31, 2016 and 2015, the carrying amounts of deferred tax assets were NT$8,431,842 thousand and NT$7,630,919 thousand, respectively.

f. Estimates of warranty provision

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

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

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

As of December 31, 2016 and 2015, the carrying amounts of warranty provision were NT$2,692,247 thousand and NT$4,773,914 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Cash on hand	$ 865	$ 1,065
Checking accounts and demand deposits	12,234,852	17,594,995
Time deposits (with original maturities less than three months)	3,063,556	3,092,928
	$ 15,299,273	$ 20,688,988

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

	December 31	
	2016	2015
Bank balance	0.01%-0.62%	0.01%-0.75%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2016	2015
Financial assets held for trading		
Derivatives financial assets (not under hedge accounting)		
Foreign exchange contracts	$ 143,642	$ 95,493
Financial liabilities held for trading		
Derivatives financial liabilities (not under hedge accounting)		
Foreign exchange contracts	$ 133,420	$ 36,544

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, 2016					
Foreign exchange contracts	Sell	USD/NTD	2017.01.06-2017.01.25	USD	120,000
Foreign exchange contracts	Sell	EUR/USD	2017.01.06	EUR	40,000
Foreign exchange contracts	Sell	JPY/USD	2017.01.06-2017.01.25	JPY	5,085,622
Foreign exchange contracts	Sell	GBP/USD	2017.01.06-2017.01.20	GBP	6,000
Foreign exchange contracts	Buy	RMB/USD	2017.01.06-2017.01.25	RMB	926,817
Foreign exchange contracts	Buy	CAD/USD	2017.01.11-2017.01.25	CAD	5,000
Foreign exchange contracts	Buy	USD/NTD	2017.01.06-2017.02.02	USD	387,500
Foreign exchange contracts	Buy	SGD/USD	2017.01.06-2017.01.25	SGD	252,579
Foreign exchange contracts	Buy	AUD/USD	2017.01.06-2017.01.11	AUD	4,700
December 31, 2015					
Foreign exchange contracts	Sell	SGD/USD	2016.01.29	SGD	5,336
Foreign exchange contracts	Sell	JPY/USD	2016.01.08-2016.01.27	JPY	454,000
Foreign exchange contracts	Sell	GBP/USD	2016.01.29-2016.03.16	GBP	11,500
Foreign exchange contracts	Buy	RMB/USD	2016.01.05-2016.01.27	RMB	374,500
Foreign exchange contracts	Buy	USD/NTD	2016.01.22-2016.03.29	USD	194,700
Foreign exchange contracts	Buy	SGD/USD	2016.01.29-2016.03.30	SGD	200,722

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

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

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

	For the Year Ended December 31	
	2016	2015
Revenues	$(40,299)	$ 22,604
Other gains and losses	2,056	1,258
	$(38,243)	$ 23,862

9. FINANCIAL ASSETS MEASURED AT COST

	December 31	
	2016	2015
Domestic unlisted equity investment	$ 515,861	$ 515,861
Classified according to financial asset measurement categories		
Available-for-sale financial assets	$ 515,861	$ 515,861

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

10. TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2016	2015
Trade receivables		
Trade receivables	$ 7,664,369	$ 9,023,892
Trade receivables - related parties	6,659,174	7,955,352
Less: Allowances for impairment loss	(2,712,869)	(3,012,869)
	$ 11,610,674	$ 13,966,375
Other receivables		
VAT refund receivables	$ 68,110	$ 132,110
Interest receivables	2,598	1,013
Others	14,006	124,377
	$ 84,714	$ 257,500

Trade Receivables

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

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

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

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

Aging of trade receivables

	December 31	
	2016	2015
1-90 days	$ 4,675,576	$ 6,050,058
91-180 days	382,495	674,498
Over 181 days	-	1,540,635
	$ 5,058,071	$ 8,265,191

The above aging schedule was based on the past due date.

Aging of impaired trade receivables

	December 31	
	2016	2015
1-90 days	$ 2,345,202	$ 5,252,322
91-180 days	-	-
Over 181 days	-	-
	$ 2,345,202	$ 5,252,322

The above aging of trade receivables after deducting the allowance for doubtful debts were presented based on the past due date.

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	
	2016	2015
Balance, beginning of the year	$ 3,012,869	$ 3,050,907
Less: Impairment loss reversed	(299,951)	-
Less: Amounts written off as uncollectable	(49)	(38,038)
Balance, end of the year	$ 2,712,869	$ 3,012,869

Other Receivables

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

11. INVENTORIES

	December 31	
	2016	2015
Finished goods	$ 1,450,159	$ 1,740,629
Work-in-process	229,819	447,708
Semi-finished goods	1,990,132	2,615,846
Raw materials	8,841,729	10,425,440
Inventory in transit	173,555	604,543
	$12,685,394	$ 15,834,166

The cost of inventories recognized as operation costs for the years ended December 31, 2016 and 2015 included inventory write-downs of NT$1,956,188 thousand and NT$2,150,302 thousand, respectively.

12. PREPAYMENTS

	December 31	
	2016	2015
Royalty	$ 3,171,234	$ 7,033,244
Software and hardware maintenance	197,281	176,955
Service	77,809	159,781
Prepaid equipment	59,794	78,888
Prepayments to suppliers	17,431	251,338
Others	141,943	195,547
	$ 3,665,492	$ 7,895,753
Current	$ 1,084,696	$ 3,377,222
Non-current	2,580,796	4,518,531
	$ 3,665,492	$ 7,895,753

Prepayments for royalty were primarily for getting royalty right and were classified as current or non-current in accordance with their nature. For details of content of contracts, refer to Note 33.

In June 2015, the Company determined that the recoverable amount of partial prepayments was less than its carrying amount, and thus recognized an impairment loss of NT$1,268,643 thousand which were classified as other gains and losses in 2015.

13. NON-CURRENT ASSETS HELD FOR SALE

	December 31	
	2016	2015
Land and buildings held for sale	$ -	$ 3,768,277

On December 29, 2015, the Company's Board of Directors resolved to sell a plot of land and buildings to Inventec Corporation for a total amount of NT$6,060,000 thousand. The Company had completed the disposal and transferred its controlling right over the subject properties to the acquirer in February 2016. For the amount of net gains on the disposal of NT$2,091,594 thousand, see Note 23 for details.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2016	2015
Investment in subsidiaries	$ 37,673,892	$ 41,272,544
Investment in joint venture	-	208,312
	$ 37,673,892	$ 41,480,856

Investments in Subsidiaries

	December 31	
	2016	2015
Unlisted equity investments		
H.T.C. (B.V.I.) Corp.	$ 3,734,361	$ 3,311,970
Communication Global Certification Inc.	406,654	400,897

(Continued)

	December 31	
	2016	2015
High Tech Computer Asia Pacific Pte. Ltd.	$ 28,158,252	$ 31,366,465
HTC Investment Corporation	290,363	287,186
PT. High Tech Computer Indonesia	62	62
HTC I Investment Corporation	266,766	261,996
HTC Holding Cooperatief U.A.	13	13
HTC Investment One (BVI) Corporation	3,682,415	5,003,823
HTC Investment (BVI) Corp.	844,950	638,990
HTC VIVE Holding (BVI) Corp.	225,583	1,142
HTC VIVE Investment (BVI) Corp	64,473	-
	$ 37,673,892	$ 41,272,544

(Concluded)

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	2016	2015
H.T.C. (B.V.I.) Corp.	100.00%	100.00%
Communication Global Certification Inc.	100.00%	100.00%
High Tech Computer Asia Pacific Pte. Ltd.	100.00%	100.00%
HTC Investment Corporation	100.00%	100.00%
PT. High Tech Computer Indonesia	1.00%	1.00%
HTC I Investment Corporation	100.00%	100.00%
HTC Holding Cooperatief U.A.	0.01%	0.01%
HTC Investment One (BVI) Corporation	100.00%	100.00%
HTC Investment (BVI) Corp.	100.00%	100.00%
HTC VIVE Holding (BVI) Corp.	100.00%	100.00%
HTC VIVE Investment (BVI) Corp	100.00%	-

See Note 15 to the consolidated financial statements for the year ended December 31, 2016 for the details of the subsidiaries indirectly held by the Company.

The Company and its subsidiary, High Tech Computer Asia Pacific Pte. Ltd., acquired equity interests of 1% and 99%, respectively, in PT. High Tech Computer Indonesia and acquired equity interests of 0.01% and 99.99%, respectively, in HTC Holding Cooperatief U.A. As a result, PT. High Tech Computer Indonesia and HTC Holding Cooperatief U.A. are considered as subsidiaries of the Company.

The share of net income or loss and other comprehensive income from subsidiaries under equity method were accounted for based on the audited financial statements.

Investments in Joint Venture

	December 31	
	2016	2015
Unlisted equity investments		
Huada Digital Corporation	$ -	$ 208,312

At the fiscal year end, the proportion of ownership and voting rights in joint venture held by the Company were as follows:

	December 31	
Name of Joint Venture	2016	2015
Huada Digital Corporation	-	50.00%

The Company set up a subsidiary Huada Digital Corporation ("Huada"), whose main business is to provide software services, in December 2009. In October 2011, Chunghwa Telecom Co., Ltd. invested in Huada. In March 2012, Huada held a shareholders' meeting and re-elected its directors and supervisors. As a result, the investment type was changed to joint venture and the Company continued to account for the subject equity investment under the equity method. The dissolution of Huada was approved in its shareholders' meeting held in March 2016 and the date of dissolution was set on March 31, 2016. The liquidation process had been completed on July 31, 2016.

Aggregate information of joint venture that are not individually material:

	For the Year Ended December 31	
	2016	2015
The Company's share of:		
Loss from continuing operations	$ (25,733)	$ (10,513)
Other comprehensive income	-	-
Total comprehensive loss for the period	$ (25,733)	$ (10,513)

Investments in joint ventures accounted for under 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 accounting or the calculation of the share of profit or loss and other comprehensive income, due to the investee entities' financial statement were not been audited.

15. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2016	2015
Carrying amounts		
Land	$ 4,546,099	$ 6,311,135
Buildings	5,061,240	5,249,869
Machinery and equipment	637,562	1,227,343
Other equipment	257,096	364,519
	$ 10,501,997	$ 13,152,866

Movements of property, plant and equipment for the years ended December 31, 2016 and 2015 were as follows:

	2016				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
Cost					
Balance, beginning of the year	$ 6,311,135	$ 6,782,622	$ 9,703,282	$ 1,271,227	$ 24,068,266
Additions	-	271,646	145,914	25,058	442,618
Disposals	(1,771,623)	-	(1,921)	-	(1,773,544)
Reclassification	6,587	(201,433)	(11,100)	(1,173)	(207,119)
Balance, end of the year	4,546,099	6,852,835	9,836,175	1,295,112	22,530,221
Accumulated depreciation					
Balance, beginning of the year	-	1,532,753	7,954,976	903,424	10,391,153
Depreciation expenses	-	258,842	730,398	131,855	1,121,095
Disposals	-	-	(1,281)	-	(1,281)
Reclassification	-	-	(6,443)	(547)	(6,990)
Balance, end of the year	-	1,791,595	8,677,650	1,034,732	11,503,977

(Continued)

	2016				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
Accumulated impairment					
Balance, beginning of the year	$ -	$ -	$ 520,963	$ 3,284	$ 524,247
Impairment losses	-	-	-	-	-
Balance, end of the year	-	-	520,963	3,284	524,247
Net book value, end of the year	$ 4,546,099	$ 5,061,240	$ 637,562	$ 257,096	$ 10,501,997

(Concluded)

	2015				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
Cost					
Balance, beginning of the year	$ 7,462,489	$10,027,634	$ 10,095,828	$ 1,283,307	$28,869,258
Additions	-	139,854	163,046	70,714	373,614
Disposals	-	(373,285)	(547,015)	(82,794)	(1,003,094)
Transfer to expense	-	-	(8,577)	-	(8,577)
Reclassification	(1,151,354)	(3,011,581)	-	-	(4,162,935)
Balance, end of the year	6,311,135	6,782,622	9,703,282	1,271,227	24,068,266
Accumulated depreciation					
Balance, beginning of the year	-	1,931,113	7,454,600	823,437	10,209,150
Depreciation expenses	-	369,583	1,047,596	162,781	1,579,960
Disposals	-	(373,285)	(546,982)	(82,794)	(1,003,061)
Transfer to expense	-	-	(238)	-	(238)
Reclassification	-	(394,658)	-	-	(394,658)
Balance, end of the year	-	1,532,753	7,954,976	903,424	10,391,153
Accumulated impairment					
Balance, beginning of the year	-	-	-	-	-
Impairment losses	-	-	520,963	3,284	524,247
Balance, end of the year	-	-	520,963	3,284	524,247
Net book value, end of the year	$ 6,311,135	$ 5,249,869	$ 1,227,343	$ 364,519	$13,152,866

In order to reduce the cost and to improve the operational efficiency, the Company has sold part of the land in Taoyuan in May 2016 for NT$2,880,000 thousand and the net gain on disposal of the property was NT$1,108,377 thousand.

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

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

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

There were no capitalized interests for the years ended December 31, 2016 and 2015.

16. INTANGIBLE ASSETS

	December 31	
	2016	2015
Carrying amounts		
Patents	$ 17,675	$ 130,941
Other intangible assets	291,646	491,197
	$ 309,321	$ 622,138

Movements of intangible assets for the years ended December 31, 2016 and 2015 were as follows:

	2016		
	Patents	Other Intangible Assets	Total
Cost			
Balance, beginning of the year	$ 2,516,290	$ 1,125,837	$ 3,642,127
Additions	-	48,987	48,987
Balance, end of the year	2,516,290	1,174,824	3,691,114
Accumulated amortization			
Balance, beginning of the year	2,274,264	634,640	2,908,904
Amortization expenses	113,266	248,538	361,804
Balance, end of the year	2,387,530	883,178	3,270,708
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	$ 17,675	$ 291,646	$ 309,321

	2015		
	Patents	Other Intangible Assets	Total
Cost			
Balance, beginning of the year	$ 2,516,290	$ 1,043,867	$ 3,560,157
Additions	-	81,970	81,970
Balance, end of the year	2,516,290	1,125,837	3,642,127
Accumulated amortization			
Balance, beginning of the year	1,826,087	400,264	2,226,351
Amortization expenses	448,177	234,376	682,553
Balance, end of the year	2,274,264	634,640	2,908,904
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	$ 130,941	$ 491,197	$ 622,138

17. NOTE AND TRADE PAYABLES

	December 31	
	2016	2015
Note payables	$ 580	$ 555
Trade payables	26,646,903	29,653,990
Trade payables - related parties	803,638	384,914
	$ 27,451,121	$ 30,039,459

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.

18. OTHER LIABILITIES

	December 31	
	2016	2015
Other payables		
Accrued expenses	$ 17,761,871	$ 23,979,056
Payables for purchase of equipment	87,394	127,560
	$ 17,849,265	$ 24,106,616
Other current liabilities		
Advance receipts	$ 1,769,560	$ 2,588,745
Agency receipts	391,467	256,703
Others	158,498	172,251
	$ 2,319,525	$ 3,017,699

Accrued Expenses

	December 31	
	2016	2015
Marketing	$ 8,825,162	$ 13,520,221
Materials and molding expenses	3,077,416	3,161,987
Services	2,208,772	2,857,840
Salaries and bonuses	1,736,889	2,801,892
Import, export and freight	648,015	773,676
Repairs, maintenance and sundry purchase	104,090	155,994
Others	1,161,527	707,446
	$ 17,761,871	$ 23,979,056

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

19. PROVISIONS

	December 31	
	2016	2015
Warranty provision	$ 2,692,247	$ 4,773,914
Provisions for contingent loss on purchase orders	373,342	677,893
	$ 3,065,589	$ 5,451,807

Movement of provisions for the years ended December 31, 2016 and 2015 were as follows:

	2016		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$ 4,773,914	$ 677,893	$ 5,451,807
Provisions recognized (reversed)	3,865,929	(271,104)	3,594,825
Usage	(5,947,760)	(33,447)	(5,981,207)
Effect of foreign currency exchange differences	164	-	164
Balance, end of the year	$ 2,692,247	$ 373,342	$ 3,065,589

	2015		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$ 4,809,312	$ 633,068	$ 5,442,380
Provisions recognized	10,857,654	228,813	11,086,467
Usage	(10,893,350)	(183,988)	(11,077,338)
Effect of foreign currency exchange differences	298	-	298
Balance, end of the year	$ 4,773,914	$ 677,893	$ 5,451,807

The Company provides warranty service for 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 statistics, and pertinent factors.

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

20. RETIREMENT BENEFIT PLANS

Defined Contribution Plans

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The total expenses recognized in the statement of comprehensive income were NT$308,042 thousand and NT$353,469 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, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the amounts of contributions payable were NT$76,488 thousand and NT$81,720 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	
	2016	2015
Present value of defined benefit obligation	$ (530,455)	$ (472,370)
Fair value of plan assets	572,043	552,348
Net defined benefit asset	$ 41,588	$ 79,978

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, 2015	$ (441,734)	$ 551,026	$ 109,292
Current service cost	(8,017)	-	(8,017)
Net interest (expense) income	(8,835)	11,257	2,422
Recognized in profit or loss	(16,852)	11,257	(5,595)
Remeasurement			
Return on plan assets	-	3,745	3,745
Actuarial loss - changes in demographic assumptions	(33,524)	-	(33,524)
Actuarial loss - changes in financial assumptions	(16,220)	-	(16,220)
Actuarial loss - experience adjustments	(1,668)	-	(1,668)
Recognized in other comprehensive income	(51,412)	3,745	(47,667)
Contributions from the employer	-	23,948	23,948
Benefits paid	37,628	(37,628)	-
Balance at December 31, 2015	(472,370)	552,348	79,978
Current service cost	(8,751)	-	(8,751)
Net interest (expense) income	(8,266)	9,972	1,706
Recognized in profit or loss	(17,017)	9,972	(7,045)
Remeasurement			
Return on plan assets		(6,000)	(6,000)
Actuarial loss - changes in demographic assumptions	(19,755)	-	(19,755)
Actuarial loss - changes in financial assumptions	(18,521)	-	(18,521)
Actuarial loss - experience adjustments	(8,867)	-	(8,867)
Recognized in other comprehensive income	(47,143)	(6,000)	(53,143)

(Continued)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Asset
Contributions from the employer	$ -	$ 21,798	$ 21,798
Benefits paid	6,075	(6,075)	-
Balance at December 31, 2016	$ (530,455)	$ 572,043	$ 41,588

(Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans was as follows:

	December 31	
	2016	2015
Operating costs	$ 1,566	$ 1,124
Selling and marketing expenses	671	458
General and administrative expenses	852	622
Research and development expenses	3,956	3,391
	$ 7,045	$ 5,595

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	
	2016	2015
Discount rate	1.50%	1.75%
Expected rate of salary increase	4.00%	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	
	2016	2015
Discount rate		
0.25% increase	$ 19,035	$ 17,330
0.25% decrease	$ (19,939)	$ (18,169)
Expected rate of salary increase		
0.25% increase	$ (19,180)	$ (17,518)
0.25% decrease	$ 18,420	$ 16,810

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	
	2016	2015
The expected contributions to the plan for the next year	$ 21,547	$ 35,034
The average duration of the defined benefit obligation	15.27 years	15.68 years

21. EQUITY

Share Capital

a. Ordinary shares

	December 31	
	2016	2015
Numbers 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)	822,009	831,870
Shares issued	$ 8,220,087	$ 8,318,695

In March 2015, the Company retired 6,914 thousand treasury shares totaling NT$69,140 thousand. In August and December 2015, the Company issued 400 thousand and 4,006 thousand restricted shares for the qualified employees, totaling NT$4,000 thousand and NT$40,060 thousand respectively. In April, July and October 2015, the Company retired 49 thousand, 117 thousand and 409 thousand restricted shares for employees amounting to NT$492 thousand, NT$1,167 thousand and NT$4,087 thousand, respectively. As a result, the Company's issued and outstanding common stock as of December 31, 2015 decreased to NT$8,318,695 thousand, divided into 831,870 thousand ordinary shares at NT$10 par value. Every ordinary share carries one vote per share and a right to dividends.

In July 2016, the Company issued 2,657 thousand of restricted shares, totaling NT$26,570 thousand. In February, May, August, and October 2016, the Company retired 118 thousand, 223 thousand, 176 thousand and 841 thousand restricted shares for employees, totaling NT$1,180 thousand, NT$2,224 thousand, NT$1,762 thousand and NT$8,412 thousand, respectively. In February and August 2016, the Company retired 4,110 thousand and 7,050 thousand treasury shares, totaling NT$41,100 thousand and NT$70,500 thousand, respectively. As a result, the Company's issued and outstanding common stock as of December 31, 2016 decreased to NT$8,220,087 thousand, divided into 822,009 thousand ordinary shares at NT$10 par value. Every ordinary share carries one vote per share and a right to dividends.

80,000 thousand shares of the Company's common 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 stock dividends, the GDRs increased to 8,782.1 thousand units (36,060.5 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's ordinary shares. As of December 31, 2016, there were 5,756 thousand units of GDRs redeemed, representing 23,024 thousand ordinary shares, and the outstanding GDRs represented 13,036 thousand ordinary shares or 1.59% of the Company's issued and outstanding ordinary shares.

Capital Surplus

	December 31	
	2016	2015
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital		
Arising from issuance of ordinary shares	$ 14,121,223	$ 14,312,926
Arising from consolidation excess	23,288	23,604
Arising from expired stock options	84,462	35,825
May not be used for any purpose		
Arising from employee share options	645,111	544,087
Arising from employee restricted shares	740,557	589,411
	$ 15,614,641	$ 15,505,853

The capital surplus arising from shares issued in excess of par (including share premium from issuance of ordinary shares, treasury share transactions, consolidation excess and expired stock options) and donations may be used to offset a deficit; in addition, when the Company has no accumulated 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 can only be transferred once a year).

In March 2015, the retirement of treasury shares caused a decrease of NT$119,511 thousand in additional paid-in capital - issuance of ordinary shares, NT$197 thousand in capital surplus - consolidation excess and NT$299 thousand in capital surplus - expired stock options, respectively. The excess of the carrying value of treasury shares retired over the sum of its par value and premium from issuance of ordinary share was offset against unappropriated earnings, totaling NT$3,560,909 thousand.

In February and August 2016, the retirement of treasury shares caused a decreases of NT$70,715 thousand and NT$120,988 thousand in additional paid-in capital - issuance of ordinary shares, NT$117 thousand and NT$199 thousand in capital surplus - consolidation excess and NT$177 thousand and NT$573 thousand in capital surplus - expired stock options, respectively. The excess of the carrying value of treasury shares retired over the sum of its par value and premium from issuance of ordinary share was offset against unappropriated earnings, totalingNT$88,846 thousand and NT$244,609 thousand, respectively.

For details of capital surplus - employee share options and employee restricted shares, see Note 26 for details.

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 1 to 4 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.

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The Company has amended the policy of its earnings distribution as stipulated in its Articles of Incorporation in order to comply with the aforementioned law amendments with an approval from the resolution of the shareholders' meeting, and stipulated an additional policy of employees' compensation on June 24, 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, see employee benefits expense section as stated in Note 23.

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 loss off-setting for 2015 had been resolved in the shareholders' meeting on June 24, 2016, and the appropriations of 2014 had been approved in the shareholders' meeting on June 2, 2015. The appropriations and dividends per share were as follows:

	Appropriation of Earnings (The Loss Off-setting)		Dividends Per Share (NT$)	
	For 2015	For 2014	For 2015	For 2014
Legal reserve	$ -	$ 148,305	$ -	$ -
Cash dividends	-	314,636	-	0.38

The loss off-setting for 2016 had been proposed by the Company's board of directors on March 6, 2017. The loss off-setting for 2016 are subject to the resolution of the shareholders' meeting to be held on June 15, 2017.

Information on the earnings appropriation proposed by the Company's Board of Directors and approved by the Company's shareholders is available on the Market Observation Post System website of the Taiwan Stock Exchange.

Other Equity

	December 31	
	2016	2015
Exchange differences on translating foreign operations	$ (781,298)	$ 1,473,417
Unrealized losses on available-for-sale financial assets	(167,082)	(13,633)
Unearned employee benefit	(253,922)	(371,369)
	$ (1,202,302)	$ 1,088,415

a. Exchange differences on translating foreign operations

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

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

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

c. Unearned employee benefit

In the meeting of shareholders on June 2, 2015 and June 19, 2014, the shareholders approved a restricted stock plan for employees. See Note 26 for the information of restricted shares issued.

	For the Year Ended December 31	
	2016	2015
Balance, beginning of the year	$ (371,369)	$ (398,570)
Issuance of shares	(158,471)	(233,265)
Adjustment of turnover rate	(5,667)	3,395
Share-based payment expenses recognized	281,585	257,071
Balance, end of the year	$ (253,922)	$ (371,369)

Treasury Shares

On August 24, 2015, the Company's Board of Directors passed a resolution to buy back 50,000 thousand common shares from the open market. The repurchase period was between August 25, 2015 and October 24, 2015, and the repurchase price ranged from NT$35 to NT$60 per share. If the Company's share price was lower than this price range, the Company might continue to buy back its shares. The company had bought back 4,110 thousand shares for NT$200,955 thousand during the repurchase period, which were retired by the Company's Board of Directors on February 29, 2016, and such retired shares had been properly deregistered subsequently.

On May 14, 2016, the Company's board of directors passed a resolution to buy back 40,000 thousand company shares from the open market. The repurchase period was between May 16, 2016 and July 15, 2016, and the repurchase price ranged from NT$47 to NT$70 per share. If the Company's share price was lower than this price range, the Company might continue to buy back its shares. The Company had bought back 7,050 thousand shares for NT$436,869 thousand during the repurchase period which retired by the Company's board of directors on August 2, 2016, and had cancelled the registration of retired shares.

The Company had repurchased common shares from the open market for transferring to employees and some of them had not been transferred before the expiry time. The Board of Directors approved the retirement of 6,914 thousand treasury shares in March 2015, and had deregistered such retired shares. The related information on the treasury share transactions were as follows:

(In Thousands of Shares)

Reason to Reacquire	Number of Shares, Beginning of the Year	Addition During the Year	Reduction During the Year	Number of Shares, End of the Year
For 2016				
To maintain the Company's credibility and shareholders' interest	4,110	7,050	11,160	-
For 2015				
To transfer shares to the Company's employees	6,914	-	6,914	-
To maintain the Company's credibility and shareholders' interest	-	4,110	-	4,110
	6,914	4,110	6,914	4,110

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

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

22. OPERATING REVENUES

	For the Year Ended December 31	
	2016	2015
Sale of goods	$ 71,726,778	$115,404,698
Other operating income	2,501,340	1,678,339
	$ 74,228,118	$ 117,083,037

Some sales denominated in foreign currencies were hedged for cash flow risk. Accordingly, the Company transferred NT$(40,299) thousand and NT$22,604 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 2016 and 2015, respectively.

23. NET LOSS FROM CONTINUING OPERATIONS AND OTHER COMPREHENSIVE INCOME AND LOSS

a. Other income

	For the Year Ended December 31	
	2016	2015
Interest income - bank deposits	$ 121,919	$ 179,328
Others	71,036	108,172
	$ 192,955	$ 287,500

b. Other gains and losses

	For the Year Ended December 31	
	2016	2015
Net gain on disposal of non-current assets held for sale (Note 13)	$ 2,091,594	$ -
Net gain (loss) on disposal of property, plant and equipment (Note 15)	$ 1,107,909	$ (33)
Gain on disposal of investments	-	327
Net foreign exchange gain	(177,620)	(291,550)
Net gains arising from financial instruments classified as held for trading	10,222	58,949
Ineffective portion of cash flow hedge (Note 8)	2,056	1,258
Impairment loss	-	(1,792,890)
Other losses	(28,356)	(42,415)
	$ 3,005,805	$ (2,066,354)

(Continued)

(Concluded)

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 reversal gain on financial assets

	For the Year Ended December 31	
	2016	2015
Trade receivables	$ 299,951	$ -

d. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
Property, plant and equipment	$ 1,121,095	$ 1,579,960
Intangible assets	361,804	682,553
	$ 1,482,899	$ 2,262,513
Classification of depreciation - by function		
Operating costs	$ 516,629	$ 805,766
Operating expenses	604,466	774,194
	$ 1,121,095	$ 1,579,960
Classification of amortization - by function		
Operating costs	$ -	$ -
Operating expenses	361,804	682,553
	$ 361,804	$ 682,553

e. Employee benefits expense

	For the Year Ended December 31	
	2016	2015
Short-term benefits	$ 7,985,405	$ 9,261,843
Post-employment benefits (Note 20)		
Defined contribution plans	308,042	353,469
Defined benefit plans	7,045	5,595
	315,087	359,064
Share-based payments (Note 26)		
Equity-settled share-based payments	404,461	513,002
Total employee benefits expense	$ 8,704,953	$ 10,133,909
Classification - by function		
Operating costs	$ 2,833,795	$ 3,270,958
Operating expenses	5,871,158	6,862,951
	$ 8,704,953	$ 10,133,909

In compliance with the Company Act as amended in May 2015, the shareholders held their meeting and resolved amendments to the Company's Articles of Incorporation on June 24, 2016; the amendments stipulate distribution of employees' compensation and remuneration to directors and supervisors at the rates no less than 4% and no higher than 0.25%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. No employee's compensation and remuneration to directors were estimated as the Company reported net losses for the years ended December 31, 2016 and 2015.

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.

The employees' bonuses for 2014 had been approved in the shareholders' meeting on June 2, 2015.

	For the Year Ended December 31 2014	
	Cash Dividends	Share Dividends
Employees' bonuses	$ 88,334	$ -

There was no difference between the amounts of the employee bonus approved in the shareholders' meeting on June 2, 2015, and the amounts recognized in the financial statements for the year ended December 31, 2014.

For any further information of the employees' compensation and remuneration to directors and supervisors approved in the meeting of the board of directors in 2017 and 2016, see disclosures in the "Market Observation Post System".

f. Impairment losses on non-financial assets

	For the Year Ended December 31	
	2016	2015
Inventories (included in operating costs)	$ 1,956,188	$ 2,150,302
Property, plant and equipment (included in other gains and losses)	-	524,247
Prepayments (including in other gains and losses)	-	1,268,643
	$ 1,956,188	$ 3,943,192

g. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2016	2015
Foreign exchange gains	$ 4,295,530	$ 7,445,466
Foreign exchange losses	(4,473,150)	(7,737,016)
Valuation gain arising from financial assets classified as held for trading	10,222	58,949
Ineffective portion of cash flow hedge	2,056	1,258
	$ (165,342)	$ (231,343)

24. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax benefit recognized in profit or loss

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current year	$ 46,617	$ 211
Land value increment	226,333	-
Adjustments for previous years	(276)	(2,451)
	272,674	(2,240)

(Continued)

	For the Year Ended December 31	
	2016	2015
Deferred tax		
In respect of the current year	$ (805,000)	$ (1,246,236)
Income tax benefit recognized in profit or loss	$ (532,326)	$ (1,248,476)

(Concluded)

Income tax benefit for the years ended December 31, 2016 and 2015 can be reconciled to the accounting loss as follows:

	For the Year Ended December 31	
	2016	2015
Loss before income tax	$ (11,092,429)	$ (16,781,544)
Income tax benefit calculated at 17%	(1,885,713)	(2,852,862)
Effect of expenses that were not deductible in determining taxable profit	24,294	22,521
Share of the profit or loss of subsidiaries, associates and joint venture	480,053	232,740
Effect of temporary differences	697,414	863,147
Effect of loss carryforward	490,885	488,544
Effect of income that is exempt from taxation	(611,933)	(56)
Land value increment	226,333	-

(Continued)

	For the Year Ended December 31	
	2016	2015
Adjustments for previous years' tax	$ (276)	$ (2,451)
Overseas income tax	46,617	211
Income tax benefit recognized in profit or loss	$ (532,326)	$ (1,248,476)

(Concluded)

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
Deferred tax		
Recognized in current year		
Remeasurement on defined benefit plan (tax benefit)	$ (6,377)	$ (5,720)

c. Current tax assets and liabilities

	December 31	
	2016	2015
Current tax assets		
Tax refund receivable	$ 33,505	$ 43,707
Current tax liabilities		
Income tax payable	$ 12,202	$ 12,495

d. Deferred tax balances

Movements of deferred tax assets and deferred tax liabilities for the years ended December 31, 2016 and 2015 were as follows:

	2016			
	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	$ 336,194	$ 57,190	$ -	$ 393,384
Unrealized profit	258,976	(107,720)	-	151,256
Unrealized royalties	675,764	(304,848)	-	370,916
Unrealized marketing expenses	1,047,184	(363,207)	-	683,977
Unrealized warranty expense	572,884	(249,806)	-	323,078
Unrealized contingent losses on purchase orders	81,349	(36,547)	-	44,802
Others	502,903	(121,350)	-	381,553
Loss carryforward	4,155,665	1,927,211	-	6,082,876
	$ 7,630,919	$ 800,923	$ -	$ 8,431,842

(Continued)

	2016			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax liabilities				
Temporary differences				
Defined benefit plans	$ 9,598	$ 1,770	$ (6,377)	$ 4,991
Financial assets at FVTPL	7,074	(5,847)		1,227
	$ 16,672	$ (4,077)	$ (6,377)	$ 6,218

(Concluded)

	2015			
	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	$ 213,608	$ 122,586	$ -	$ 336,194
Unrealized profit	209,953	49,023	-	258,976
Unrealized royalties	1,613,332	(937,568)	-	675,764
Unrealized marketing expenses	1,353,729	(306,545)	-	1,047,184
Unrealized warranty expense	577,132	(4,248)	-	572,884
Unrealized contingent losses on purchase orders	75,970	5,379	-	81,349
Others	393,665	109,238	-	502,903
Loss carryforward	2,046,282	2,109,383	-	4,155,665
	$ 6,483,671	$ 1,147,248	$ -	$ 7,630,919
Deferred tax liabilities				
Temporary differences				
Defined benefit plans	$ 13,115	$ 2,203	$ (5,720)	$ 9,598
Financial assets at FVTPL	28,815	(21,741)	-	7,074
undistributed earnings of subsidiaries	79,450	(79,450)	-	-
	$ 121,380	$ (98,988)	$ (5,720)	$ 16,672

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

	December 31	
	2016	2015
Loss carryforward	$ 26,512,471	$ 16,508,588
Deductible temporary differences	$ 14,239,006	$ 18,867,018

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

Loss carryforwards as of December 31, 2016 comprised of:

Remaining Carrying	Expiry Year
$ 6,979,331	2023
10,513,823	2024
22,984,428	2025
21,816,516	2026
$ 62,294,098	

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

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

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

As of December 31, 2016 and 2015, the taxable temporary differences associated with investment in subsidiaries and joint venture for which no deferred tax assets (liabilities) have been recognized were NT$497,194 thousand and NT$(4,152,488) thousand, respectively.

h. Integrated income tax

The imputation credit account ("ICA") information as of December 31, 2016 and 2015, were as follows:

	December 31	
	2016	2015
Unappropriated earnings generated on and after January 1, 1998	$ 10,841,425	$ 21,782,432
Balance of ICA	$ 8,196,519	$ 8,196,056

	For the Year Ended December 31	
	2016 (Expected)	2015 (Actual)
Creditable ratio for distribution of earning	34.87%	34.37%

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

i. Income tax assessments

The Company's income tax returns through 2014 had been assessed by the tax authorities. The Company disagreed with the tax authorities' assessment of its 2014 tax return and applied for a re-examination. Nevertheless, under the conservatism guideline, the Company had accrued for the income tax assessed by the tax authorities.

25. LOSS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2016	2015
Basic loss per share	$ (12.81)	$ (18.79)

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

Net Loss for the Years

	For the Year Ended December 31	
	2016	2015
Net loss for the year	$ (10,560,103)	$ (15,533,068)

Shares

Unit: In Thousands of Shares

	For the Year Ended December 31	
	2016	2015
Weighted average number of ordinary shares in computation of basic loss per share	824,084	826,784

Since the exercise price of the employee share options issued by the Company exceeded the average market price of the shares for the years ended December 31, 2016 and 2015, respectively, they were anti-dilutive and excluded from the computation of diluted earnings per share.

26. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company

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

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

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			
	2016		2015	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance at January 1	24,964	$ 137.20	31,908	$ 140.37
Options granted	-		1,000	54.50
Options forfeited	(4,892)		(7,944)	
Balance at December 31	20,072	136.65	24,964	137.20
Options exercisable, end of the year	14,658		5,905	
Weighted-average fair value of options granted per unit (NT$)	$ -		$ 15.00	

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

	December 31	
	2016	2015
Range of exercise price (NT$)	$54.5-$149	$54.5-$149
Weighted-average remaining contractual life (years)	6.30 years	7.30 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 shareholder meeting held on June 19, 2014 and June 2, 2015, the shareholders approved a restricted stock plan for employees with a total amount of $50,000 thousand and $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 shares 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. In April, July, October 2015, and February, May, August, October 2016, the Company retired 49 thousand, 117 thousand, 409 thousand, and 118 thousand, 223 thousand, 176 thousand, 841 thousand restricted shares for employees amounting to NT$492 thousand, NT$1,167 thousand, NT$4,087 thousand, and NT$1,180 thousand, NT$2,224 thousand, NT$1,762 thousand, NT$8,412 thousand, respectively. As a result, the numbers of the Company's issued and outstanding employee restricted shares as of December 31, 2016 was 6,558 thousand shares. The related information was 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 recognized were NT$404,461 thousand and NT$513,002 thousand for the years ended December 31, 2016 and 2015, respectively.

27. CAPITAL RISK MANAGEMENT

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

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

28. 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, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 143,642	$ -	$ 143,642
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 86	$ -	$ -	$ 86
Financial liabilities at FVTPL				
Derivative financial instruments	$ -	$ 133,420	$ -	$ 133,420

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 95,493	$ -	$ 95,493
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 75	$ -	$ -	$ 75
Financial liabilities at FVTPL				
Derivative financial instruments	$ -	$ 36,544	$ -	$ 36,544

There were no transfers between Level 1 and 2 for the years ended December 31, 2016 and 2015.

b. 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.

Categories of Financial Instruments

	December 31	
	2016	2015
Financial assets		
FVTPL		
Held for trading	$ 143,642	$ 95,493
Loans and receivables (Note 1)	28,542,995	36,300,441
Available-for-sale financial assets (Note 2)	515,947	515,936
		(Continued)

	December 31	
	2016	2015
Financial liabilities		
FVTPL		
Held for trading	$ 133,420	$ 36,544
Amortized cost (Note 3)	45,693,321	54,404,412
		(Concluded)

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

Note 2: The balances included available-for-sale financial assets and the carrying amount of available-for-sale financial assets measured at cost.

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

Financial Risk Management Objectives and Policies

The Company's financial instruments mainly include equity and debt investments, trade receivables, other receivables, trade payables and other payables. The Company's 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 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 32.

Sensitivity analysis

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

The following table details the Company's sensitivity to a 1% increase and decrease in the New Taiwan dollars ("NTD", the functional currency) against the relevant foreign currencies. The sensitivity analysis 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, 2016		
USD	$ 44,739	$ (166,009)
EUR	975	(19,292)
RMB	(26,064)	(114,465)
JPY	11,035	(1,284)
For the year ended December 31, 2015		
USD	(17,990)	(167,533)
EUR	(7,488)	(19,563)
RMB	(24,568)	(141,866)
JPY	(932)	(1,159)

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 are disclosed in the Note 10.

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, 2016

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 11,094,756	$ 16,356,365	$ -
Other payables	7,006,934	10,842,331	-
Other current liabilities	181,112	210,355	-
Guarantee deposits received	-	-	1,468
	$ 18,282,802	$ 27,409,051	$ 1,468

December 31, 2015

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 11,642,922	$ 18,396,537	$ -
Other payables	11,279,562	12,827,054	-
Other current liabilities	111,498	145,205	-
Guarantee deposits received	-	-	1,634
	$ 23,033,982	$ 31,368,796	$ 1,634

2) Liquidity risk tables for derivative financial instruments

The following table detailed the Company's liquidity analysis for its derivative financial instruments. The table was 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, 2016

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Net settled			
Foreign exchange contracts	$ 73,323	$ -	$ -
Gross settled			
Foreign exchange contracts			
Inflows	$ 15,227,772	$ -	$ -
Outflows	(15,250,504)	-	-
	$ (22,732)	$ -	$ -

December 31, 2015

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Gross settled			
Foreign exchange contracts			
Inflows	$ 6,658,903	$ 7,187,186	$ -
Outflows	(6,611,069)	(7,158,069)	-
	$ 47,834	$ 29,117	$ -

3) Bank credit limit

	December 31	
	2016	2015
Unsecured bank general credit limit		
Amount used	$ 710,857	$ 2,053,485
Amount unused	22,227,369	30,314,067
	$ 22,938,226	$ 32,367,552

Amount used includes guarantee for customs duties and for patent litigation.

29. RELATED-PARTY TRANSACTIONS

Operating Sales

	For the Year Ended December 31	
	2016	2015
Subsidiaries	$ 29,557,928	$ 35,572,044
Joint venture	28,955	9,971
Other related parties - Employees' Welfare Committee	937	20,920
Other related parties - other related parties' chairperson or its significant shareholder, is the Company's chairperson	102,003	6,302
	$ 29,689,823	$ 35,609,237

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

	December 31	
	2016	2015
Subsidiaries	$ 6,643,454	$ 7,953,665
Joint venture	-	541
Other related parties - other related parties' chairperson or its significant shareholder, is the Company's chairperson	15,720	1,146
	$ 6,659,174	$ 7,955,352

The selling prices for products sold to related parties were lower than those sold to third parties, except some related parties have no comparison with those sold to third parties. No guarantees had been given or received for trade receivables from related parties. No bad debt expense had been recognized for the years ended December 31, 2016 and 2015 for the amounts owed by related parties.

Purchase and Outsourcing Expense

	For the Year Ended December 31	
	2016	2015
Purchase		
Subsidiaries	$ 637,607	$ 1,455,390
Other related parties - other related parties' chairperson or its significant shareholder, is the Company's chairperson	1,866	-
	$ 639,473	$ 1,455,390
Outsourcing expense		
Subsidiaries	$ 22,001	$ 1,572,174

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

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

	December 31	
	2016	2015
Subsidiaries	$ 801,599	$ 384,914
Other related parties - other related parties' chairperson or its significant shareholder, is the Company's chairperson	1,866	-
	$ 803,465	$ 384,914

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	
	2016	2015
Short-term benefits	$ 280,916	$ 177,236
Post-employment benefits	2,355	2,274
Share-based payments	76,237	67,843
	$ 359,508	$ 247,353

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

Property, Plant and Equipment Acquired

	Price	
	For the Year Ended December 31	
	2016	2015
Subsidiaries	$ 417	$ -
Other related parties - other related parties' chairperson or its significant shareholder, is the Company's chairperson	81	2,695
	$ 498	$ 2,695

Other Related-party Transactions

a. To enhance product diversity, the Company entered into technology license agreement with subsidiaries. The royalty expense were NT$79 thousand and NT$186 thousand for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015 the amounts of prepaid royalty were NT$61,557 thousand and NT$54,061 thousand, respectively.

b. Subsidiaries and other related parties assisted the Company to expand business overseas and render design, research and development support, consulting services and after-sales services. The Company recognized related expenses amounting to NT$6,130,877 thousand and NT$8,975,963 thousand for the years ended December 31, 2016 and 2015, respectively. The unpaid amount were NT$1,610,749 thousand and NT$2,516,692 thousand as of December 31, 2016 and 2015, respectively.

c. The Company leased staff dormitory owned by a related party under an operating lease agreement. The rental payment is determined at the prevailing rates in the surrounding area. The Company recognized and paid rental expenses, totaling NT$6,560 thousand and NT$3,285 thousand for the year ended December 31, 2016 and 2015, respectively.

d. Other related parties provide selling and marketing service to the Company. The selling and marketing service expenses were NT$6,427 thousand and NT$10,300 thousand for the years ended December 31, 2016 and 2015, respectively.

30. PLEDGED ASSETS

As of December 31, 2016, the time of deposits amounting to NT$112,943 thousand was classified as other current financial assets were provided respectively as collateral for litigation.

31. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

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

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

In June 2011, IPCom filed a new complaint against the Company alleging patent infringement of patent owned by IPCom with the High Court in London, United Kingdom. In September 2011, the Company filed declaratory judgment action for non-infringement and invalidity in Milan, Italy. Legal proceedings in abovementioned courts in Germany and the United Kingdom are still ongoing. The Company evaluated the lawsuits and considered that the risk of patents-in-suits to be low. Also, the preliminary injunction and summary judgment against the Company are very unlikely.

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

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

b. In July 2014, US patent holding company Acacia Research Corporation (Acacia) enforced its 6 AMR-WB standard essential patent portfolio against Deutsche Telekom and Vodafone separately in Germany through its subsidiary Saint Lawrence Communications GmbH (SLC).

The litigations between SLC and the Company were settled on November 7, 2016. Both parties withdrew the cases from US and German Court respectively.

c. In April 2015, NTT DOCOMO (NTT) filed a lawsuit against the Company in the District Court of Mannheim, Germany, alleging that the Company infringed three LTE and one UMTS standard essential patents owned by NTT. The dispute was settled between the Company and NTT on November 10, 2016. Both parties withdrew the cases from the District Court of Mannheim, Germany.

d. In December 2015, Koninklijke Philips N.V. (Philips) filed a lawsuit against the Company in the District Court of Mannheim, Germany, alleging that the Company infringed four patents relating to portable/mobile device features and four patents relating to telecommunication standards. In October 2016, the Mannheim Court found that certain smartphone products sold by Company in Germany infringed the German part of European patent No. 0888687 (EP 687 patent), which relates to device user interface, and granted an injunction against the Company. However, Philips has not enforced the injunction. The litigations between the Company and Philips are ongoing. In order to protect the interests of the Company, and its customers, the Company has appealed to the court.

As of the date that the board of directors approved and authorized for issuing parent company only financial statements, no other court decisions were issued with respect to the EP 687 patent.

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

32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	December 31			
	2016		2015	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
Financial assets				
Monetary items				
USD	$ 1,199,057	32.27	$ 1,120,008	33.06
EUR	113,513	33.91	115,258	36.13
JPY	2,235,540	0.2756	2,057,300	0.2747
RMB	1,304,485	4.62	581,443	5.03
Investments accounted for by the equity method				
USD	263,013	32.27	270,883	33.06
SGD	1,293,365	22.30	1,389,799	23.42
Financial liabilities				
Monetary items				
USD	1,498,673	32.27	1,381,423	33.06
EUR	97,605	33.91	112,734	36.13
JPY	6,252,717	0.2756	1,645,107	0.2747
RMB	135,227	4.62	76,968	5.03

For the years ended December 31, 2016 and 2015, realized and unrealized net foreign exchange losses were NT$165,342 thousand and NT$231,343 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.

33. SIGNIFICANT CONTRACTS

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

Contractor	Term	Description
Apple, Inc.	January 1, 2015 - December 31, 2017	The scope of this license covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with payment based on the agreement.
Qualcomm Incorporated.	December 20, 2000 to the following dates: a. If the Company materially breaches any agreement terms and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units, royalty payment based on agreement.
Nokia Corporation	January 1, 2003 - December 31, 2016	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
	January 1, 2014 - December 31, 2018	Patent and technology collaboration; payment for use of implementation patents based on agreement.
InterDigital Technology Corporation	December 31, 2003 to the expiry dates of these patents stated in the agreement.	Authorization to use TDMA and CDMA technologies; royalty payment based on agreement.
Koninklijke Philips Electronics N.V.	January 5, 2004 to the expiry dates of these patents stated in the agreement.	GSM/DCS 1800/1900 patent license; royalty payment based on agreement.
MOTOROLA, Inc.	December 23, 2003 to the latest of the following dates: a. Expiry dates of patents stated in the agreement. b. Any time when the Company is not using any of Motorola's intellectual properties.	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA standards patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents stated in the agreement.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
IV International Licensing Netherlands, B.V.	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson (PUBL)	December 31, 2014 - December 31, 2016	Authorization to use GSM and wireless technology; royalty payment based on agreement.

6. Independent Auditors' Report

The Board of Directors and Shareholders
HTC Corporation

Opinion

We have audited the accompanying consolidated financial statements of HTC Corporation and its subsidiaries (collectively referred to as the Company), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, 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 the Company as of December 31, 2016 and 2015, and their consolidated financial performance and their consolidated cash flows for the years 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 the Company 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.

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, 2016. 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, 2016 are as follow:

Allowances for Doubtful Debts

As of December 31, 2016, the balance of allowances for doubtful debts amounted to NT$4,187,999 thousand. The evaluation of the ratio to allowances for doubtful debts was arrived at by reference to the aging of receivables and credit risk scoring by customers. The credit risk may be different due to the diversity of the customer base from customers in various economics areas. Since the Company's management needs to apply judgment to evaluate the allowance for doubtful debts and as changes in the balance of trade receivables would have a significant influence on the consolidated financial statements for the year ended December 31, 2016, the valuation of the allowances for doubtful debts was deemed to be a key audit matter.

We had evaluated the accounting policy of allowances for doubtful debts recognized by the Company, reviewed the classification of credit risk to customers and the reasonableness to the distribution of aging schedule, and verified the data accuracy of aging. By assessing the balance of allowances for doubtful debts as of December 31, 2016, the adequacy of accounting policy was based on the past experience of bad debt recognition.

For the accounting policy of allowance for doubtful debts please refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty please refer to Note 5; and for other relevant disclosure please refer to Notes 11 and 31.

Valuation of Inventories

The Company's operations are mainly in the research, manufacture and sale of smart mobile devices, and the balance of inventories amounted to NT$14,163,571 thousand as of December 31, 2016. Due to the rapid change in technology, the industry is highly competitive; in addition, since the management needs to apply judgment to evaluate the impairment of net realizable value and as the balance of inventories has a significant weight on the consolidated financial statements for the year ended December 31, 2016, the valuation of inventories was deemed to be a key audit matter.

We evaluated the accounting policy of the assessment of inventory write-downs recognized by the Company at the end of the reporting period, reviewed the classification of inventories by products sold, and verified the source of evaluation of net realizable value and the adequacy of marketing planning within a specified period.

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 disclosure please refer to Note 12.

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

As of December 31, 2016, the balance of property, plant and equipment, prepayments, intangible assets and deferred tax assets were NT$12,025,496 thousand, NT$4,569,375 thousand, NT$3,878,356 thousand and NT$8,957,876 thousand, respectively. The Company is now in a highly competitive environment. In contrast with previous periods, the operating conditions and earnings are significantly deteriorated, indicating potential impairments on the aforementioned asset items. Since there exists uncertainty regarding estimations of cash flow forecast, growth rate and discount rate, which were used in the process of evaluating asset impairment by the Company's management, and as the consolidated financial statements for the year ended December 31, 2016, were highly influenced by the change in the balance of the aforementioned asset items, the valuation of impairment thereof was deemed to be a key audit matter.

We have evaluated the reasonableness of assessment and method to impairment testing process performed by the Company's management, the adequacy of material impact related to revenue growth and profit ratio of smart phone devices, and the effectiveness of cash flow forecast and growth rate in previous years. The aforementioned uncertainty of the various estimates would also be reevaluated by our internal experts for its adequacy.

For the accounting policy of 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 disclosure please refer to Notes 13, 17, 19 and 27.

Revenue Recognition

According to the accounting policy stated in Note 4, revenue from the sale of goods is recognized when the significant risks and ownership are transferred to the buyers. The conditions of risks and ownership transferring to a part of the customers, which accounts for 68.5% of the Company's consolidated operating revenues are more complicated than those applied to the general sale transactions. Since the recognition of revenue had significant influence on the consolidated financial statements for the year ended December 31, 2016, the 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 the Company's revenue recognition. The compliance of accounting treatments and the policy of revenue recognition by the Company have been verified by reviewing the relevant contractual provisions. For ensuring the Company's compliance with IAS 18, samples from the recognized revenue have been drawn to verify if the conditions of revenue recognition were met.

Other Matters

We have also audited the parent company only financial statements of HTC Corporation as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified report.

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 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, 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 the Company'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 the Company 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 the Company's 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 the Company'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 the Company'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 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 the Company 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 the Company 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, 2016 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 6, 2017

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, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

	2016		2015	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	$ 30,080,217	29	$ 35,346,799	27
Financial assets at fair value through profit or loss - current (Notes 7 and 31)	143,642	-	95,493	-
Available-for-sale financial assets - current (Note 31)	199,344	-	303,289	-
Debt investments with no active market - current (Note 31)	8,067	-	8,266	-
Trade receivables, net (Notes 11 and 32)	15,961,835	15	18,518,948	14
Other receivables (Note 11)	168,526	-	466,791	1
Current tax assets (Note 27)	184,817	-	212,033	-
Inventories (Note 12)	14,163,571	14	19,123,637	15
Prepayments (Note 13)	1,833,499	2	4,400,968	4
Non-current assets held for sale (Note 14)	-	-	3,768,277	3
Other current financial assets (Notes 10 and 33)	5,750,450	6	4,100,290	3
Other current assets	68,414	-	94,611	-
Total current assets	68,562,382	66	86,439,402	67
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Note 31)	86	-	75	-
Financial assets measured at cost - non-current (Notes 9 and 31)	3,363,736	3	3,396,151	3
Debt investments with no active market - non-current (Note 31)	25,009	-	-	-
Investments accounted for using equity method (Note 16)	531,445	1	240,237	-
Property, plant and equipment (Notes 17 and 32)	12,025,496	12	15,432,130	12
Investment properties, net (Note 18)	1,527,001	1	1,708,489	1
Intangible assets (Note 19)	3,878,356	4	5,561,444	4
Deferred tax assets (Note 27)	8,957,876	9	8,699,322	7
Refundable deposits (Note 31)	1,501,480	1	1,580,342	1
Long-term receivables (Note 11)	-	-	1,488,775	1
Net defined benefit asset - non-current (Note 23)	40,439	-	79,470	-
Other non-current assets (Note 13)	2,735,876	3	4,767,246	4
Total non-current assets	34,586,800	34	42,953,681	33
TOTAL	$ 103,149,182	100	$ 129,393,083	100

(Continued)

	2016		2015	
LIABILITIES AND EQUITY	Amount	%	Amount	%
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 7 and 31)	$ 133,420	-	$ 36,544	-
Note and trade payables (Notes 20 and 32)	26,247,728	26	29,598,385	23
Other payables (Note 21)	18,348,734	18	24,993,276	19
Current tax liabilities (Note 27)	155,651	-	163,252	-
Provisions - current (Note 22)	3,384,311	3	5,992,258	5
Other current liabilities (Note 21)	3,004,432	3	3,689,763	3
Total current liabilities	51,274,276	50	64,473,478	50
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Note 27)	81,294	-	97,351	-
Guarantee deposits received (Note 31)	22,106	-	30,159	-
Total non-current liabilities	103,400	-	127,510	-
Total liabilities	51,377,676	50	64,600,988	50
EQUITY (Note 24)				
Share capital - ordinary shares	8,220,087	8	8,318,695	6
Capital surplus	15,614,641	15	15,505,853	12
Retained earnings				
Legal reserve	18,297,655	18	18,297,655	14
Unappropriated earnings	10,841,425	10	21,782,432	17
Other equity	(1,202,302)	(1)	1,088,415	1
Treasury shares	-	-	(200,955)	-
Total equity	51,771,506	50	64,792,095	50
TOTAL	$ 103,149,182	100	$ 129,393,083	100

(Concluded)

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 8, 25 and 32)	$ 78,161,158	100	$ 121,684,231	100
OPERATING COST (Notes 12, 23, 26 and 32)	68,726,567	88	99,731,124	82
GROSS PROFIT	9,434,591	12	21,953,107	18
OPERATING EXPENSES (Notes 23, 26 and 32)				
Selling and marketing	8,861,758	11	17,452,673	15
General and administrative	4,223,697	6	4,975,964	4
Research and development	10,957,200	14	13,727,616	11
Total operating expenses	24,042,655	31	36,156,253	30
OPERATING LOSS	(14,608,064)	(19)	(14,203,146)	(12)
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 26)	643,078	1	928,036	1
Other gains and losses (Notes 8, 13, 14, 17 and 26)	3,448,618	4	(2,286,659)	(2)
Finance costs	(5,298)	-	(8,123)	-
Share of the profit or loss of associates and joint venture (Note 16)	(62,282)	-	(11,648)	-
Total non-operating income and expenses	4,024,116	5	(1,378,394)	(1)
LOSS BEFORE INCOME TAX	(10,583,948)	(14)	(15,581,540)	(13)
INCOME TAX BENEFIT (Note 27)	23,845	-	48,472	-
LOSS FOR THE YEAR	(10,560,103)	(14)	(15,533,068)	(13)

(Continued)

	2016		2015	
	Amount	%	Amount	%
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans (Note 23)	$ (53,981)	-	$ (48,216)	-
Income tax relating to items that will not be reclassified to profit or loss (Note 27)	6,532	-	5,813	-
	(47,449)	-	(42,403)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(2,254,715)	(3)	10,562	-
Unrealized loss on available-for-sale financial assets	(153,449)	-	(11,466)	-
	(2,408,164)	(3)	(904)	-
Other comprehensive loss for the year, net of income tax	(2,455,613)	(3)	(43,307)	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	$ (13,015,716)	(17)	$ (15,576,375)	(13)
NET LOSS FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	$ (10,560,103)	(14)	$ (15,533,068)	(13)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	$ (13,015,716)	(17)	$ (15,576,375)	(13)
LOSS PER SHARE (Note 28)				
Basic	$ (12.81)		$ (18.79)	

(Concluded)

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

	Share Capital		Retained Earnings		Other Equity				
	Ordinary Shares	Capital Surplus	Legal Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Losses on Available-for- sale Financial Assets	Unearned Employee Benefit	Treasury Shares	Total Equity
BALANCE, JANUARY 1, 2015	$ 8,349,521	$ 15,140,687	$ 18,149,350	$ 41,381,753	$ 1,462,855	$ (2,167)	$ (398,570)	$ (3,750,056)	$80,333,373
Appropriation of 2014 earnings									
Legal reserve	-	-	148,305	(148,305)	-	-	-	-	-
Cash dividends	-	-	-	(314,636)	-	-	-	-	(314,636)
Net loss for the year ended December 31, 2015	-	-	-	(15,533,068)	-	-	-	-	(15,533,068)
Other comprehensive income and loss for the year ended December 31, 2015	-	-	-	(42,403)	10,562	(11,466)	-	-	(43,307)
Buy-back of treasury shares	-	-	-	-	-	-	-	(200,955)	(200,955)
Retirement of treasury shares	(69,140)	(120,007)	-	(3,560,909)	-	-	-	3,750,056	-
Share-based payments	38,314	485,173	-	-	-	-	27,201	-	550,688
BALANCE, DECEMBER 31, 2015	8,318,695	15,505,853	18,297,655	21,782,432	1,473,417	(13,633)	(371,369)	(200,955)	64,792,095
Net loss for the year ended December 31, 2016	-	-	-	(10,560,103)	-	-	-	-	(10,560,103)
Other comprehensive income and loss for the year ended December 31, 2016	-	-	-	(47,449)	(2,254,715)	(153,449)	-	-	(2,455,613)
Buy-back of treasury shares	-	-	-	-	-	-	-	(436,869)	(436,869)
Retirement of treasury shares	(111,600)	(192,769)	-	(333,455)	-	-	-	637,824	-
Share-based payments	12,992	301,557	-	-	-	-	117,447	-	431,996
BALANCE, DECEMBER 31, 2016	$ 8,220,087	$ 15,614,641	$ 18,297,655	$ 10,841,425	$ (781,298)	$ (167,082)	$ (253,922)	$ -	$ 51,771,506

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	$ (10,583,948)	$ (15,581,540)
Adjustments for:		
Depreciation expenses	1,752,322	2,539,046
Amortization expenses	1,639,516	1,956,533
Bad debt expense	1,175,179	-
Finance costs	5,298	8,123
Interests income	(382,550)	(419,969)
Dividend income	(138,761)	(352,074)
Compensation costs of employee share-based payments	431,996	550,688
Share of the profit or loss of associates and joint venture	62,282	11,648
Net gain on disposal of property, plant and equipment	(3,196,381)	(8,385)
Transfer of properties, plants and equipment to expense	-	8,339
Net gain on sale of investments	-	(327)
Impairment loss on non-financial assets	2,054,453	4,859,336
Changes in operating assets and liabilities		
Decrease in financial instruments held for trading	48,727	181,171
Decrease in trade receivables	2,857,064	10,621,336
Decrease in other receivables	312,686	112,713
Decrease (increase) in inventories	2,918,208	(3,850,023)
Decrease in prepayments	2,567,469	2,225,138
Decrease in other current assets	26,197	4,658
Decrease in other non-current assets	1,993,672	2,666,129
Decrease in note and trade payables	(3,350,657)	(14,204,958)
Decrease in other payables	(6,574,405)	(7,108,608)
(Decrease) increase in provisions	(2,607,947)	151,079
(Decrease) increase in other current liabilities	(685,331)	2,546,629
Cash used in operations	(9,674,911)	(13,083,318)
Interest received	336,626	334,309
Interest paid	(5,298)	(8,123)
Income tax paid	(275,929)	(295,351)
Net cash used in operating activities	(9,619,512)	(13,052,483)

(Continued)

	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to acquire debt investment with no active market	$ (24,548)	$ -
Payments to acquire financial assets measured at cost	(203,283)	(700,245)
Proceeds from disposal of financial assets measured at cost	-	327
Acquisition of associates	(363,754)	(16,531)
Proceeds from disposal of investments accounted for using equity method	182,579	-
Proceeds from disposal of non-current assets held of sale	6,060,000	-
Payments for property, plant and equipment	(601,427)	(987,329)
Proceeds from disposal of property, plant and equipment	2,935,283	345,464
Increase in refundable deposits	-	(1,317,602)
Decrease in refundable deposits	78,862	-
Payments for intangible assets	(75,455)	(93,683)
Increase in other current financial assets	(1,650,160)	(3,765,336)
Dividend received	83,844	38,166
Net cash generated from (used in) investing activities	6,421,941	(6,496,769)
CASH FLOWS FROM FINANCING ACTIVITIES		
Refund of guarantee deposits received	(8,053)	(13,071)
Dividends paid to owners of the Company	-	(314,636)
Buy-back of treasury shares	(436,869)	(200,955)
Net cash used in financing activities	(444,922)	(528,662)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,624,089)	(318,845)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,266,582)	(20,396,759)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	35,346,799	55,743,558
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 30,080,217	$ 35,346,799

(Concluded)

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

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by HTC's Board of Directors and authorized for issue on March 6, 2017.

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

a. 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) endorsed by the FSC for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Company should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014

(Continued)

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

(Concluded)

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

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

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Company's accounting policies, except for the following:

Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Company are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Company has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Company's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

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

The Company has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that amendments to IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018

(Continued)

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IFRS 15 "Clarifications to IFRS 15"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of investment property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

(Concluded)

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Company's accounting policies, except for the following:

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

The impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the "Expected Credit Losses Model". The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Company takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

Hedge accounting

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

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

2) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2018.

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

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

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

3) IFRS 16 "Leases"

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

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Company as lessor.

When IFRS 16 becomes effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

4) **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"**

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Company shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

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

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.

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

See Note 15 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 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 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.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

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

Inventories

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

Investments in Associates and Joint Ventures

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

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

Under the equity method, investments in an associate and a joint venture 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 and joint venture. The Company also recognizes the changes in the equity of associates and joint venture attributable to the Company.

When the Company subscribes for additional new shares of the associate and joint venture 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 and joint venture. 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 and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture 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 and a joint venture equals or exceeds its interest in that associate and joint venture (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 and joint venture), 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 and joint venture.

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 and a joint venture 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 the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

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

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

Property, Plant and Equipment

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

Properties, 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.

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) that is expected to benefit from the synergies of the combination.

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

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

Intangible Assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

Derecognition of intangible assets

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

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

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

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.

Financial assets

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

a. Measurement category

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

1) Financial assets at fair value through profit or loss (FVTPL)

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

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 31.

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

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

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

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

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

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

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

b. Impairment of financial assets

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

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

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

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

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

For all other financial assets, objective evidence of impairment include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization and the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

c. Derecognition of financial assets

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

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

Equity instruments

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

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

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

Financial liabilities

a. **Subsequent measurement**
Except the following situation, all the financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities at fair value through profit or loss (FVTPL)
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information and if:

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

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

- The contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at fair value through profit or loss.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest and dividend paid on the financial liability. Fair value is determined in the manner described in Note 31.

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

Derivative financial instruments

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

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

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

Hedge Accounting

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

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued prospectively when the Company revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting.

Cash flow hedges

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

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

Hedge accounting is discontinued prospectively when the Company revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

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

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

a. Warranty provisions

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

b. Provisions for contingent loss on purchase orders

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

Revenue Recognition

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

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

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

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.

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

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

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

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

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

Taxation

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

a. Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the 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 to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

c. Current and deferred tax for the year

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

Accrued Marketing Expenses

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

Treasury Share

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

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

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. Accrued marketing and advertising expenses

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

As of December 31, 2016 and 2015, the carrying amounts of accrued marketing and advertising expenses were NT$9,791,579 thousand and NT$15,124,052 thousand, respectively.

b. Allowances for doubtful debts

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

As of December 31, 2016 and 2015, the carrying amounts of allowances for doubtful debts were NT$4,187,999 thousand and NT$3,016,914 thousand, respectively.

c. Impairment of tangible and intangible assets other than goodwill

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

Impairment loss on tangible and intangible assets other than goodwill recognized were NT$12,595 thousand and NT$2,919,890 thousand for the years ended December 31, 2016 and 2015, respectively.

d. 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, 2016 and 2015, the carrying amounts of inventories were NT$14,163,571 thousand and NT$19,123,637 thousand, respectively.

e. Realization of deferred tax assets

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

As of December 31, 2016 and 2015, the carrying amounts of deferred tax assets were NT$8,957,876 thousand and NT$8,699,322 thousand, respectively.

f. Estimates of warranty provision

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

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

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

As of December 31, 2016 and 2015, the carrying amounts of warranty provision were NT$3,010,969 thousand and NT$5,314,365 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Cash on hand	$ 1,811	$ 2,122
Checking accounts and demand deposits	24,722,314	31,819,080
Time deposits (with original maturities less than three months)	5,356,092	3,525,597
	$ 30,080,217	$ 35,346,799

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

	December 31	
	2016	2015
Bank balance	0.01%-0.62%	0.01%-0.75%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2016	2015
Financial assets held for trading		
Derivatives financial assets (not under hedge accounting)		
Foreign exchange contracts	$ 143,642	$ 95,493
Financial liabilities held for trading		
Derivatives financial liabilities (not under hedge accounting)		
Foreign exchange contracts	$ 133,420	$ 36,544

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, 2016					
Foreign exchange contracts	Sell	USD/NTD	2017.01.06-2017.01.25	USD	120,000
Foreign exchange contracts	Sell	EUR/USD	2017.01.06	EUR	40,000
Foreign exchange contracts	Sell	JPY/USD	2017.01.06-2017.01.25	JPY	5,085,622
Foreign exchange contracts	Sell	GBP/USD	2017.01.06-2017.01.20	GBP	6,000
Foreign exchange contracts	Buy	RMB/USD	2017.01.06-2017.01.25	RMB	926,817
Foreign exchange contracts	Buy	CAD/USD	2017.01.11-2017.01.25	CAD	5,000
Foreign exchange contracts	Buy	USD/NTD	2017.01.06-2017.02.02	USD	387,500
Foreign exchange contracts	Buy	SGD/USD	2017.01.06-2017.01.25	SGD	252,579
Foreign exchange contracts	Buy	AUD/USD	2017.01.06-2017.01.11	AUD	4,700
December 31, 2015					
Foreign exchange contracts	Sell	SGD/USD	2016.01.29	SGD	5,336
Foreign exchange contracts	Sell	JPY/USD	2016.01.08-2016.01.27	JPY	454,000
Foreign exchange contracts	Sell	GBP/USD	2016.01.29-2016.03.16	GBP	11,500
Foreign exchange contracts	Buy	RMB/USD	2016.01.05-2016.01.27	RMB	374,500
Foreign exchange contracts	Buy	USD/NTD	2016.01.22-2016.03.29	USD	194,700
Foreign exchange contracts	Buy	SGD/USD	2016.01.29-2016.03.30	SGD	200,722

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

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

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

	For the Year Ended December 31	
	2016	2015
Revenues	$(40,299)	$ 22,604
Other gains and losses	2,056	1,258
	$(38,243)	$ 23,862

9. FINANCIAL ASSETS MEASURED AT COST

	December 31	
	2016	2015
Domestic unlisted equity investment	$ 643,961	$ 643,961
Overseas unlisted equity investment	2,013,101	2,054,310
Overseas unlisted mutual funds	706,674	697,880
	$ 3,363,736	$ 3,396,151
Classified according to financial asset measurement categories		
Available-for-sale financial assets	$ 3,363,736	$ 3,396,151

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

10. OTHER CURRENT FINANCIAL ASSETS

	December 31	
	2016	2015
Time deposits with original maturities more than three months	$ 5,750,450	$ 4,100,290

The market rate intervals of time deposits with original maturities more than three months at the end of the reporting period were as follows:

	December 31	
	2016	2015
Time deposits with original maturities more than three months	0.7%-2.03%	0.51%-1.95%

For details of pledged other current financial assets, please refer to Note 33.

11. TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2016	2015
Trade receivables		
Trade receivables	$ 18,658,984	$ 21,534,175
Trade receivables - related parties	15,720	1,687
Less: Allowances for impairment loss	(2,712,869)	(3,016,914)
	$ 15,961,835	$ 18,518,948
Other receivables		
Receivables from disposal of investments	$ 1,260,795	$ 1,305,943
Interest receivables	234,355	188,431
VAT refund receivables	113,839	273,024
Others	34,667	188,168
Less: Allowances for impairment loss	(1,475,130)	-
	$ 168,526	$ 1,955,566
Current - other receivables	$ 168,526	$ 466,791
Non-current - other receivables	-	1,488,775
	$ 168,526	$ 1,955,566

Trade Receivables

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

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

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

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

Aging of trade receivables

	December 31	
	2016	2015
1-90 days	$ 2,120,237	$ 1,129,769
91-180 days	445,727	95,996
Over 181 days	2,164,892	2,840,451
	$ 4,730,856	$ 4,066,216

The above aging schedule was based on the past due date.

Aging of impaired trade receivables

	December 31	
	2016	2015
1-90 days	$ 1,887,581	$ 1,049,302
91-180 days	130,406	-
Over 181 days	-	-
	$ 2,017,987	$ 1,049,302

The above aging of trade receivables after deducting the allowance for doubtful debts were presented based on the past due dates.

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	
	2016	2015
Balance, beginning of the year	$ 3,016,914	$ 3,054,782
Less: Impairment loss reversed	(299,951)	-
Less: Amounts written off during the year as uncollectable	(4,025)	(38,038)
(Less) add: Effect of foreign currency exchange differences	(69)	170
Balance, end of the year	$ 2,712,869	$ 3,016,914

Other Receivables

Receivable from disposal of investments is derived from sale of shares of Saffron Media Group Ltd. in 2013. According to the agreement, the sale proceeds and interest will be received in full in September 2018 and could be repaid by the buyer in whole or in part, at any time.

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

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

	For the Year Ended December 31	
	2016	2015
Balance, beginning of year	$ -	$ -
Add: Impairment loss recognized	1,475,130	-
Balance, end of year	$ 1,475,130	$ -

12. INVENTORIES

	December 31	
	2016	2015
Finished goods	$ 2,468,223	$ 4,060,279
Work-in-process	233,952	460,282
Semi-finished goods	2,168,606	3,073,114
Raw materials	9,125,604	10,930,317
Inventory in transit	167,186	599,645
	$ 14,163,571	$ 19,123,637

The cost of inventories recognized as operation costs for the years ended December 31, 2016 and 2015 included inventory write-downs of NT$2,041,858 thousand and NT$1,939,446 thousand, respectively.

13. PREPAYMENTS

	December 31	
	2016	2015
Royalty	$ 3,109,677	$ 6,978,900
Net input VAT	727,750	1,082,836
Land use right	107,732	120,153
Prepaid equipment	75,954	98,702
Prepayments to suppliers	17,431	251,374
Others	530,831	636,249
	$ 4,569,375	$ 9,168,214

(Continued)

	December 31	
	2016	2015
Current	$ 1,833,499	$ 4,400,968
Non-current	2,735,876	4,767,246
	$ 4,569,375	$ 9,168,214

(Concluded)

Prepayments for royalty were primarily for getting royalty right and were classified as current or non-current in accordance with their nature. For details of content of contracts, please refer to Note 36.

In June 2015, the Company determined that the recoverable amount of partial prepayments was less than its carrying amount, and thus recognized an impairment loss of NT$2,395,643 thousand which were classified as other gains and losses in 2015.

14. NON-CURRENT ASSETS HELD FOR SALE

	December 31	
	2016	2015
Land and buildings held for sale	$ -	$ 3,768,277

On December 29, 2015, HTC's Board of Directors resolved to sell a plot of land and buildings to Inventec Corporation for a total amount of NT$6,060,000 thousand. The Company had completed the disposal and transferred its controlling right over the subject properties to the acquirer in February 2016. For the amount of gains and losses for disposal NT$2,091,594 thousand, see Note 26 for details.

15. SUBSIDIARIES

a. Subsidiary included in consolidated financial statements

The consolidated entities as of December 31, 2016 and 2015 were as follows:

			% of Ownership		
			December 31		
Investor	Investee	Main Businesses	2016	2015	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	100.00	-
	High Tech Computer Asia Pacific Pte. Ltd.	International holding company; marketing, repair and after-sales services	100.00	100.00	-
	HTC Investment Corporation	General investing activities	100.00	100.00	-
	PT. High Tech Computer Indonesia	Marketing, repair and after-sales service	1.00	1.00	-
	HTC I Investment Corporation	General investing activities	100.00	100.00	-
	HTC Holding Cooperatief U.A.	International holding company	0.01	0.01	-
	HTC Investment One (BVI) Corporation	Holding S3 Graphics Co., Ltd. and general investing activities	100.00	100.00	-
	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	-	1)
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	-

(Continued)

(Concluded)

			% of Ownership		
			December 31		
Investor	Investee	Main Businesses	2016	2015	Remark
High Tech Computer Asia Pacific Pte. Ltd.	PT. High Tech Computer Indonesia	Marketing, repair and after-sales services	99.00	99.00	-
	HTC (Thailand) Limited	〃	100.00	100.00	-
	HTC India Private Ltd.	〃	99.00	99.00	-
	HTC Malaysia Sdn. Bhd.	〃	100.00	100.00	-
	HTC Communication Co., Ltd.	Manufacture and sale of smart mobile devices and after-sales service	100.00	100.00	-
	HTC HK, Limited	International holding company; marketing, repair and after-sales services	100.00	100.00	-
	HTC Holding Cooperatief U.A.	International holding company	99.99	99.99	-
	HTC Communication Technologies (SH)	Design, research and development of application software	100.00	100.00	-
	HTC Vietnam Services One Member Limited Liability Company	Marketing, repair and after-sales services	100.00	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	100.00	-
HTC Investment One (BVI) Corporation	S3 Graphics Co., Ltd.	Design, research and development of graphics technology	100.00	100.00	-
HTC Communication Technologies (SH)	HTC Communication (BJ) Tech Co.	Design, research and development of application software	100.00	100.00	-
HTC HK, Limited	HTC Corporation (Shanghai WGQ)	Smart mobile devices examination and after-sale services and technique consultations	100.00	100.00	-
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart mobile devices	100.00	100.00	-
	HTC Myanmar Company Limited	Marketing, repair and after-sales services	1.00	1.00	-
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding company; marketing, repair and after-sales services	100.00	100.00	-
	HTC India Private Ltd.	Marketing, repair and after-sales services	1.00	1.00	-
	HTC South Eastern Europe Limited Liability Company	〃	0.67	0.67	-
	HTC Communication Solutions Mexico, S.A DE C.V.	〃	1.00	1.00	-
	HTC Servicios DE Operacion Mexico, S.A DE C.V.	Human resources management	1.00	1.00	-
HTC Netherlands B.V.	HTC EUROPE CO., LTD.	International holding company Marketing, repair and after-sales services	100.00	100.00	-
	HTC BRASIL	Marketing, repair and after-sales services	99.99	99.99	-
	HTC Belgium BVBA/SPRL	〃	100.00	100.00	-
	HTC NIPPON Corporation	Sale of smart mobile devices	100.00	100.00	-
	HTC FRANCE CORPORATION	International holding company; marketing, repair and after-sales services	100.00	100.00	-
	HTC South Eastern Europe Limited Liability Company	Marketing, repair and after-sales services	99.33	99.33	-
	HTC Nordic ApS.	〃	100.00	100.00	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership December 31 2016	2015	Remark
HTC Netherlands B.V.	HTC Italia SRL	Marketing, repair and after-sales services	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	100.00	-
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	-

(Concluded)

Remark:

1) HTC VIVE Investment (BVI) Corp. was incorporated in September 2016.

b. Subsidiary excluded from consolidated financial statements: None.

16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31 2016	2015
Investment in associates	$ 531,445	$ 31,925
Investment in joint ventures	-	208,312
	$ 531,445	$ 240,237

Investments in Associates

	December 31 2016	2015
Unlisted equity investment		
East West Artists, LLC	$ 25,532	$ 31,925
Steel Wool Games, Inc.	150,282	-
Surgical Theater, LLC	344,080	-
Gui Zhou Wei Ai Educational Technology Co., Ltd.	11,551	-
	$ 531,445	$ 31,925

At 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 2016	2015
East West Artist, LLC	25.00%	25.00%
Steel Wool Games, Inc.	49.00%	11.25%
Surgical Theater, LLC	21.09%	12.30%
Gui Zhou Wei Ai Educational Technology Co., Ltd.	25.00%	-

The Company acquired 12.5% equity interest in East West Artist, LLC for US$500 thousand in December 2014, and further acquired additional 12.5% equity interest for US$500 thousand in December 2015, with a total 25% equity interest held and accounted for under the equity method.

In July 2015, the Company acquired 11.25% equity interest in Steel Wool Games, Inc. for US$300 thousand and such equity investment was recognized as financial assets measured at cost - non-current. In June 2016, the equity interest was increased to 49% after the Company's making an additional investment of US$5,000 thousand. The Company's management considers that the Company does exercise significant influence over Steel Wool Games, Inc. and therefore the subject equity investments are classified as an associate of the Company.

In September 2015, the Company acquired 12.30% equity interest in Surgical Theater, LLC for US$5,000 thousand and such equity investment was recognized as financial assets measured at cost - non-current. In August 2016, the equity interest was increased to 21.09% after the Company's making an additional investment of US$6,000 thousand. Thereafter, the subject equity investments are accounted for under the equity method.

In November 2016, the Company acquired 25% equity interest in Gui Zhou Wei Ai Educational Technology Co., Ltd. for RMB2,500 thousand with a total 25% equity interest that are accounted for under the equity method.

Aggregate information of associates that are not individually material:

	For the Year Ended December 31 2016	2015
The Company's share of:		
Loss from continuing operations	$ (36,549)	$ (1,135)
Other comprehensive income	-	-
Total comprehensive loss for the year	$ (36,549)	$ (1,135)

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 accounting or the calculation of the share of profit or loss and other comprehensive income, due to the investee entities' financial statement were not been audited.

Investments in Joint Venture

	December 31 2016	2015
Unlisted equity investments		
Huada Digital Corporation	$ -	$ 208,312

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

Name of Joint Venture	December 31 2016	2015
Huada Digital Corporation	-	50.00%

The Company set up a subsidiary Huada Digital Corporation ("Huada"), whose main business is to provide software services, in December 2009. In October 2011, Chunghwa Telecom Co., Ltd. invested in Huada. In March 2012, Huada held a shareholders' meeting and re-elected its directors and supervisors. As a result, the investment type was changed to joint venture and the Company continued to account for the subject equity investment under the equity method. The dissolution of Huada was approved in its shareholders' meeting held in March 2016 and the date of dissolution was set on March 31, 2016. The liquidation process had been completed on July 31, 2016.

Aggregate information of joint ventures that are not individually material:

	For the Year Ended December 31	
	2016	2015
The Company's share of:		
Loss from continuing operations	$ (25,733)	$ (10,513)
Other comprehensive income	-	-
Total comprehensive loss for the year	$ (25,733)	$ (10,513)

Investments in joint ventures accounted for under 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 accounting or the calculation of the share of profit or loss and other comprehensive income, due to the investee entities' financial statement were not been audited.

17. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2016	2015
Carrying amounts		
Land	$ 4,674,792	$ 6,470,507
Buildings	5,473,812	5,771,213
Machinery and equipment	1,267,842	2,320,672
Other equipment	609,050	869,738
	$ 12,025,496	$ 15,432,130

Movements of property, plant and equipment for the years ended December 31, 2016 and 2015 were as follows:

	2016				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
Cost					
Balance, beginning of the year	$ 6,470,507	$ 7,361,368	$ 13,754,405	$ 2,507,338	$ 30,093,618
Additions	-	272,689	158,495	122,854	554,038
Disposals	(1,771,623)	-	(33,902)	(251,263)	(2,056,788)
Reclassification	6,587	(201,433)	(11,100)	(1,173)	(207,119)
Effect of foreign currency exchange differences	(30,679)	(111,508)	(253,009)	(76,304)	(471,500)
Balance, end of the year	4,674,792	7,321,116	13,614,889	2,301,452	27,912,249
Accumulated depreciation					
Balance, beginning of the year	-	1,590,155	10,912,770	1,634,316	14,137,241
Depreciation expenses	-	269,208	1,134,773	304,421	1,708,402
Disposals	-	-	(27,075)	(199,217)	(226,292)
Reclassification	-	-	(6,443)	(547)	(6,990)
Effect of foreign currency exchange differences	-	(12,059)	(197,764)	(52,010)	(261,833)
Balance, end of the year	-	1,847,304	11,816,261	1,686,963	15,350,528
Accumulated impairment					
Balance, beginning of the year	-	-	520,963	3,284	524,247
Impairment loss	-	-	10,330	2,265	12,595
Effect of foreign currency exchange differences	-	-	(507)	(110)	(617)
Balance, end of the year	-	-	530,786	5,439	536,225
Net book value, end of the year	$ 4,674,792	$ 5,473,812	$ 1,267,842	$ 609,050	$ 12,025,496

	2015					
	Land	Buildings	Property under Construction	Machinery and Equipment	Other Equipment	Total
Cost						
Balance, beginning of the year	$ 7,622,683	$ 12,508,315	$ 1,089	$ 15,181,539	$ 2,656,990	$ 37,970,616
Additions	-	142,865	1,475	361,273	415,936	921,549
Disposals	-	(378,465)	(2,556)	(1,735,045)	(446,392)	(2,562,458)
Transfer to expense	-	-	-	(8,577)	-	(8,577)
Reclassification	(1,151,354)	(4,889,015)	-	-	(120,162)	(6,160,531)
Effect of foreign currency exchange differences	(822)	(22,332)	(8)	(44,785)	966	(66,981)
Balance, end of the year	6,470,507	7,361,368	-	13,754,405	2,507,338	30,093,618
Accumulated depreciation						
Balance, beginning of the year	$ -	$ 2,143,586	$ -	$ 10,743,814	$ 1,647,660	$ 14,535,060
Depreciation expenses	-	406,210	-	1,685,763	433,218	2,525,191
Disposals	-	(373,693)	-	(1,487,187)	(364,499)	(2,225,379)
Transfer to expense	-	-	-	(238)	-	(238)
Reclassification	-	(583,994)	-	-	(81,848)	(665,842)
Effect of foreign currency exchange differences	-	(1,954)	-	(29,382)	(215)	(31,551)
Balance, end of the year	-	1,590,155	-	10,912,770	1,634,316	14,137,241
Accumulated impairment						
Balance, beginning of the year	-	-	-	-	-	-
Impairment loss	-	-	-	520,963	3,284	524,247
Balance, end of the year	-	-	-	520,963	3,284	524,247
Net book value, end of the year	$ 6,470,507	$ 5,771,213	$ -	$ 2,320,672	$ 869,738	$ 15,432,130

In order to reduce the cost and to improve the operational efficiency, the Company had sold part of the land in Taoyuan in May 2016 for NT$2,880,000 thousand and the net gain on disposal of the property was NT$1,108,377 thousand.

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

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

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

There were no capitalized interests for the years ended December 31, 2016 and 2015.

18. INVESTMENT PROPERTIES, NET

Movement of investment properties, net for the year ended December 31, 2015 was as follows:

	2016	2015
Cost		
Balance, beginning of the year	$ 1,992,798	$ -
Transferred from property, plant and equipment	-	1,997,596
Effect of foreign currency exchange differences	(162,971)	(4,798)
Balance, end of the year	1,829,827	1,992,798
Accumulated depreciation		
Balance, beginning of the year	284,309	-
Transferred from property, plant and equipment	-	271,184
Depreciation expense	43,920	13,855
Effect of foreign currency exchange differences	(25,403)	(730)
Balance, end of the year	302,826	284,309
Net book value, end of the year	$ 1,527,001	$ 1,708,489

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

Main buildings	50 years
Air-conditioning	5-10 years
Others	3-5 years

In February 2017, the determination of fair value was performed by qualified professional appraisers, and the fair value was measured by using Level 3 inputs. The valuation was arrived at by reference to the cost method. The significant unobservable inputs used include residue ratio. The evaluated fair value was NT$1,789,234 thousand (RMB387,256 thousand) with an assessment by qualified professional appraisers as no significant changes so as to the balance sheet date.

19. INTANGIBLE ASSETS

	December 31	
	2016	2015
Carrying amounts		
Patents	$ 3,547,151	$ 4,986,922
Other intangible assets	331,205	574,522
	$ 3,878,356	$ 5,561,444

Movements of intangible assets for the years ended December 31, 2016 and 2015 were as follows:

	2016			
	Patents	Goodwill	Other Intangible Assets	Total
Cost				
Balance, beginning of the year	$ 12,434,890	$ 697,203	$ 1,785,537	$ 14,917,630
Additions	-	-	75,455	75,455
Effect of foreign currency exchange differences	(237,750)	(12,535)	(20,838)	(271,123)
Balance, end of the year	12,197,140	684,668	1,840,154	14,721,962
Accumulated amortization				
Balance, beginning of the year	7,336,883	-	1,031,158	8,368,041
Amortization expenses	1,325,086	-	314,430	1,639,516
Effect of foreign currency exchange differences	(123,065)	-	(12,185)	(135,250)
Balance, end of the year	8,538,904	-	1,333,403	9,872,307
Accumulated impairment				
Balance, beginning of the year	111,085	697,203	179,857	988,145
Effect of foreign currency exchange differences	-	(12,535)	(4,311)	(16,846)
Balance, end of the year	111,085	684,668	175,546	971,299
Net book value, end of the year	$ 3,547,151	$ -	$ 331,205	$ 3,878,356

	2015			
	Patents	Goodwill	Other Intangible Assets	Total
Cost				
Balance, beginning of the year	$ 12,018,040	$ 887,037	$ 1,951,324	$ 14,856,401
Additions	-	-	93,683	93,683
Disposals	-	-	(55,472)	(55,472)
Disposal of a subsidiary	-	(194,964)	(208,345)	(403,309)
Effect of foreign currency exchange differences	416,850	5,130	4,347	426,327
Balance, end of the year	12,434,890	697,203	1,785,537	14,917,630
Accumulated amortization				
Balance, beginning of the year	5,488,220	-	988,470	6,476,690
Amortization expenses	1,644,507	-	312,026	1,956,533
Disposals	-	-	(55,472)	(55,472)
Disposal of a subsidiary	-	-	(208,345)	(208,345)
Effect of foreign currency exchange differences	204,156	-	(5,521)	198,635
Balance, end of the year	7,336,883	-	1,031,158	8,368,041

(Continued)

	2015			
	Patents	Goodwill	Other Intangible Assets	Total
Accumulated impairment				
Balance, beginning of the year	$ 111,085	$ 887,037	$ 172,298	$ 1,170,420
Disposal of a subsidiary	-	(194,964)	-	(194,964)
Effect of foreign currency exchange differences	-	5,130	7,559	12,689
Balance, end of the year	111,085	697,203	179,857	988,145
Net book value, end of the year	$ 4,986,922	$ -	$ 574,522	$ 5,561,444

(Concluded)

The Company owns patents of graphics technologies. As of December 31, 2016 and 2015, the carrying amounts of such patents were NT$3,529,477 thousand and NT$4,855,981 thousand, respectively. The patents will be fully amortized over their remaining economic lives.

20. NOTE AND TRADE PAYABLES

	December 31	
	2016	2015
Note payables	$ 580	$ 555
Trade payables	26,247,148	29,597,830
	$ 26,247,728	$ 29,598,385

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.

21. OTHER LIABILITIES

	December 31	
	2016	2015
Other payables		
Accrued expenses	$ 18,254,905	$ 24,829,310
Payables for purchase of equipment	93,829	163,966
	$ 18,348,734	$ 24,993,276
Other current liabilities		
Advance receipts	$ 2,397,707	$ 3,173,548
Agency receipts	434,266	323,700
Others	172,459	192,515
	$ 3,004,432	$ 3,689,763

Accrued Expenses

	December 31	
	2016	2015
Marketing	$ 9,791,579	$ 15,124,052
Materials and molding expenses	3,077,500	3,162,071
Salaries and bonuses	2,029,695	3,344,721
Services	1,196,062	1,188,218
Import, export and freight	651,893	781,548
Insurance	137,183	303,294
Repairs, maintenance and sundry purchase	98,773	131,479
Others	1,272,220	793,927
	$ 18,254,905	$ 24,829,310

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

22. PROVISIONS

	December 31	
	2016	2015
Warranties	$ 3,010,969	$ 5,314,365
Provisions for contingent loss on purchase orders	373,342	677,893
	$ 3,384,311	$ 5,992,258

Movement of provisions for the years ended December 31, 2016 and 2015 were as follows:

	2016		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$ 5,314,365	$ 677,893	$ 5,992,258
Provisions recognized (reversed)	3,987,729	(271,104)	3,716,625
Usage	(6,256,239)	(33,447)	(6,289,686)
Effect of foreign currency exchange differences	(34,886)	-	(34,886)
Balance, end of the year	$ 3,010,969	$ 373,342	$ 3,384,311

	2015		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$ 5,208,111	$ 633,068	$ 5,841,179
Provisions recognized	11,961,831	228,813	12,190,644
Usage	(11,894,207)	(183,988)	(12,078,195)
Effect of foreign currency exchange differences	38,630	-	38,630
Balance, end of the year	$ 5,314,365	$ 677,893	$ 5,992,258

The Company provides warranty service for 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 statistics, 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.

23. RETIREMENT BENEFIT PLANS

Defined Contribution Plans

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

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

The total expenses recognized in the consolidated statement of comprehensive income were NT$463,504 thousand and NT$623,742 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, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the amounts of contributions payable were NT$80,218 thousand and NT$88,942 thousand, respectively, the amounts were paid subsequent to the end of the reporting period.

Defined Benefit Plans

The defined benefit plan adopted by HTC and CGC 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 and CGC 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 Group 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 Group 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 Group 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 and CGC under the defined benefit plans were as follows:

	December 31	
	2016	2015
Present value of defined benefit obligation	$ (533,819)	$ (474,875)
Fair value of plan assets	574,258	554,345
Net defined benefit asset	$ 40,439	$ 79,470

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, 2015	$ (443,642)	$ 552,780	$ 109,138
Current service cost	(8,017)	-	(8,017)
Net interest (expense) income	(8,865)	11,287	2,422
Recognized in profit or loss	(16,882)	11,287	(5,595)
Remeasurement			
Return on plan assets	-	3,761	3,761
Actuarial loss - changes in demographic assumptions	(33,851)	-	(33,851)
Actuarial loss - changes in financial assumptions	(16,259)	-	(16,259)
Actuarial loss - experience adjustments	(1,868)	-	(1,868)
Recognized in other comprehensive income	(51,978)	3,761	(48,217)
Contributions from the employer	-	24,144	24,144
Benefits paid	37,627	(37,627)	-
Balance at December 31, 2015	(474,875)	554,345	79,470
Current service cost	(8,751)	-	(8,751)
Net interest (expense) income	(8,301)	10,002	1,701
Recognized in profit or loss	(17,052)	10,002	(7,050)
Remeasurement			
Return on plan assets	-	(6,014)	(6,014)
Actuarial loss - changes in demographic assumptions	(20,172)	-	(20,172)
Actuarial loss - changes in financial assumptions	(18,622)	-	(18,622)
Actuarial loss - experience adjustments	(9,173)	-	(9,173)
Recognized in other comprehensive income	(47,967)	(6,014)	(53,981)
Contributions from the employer	-	22,000	22,000
Benefits paid	6,075	(6,075)	-
Balance at December 31, 2016	$ (533,819)	$ 574,258	$ 40,439

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans was as follows:

	December 31	
	2016	2015
Operating costs	$ 1,566	$ 1,124
Selling and marketing expenses	671	458
General and administrative expenses	854	622
Research and development expenses	3,959	3,391
	$ 7,050	$ 5,595

Through the defined benefit plans under the Labor Standards Law, the Group 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	
	2016	2015
Discount rates	1.000%-1.500%	1.375%-1.750%
Expected rates of salary increase	2.250%-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	
	2016	2015
Discount rates		
0.25% increase	$ 19,120	$ 17,383
0.25% decrease	$ (20,030)	$ (18,225)
Expected rates of salary increase		
0.25% increase	$ (19,268)	$ (17,573)
0.25% decrease	$ 18,504	$ 16,862

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	
	2016	2015
The expected contributions to the plan for the next year	$ 21,766	$ 35,185
The average duration of the defined benefit obligation	15.23 years	15.63 years

24. EQUITY

Share Capital

a. Ordinary shares

	December 31	
	2016	2015
Numbers 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)	822,009	831,870
Shares issued	$ 8,220,087	$ 8,318,695

In March 2015, HTC retired 6,914 thousand treasury shares, totaling NT$69,140 thousand. In August and December 2015, HTC issued 400 thousand and 4,006 thousand restricted shares for the qualified employees, totaling NT$4,000 thousand and NT$40,060 thousand, respectively. In April, July and October 2015, HTC retired 49 thousand, 117 thousand and 409 thousand restricted shares for employees amounting to NT$492 thousand, NT$1,167 thousand and NT$4,087 thousand, respectively. As a result, HTC's issued and outstanding common stock as of December 31, 2015 decreased to NT$8,318,695 thousand, divided into 831,870 thousand ordinary shares at NT$10 par value. Every ordinary share carries one vote per share and a right to dividends.

In July 2016, HTC issued 2,657 thousand of restricted shares, totaling NT$26,570 thousand. In February, May, August, and October 2016, HTC retired 118 thousand, 223 thousand, 176 thousand and 841 thousand restricted shares for employees, totaling NT$1,180 thousand, NT$2,224 thousand, NT$1,762 thousand and NT$8,412 thousand, respectively. In February and August 2016, HTC retired 4,110 thousand and 7,050 thousand treasury shares, totaling NT$41,100 thousand and NT$70,500 thousand, respectively. As a result, HTC's issued and outstanding common stock as of December 31, 2016 decreased to NT$8,220,087 thousand, divided into 822,009 thousand ordinary shares at NT$10 par value. Every ordinary share carries one vote per share and a right to dividends.

80,000 thousand shares of HTC's common 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, 2016, there were 5,756 thousand units of GDRs redeemed, representing 23,024 thousand ordinary shares, and the outstanding GDRs represented 13,036 thousand ordinary shares or 1.59% of HTC's issued and outstanding ordinary shares.

Capital Surplus

	December 31	
	2016	2015
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital		
Arising from issuance of ordinary shares	$ 14,121,223	$ 14,312,926
Arising from consolidation excess	23,288	23,604
Arising from expired stock options	84,462	35,825
May not be used for any purpose		
Arising from employee share options	645,111	544,087
Arising from employee restricted shares	740,557	589,411
	$ 15,614,641	$ 15,505,853

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

In March 2015, the retirement of treasury shares caused a decrease of NT$119,511 thousand in additional paid-in capital - issuance of ordinary shares, NT$197 thousand in capital surplus - consolidation excess and NT$299 thousand in capital surplus - expired stock options, respectively. The excess of the carrying value of treasury shares retired over the sum of its par value and premium from issuance of ordinary share was offset against unappropriated earnings, totaling NT$3,560,909 thousand.

In February and August 2016, the retirement of treasury shares caused a decrease of NT$70,715 thousand and NT$120,988 thousand in additional paid-in capital - issuance of ordinary shares, NT$117 thousand and NT$199 thousand in capital surplus - consolidation excess and NT$177 thousand and NT$573 thousand in capital surplus - expired stock options, respectively. The excess of the carrying value of treasury shares retired over the sum of its par value and premium from issuance of ordinary share was offset against unappropriated earnings, totaling NT$88,846 thousand and NT$244,609 thousand, respectively.

For details of capital surplus - employee share options and employee restricted shares, see Note 29 for details.

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 1 to 4 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 stock or cash dividends to be paid. HTC's dividend policy stipulates that at least 50% of total dividends may be distributed as cash dividends.

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. HTC has amended the policy of its earnings distribution as stipulated in its Articles of Incorporation in order to comply with the aforementioned law amendments with an approval from the resolution of the shareholders' meeting, and stipulated an additional policy of employees' compensation on June 24, 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, see employee benefits expense section as stated in Note 26.

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 capital stock, the excess may be transferred to capital stock or distributed in cash.

The loss off-setting for 2015 had been resolved in the shareholders' meeting on June 24, 2016, and the appropriations of 2014 had been approved in the shareholders' meeting on June 2, 2015. The appropriations and dividends per share were as follows:

	Appropriation of Earnings (The Loss Off-setting)		Dividends Per Share (NT$)	
	For 2015	For 2014	For 2015	For 2014
Legal reserve	$ -	$ 148,305	$ -	$ -
Cash dividends	-	314,636	-	0.38

The loss off-setting for 2016 had been proposed by HTC's board of directors on March 6, 2017. The loss off-setting for 2016 are subject to the resolution of the shareholders' meeting to be held on June 15, 2017.

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

Other Equity

	December 31	
	2016	2015
Exchange differences on translating foreign operations	$ (781,298)	$ 1,473,417
Unrealized losses on available-for-sale financial assets	(167,082)	(13,633)
Unearned employee benefit	(253,922)	(371,369)
	$ (1,202,302)	$ 1,088,415

a. Exchange differences on translating foreign operations

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

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

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

c. Unearned employee benefit

In the meeting of shareholders on June 2, 2015 and June 19, 2014, the shareholders approved a restricted stock plan for employees. See Note 29 for the information of restricted shares issued.

	For the Year Ended December 31	
	2016	2015
Balance, beginning of the year	$ (371,369)	$ (398,570)
Issuance of shares	(158,471)	(233,265)
Adjustment of turnover rate	(5,667)	3,395
Share-based payment expenses recognized	281,585	257,071
Balance, end of the year	$ (253,922)	$ (371,369)

Treasury Shares

On August 24, 2015, HTC's Board of Directors passed a resolution to buy back 50,000 thousand common shares from the open market. The repurchase period was between August 25, 2015 and October 24, 2015, and the repurchase price ranged from NT$35 to NT$60 per share. If HTC's share price was lower than this price range, HTC might continue to buy back its shares. HTC had bought back 4,110 thousand shares for NT$200,955 thousand during the repurchase period, which were retired by HTC's Board of Directors on February 29, 2016, and such retired shares had been properly deregistered subsequently.

On May 14, 2016, HTC's Board of Directors passed a resolution to buy back 40,000 thousand common shares from the open market. The repurchase period was between May 16, 2016 and July 15, 2016, and the repurchase price ranged from NT$47 to NT$70 per share. If HTC's share price was lower than this price range, HTC might continue to buy back its shares. HTC had bought back 7,050 thousand shares for NT$436,869 thousand during the repurchase period which were retired by HTC's Board of Directors on August 2, 2016, and such retired share had been properly deregistered subsequently.

HTC had repurchased common shares from the open market for transferring to employees and some of them had not been transferred before the expiry time. HTC's Board of Directors approved the retirement of 6,914 thousand treasury shares in March 2015, and had deregistered such retired shares. The related information on the treasury share transactions were as follows:

(In Thousands of Shares)

Reason to Reacquire	Number of Shares, Beginning of the Year	Addition During the Year	Reduction During the Year	Number of Shares, End of the Year
For 2016				
To maintain the Company's credibility and shareholders' interest	4,110	7,050	11,160	-
For 2015				
To transfer shares to the Company's employees	6,914	-	6,914	-
To maintain the Company's credibility and shareholders' interest	-	4,110	-	4,110
	6,914	4,110	6,914	4,110

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

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

25. OPERATING REVENUES

	For the Year Ended December 31	
	2016	2015
Sale of goods	$ 75,763,805	$ 120,087,853
Other operating income	2,397,353	1,596,378
	$ 78,161,158	$ 121,684,231

Some sales denominated in foreign currencies were hedged for cash flow risk. Accordingly, the Company transferred NT$(40,299) thousand and NT$22,604 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 2016 and 2015, respectively.

26. NET LOSS FROM CONTINUING OPERATIONS AND OTHER COMPREHENSIVE INCOME AND LOSS

a. Other income

	For the Year Ended December 31	
	2016	2015
Interest income		
Bank deposits	$ 224,331	$ 281,412
Other receivables	39,041	75,200
Other	119,178	63,357
	382,550	419,969
Dividends	138,761	352,074
Others	121,767	155,993
	$ 643,078	$ 928,036

b. Other gains and losses

	For the Year Ended December 31	
	2016	2015
Net gain on disposal of non-current assets held for sale (Note 14)	$ 2,091,594	$ -
Net gain on disposal of property, plant and equipment (Note 17)	1,104,787	8,385
Gain on disposal of investments	-	327
Net foreign exchange gain	335,783	629,074
Net gain arising from financial instruments classified as held for trading	10,222	58,949
Ineffective portion of cash flow hedge (Note 8)	2,056	1,258
Impairment loss	(12,595)	(2,919,890)
Other loss	(83,229)	(64,762)
	$ 3,448,618	$ (2,286,659)

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	
	2016	2015
Trade receivables	$ (299,951)	$ -
Other receivables	1,475,130	-
	$ 1,175,179	$ -

d. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
Property, plant and equipment	$ 1,708,402	$ 2,525,191
Investment properties	43,920	13,855
Intangible assets	1,639,516	1,956,533
	$ 3,391,838	$ 4,495,579
An analysis of depreciation - by function		
Operating costs	$ 743,267	$ 1,339,250
Operating expenses	965,135	1,185,941
Other losses	43,920	13,855
	$ 1,752,322	$ 2,539,046
An analysis of amortization - by function		
Operating costs	$ 2,958	$ 6,988
Operating expenses	1,636,558	1,949,545
	$ 1,639,516	$ 1,956,533

e. Employee benefits expense

	For the Year Ended December 31	
	2016	2015
Short-term benefits	$ 11,548,402	$ 14,601,086
Post-employment benefits (Note 23)		
Defined contribution plans	463,504	623,742
Defined benefit plans	7,050	5,595
	470,554	629,337
Share-based payments (Note 29)		
Equity-settled share-based payments	431,996	550,688
Total employee benefits expense	$ 12,450,952	$ 15,781,111

(Continued)

	For the Year Ended December 31	
	2016	2015
An analysis of employee benefits expense - by function		
Operating costs	$ 2,977,269	$ 3,738,378
Operating expenses	9,473,683	12,042,733
	$ 12,450,952	$ 15,781,111

(Concluded)

In compliance with the Company Act as amended in May 2015, the shareholders held their meeting and resolved amendments to HTC's Articles of Incorporation on June 24, 2016; the amendments stipulate distribution of employees' compensation and remuneration to directors and supervisors at the rates no less than 4% and no higher than 0.25%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. No employee's compensation and remuneration to directors and supervisors were estimated as the Company reported net losses for the years ended December 31, 2016 and 2015.

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.

The employees' bonuses for 2014 had been approved in the shareholders' meeting on June 2, 2015.

	For the Year Ended December 31 2014	
	Cash Dividends	Share Dividends
Employees' bonuses	$ 88,334	$ -

There was no difference between the amounts of the employees' compensation and bonuses approved in the shareholders' meeting on June 2, 2015, and the amounts recognized in the financial statements for the year ended December 31, 2014.

For any further information of the employees' compensation and remuneration to directors and supervisors approved in the meeting of board of directors in 2017 and 2016, see disclosures in the "Market Observation Post System".

f. Impairment loss on non-financial assets

	For the Year Ended December 31	
	2016	2015
Inventories (included in operating costs)	$ 2,041,858	$ 1,939,446
Property, plant and equipment (included in other gain and loss)	12,595	524,247
Prepayments (included in other gains and losses)	-	2,395,643
	$ 2,054,453	$ 4,859,336

g. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2016	2015
Foreign exchange gains	$ 5,475,486	$ 9,191,220
Foreign exchange losses	(5,139,703)	(8,562,146)
Valuation gain arising from financial assets classified as held for trading	10,222	58,949
Ineffective portion of cash flow hedge	2,056	1,258
	$ 348,061	$ 689,281

27. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax benefit recognized in profit or loss

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current year	$ 261,887	$ 336,419
Land Value Increment	226,333	-
Adjustments for previous years	(192,678)	(26,242)
	295,542	310,177
Deferred tax		
In respect of the current year	(319,387)	(358,649)
Income tax benefit recognized in profit or loss	$ (23,845)	$ (48,472)

Income tax benefit for the years ended December 31, 2016 and 2015 can be reconciled to the accounting loss as follows:

	For the Year Ended December 31	
	2016	2015
Loss before income tax	$(10,583,948)	$(15,581,540)
Income tax benefit calculated at 17%	(1,799,271)	(2,648,862)
Effect of expenses that were not deductible in determining taxable profit	93,130	68,650
Effect of temporary differences	1,850,755	772,747
Effect of loss carryforward	228,270	1,260,570
Effect of income that is exempt from taxation	(611,933)	(56)
Land Value Increment	226,333	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	181,549	524,721
Adjustments for previous years' tax	(192,678)	(26,242)
Income tax benefit recognized in profit or loss	$(23,845)	$(48,472)

b. Income tax benefit recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
Deferred tax		
Recognized in current year		
Remeasurement on defined benefit plan (tax benefit)	$(6,532)	$(5,813)

c. Current tax assets and liabilities

	December 31	
	2016	2015
Current tax assets		
Tax refund receivable	$ 184,817	$ 212,033
Current tax liabilities		
Income tax payable	$ 155,651	$ 163,252

d. Deferred tax balances

Movements of deferred tax assets and deferred tax liabilities for the years ended December 31, 2016 and 2015 were as follows:

	2016				
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Translation Adjustment	Closing Balance
Deferred tax assets					
Temporary differences					
Unrealized royalties	$ 675,764	$(304,848)	$ -	$ -	$ 370,916
Unrealized marketing expenses	1,323,293	(449,046)	-	(15,327)	858,920
Unrealized warranty expense	625,919	(257,367)	-	(3,967)	364,585
Allowance for loss on decline in value of inventory	411,036	44,459	-	(5,497)	449,998
Unrealized profit	258,976	(107,720)	-	-	151,256
Unrealized salary and welfare	133,091	(33,485)	-	(5,860)	93,746
Unrealized contingent losses on purchase orders	81,350	(36,548)	-	-	44,802
Others	554,563	(152,611)	-	(1,557)	400,395
Loss carryforwards	4,635,330	1,611,693	-	(23,765)	6,223,258
	$ 8,699,322	$ 314,527	$ -	$(55,973)	$ 8,957,876
Deferred tax liabilities					
Temporary differences					
Financial assets at FVTPL	$ 7,074	$(5,847)	$ -	$ -	$ 1,227
Defined benefit plans	9,440	1,770	(6,532)	-	4,678
Others	80,837	(785)	-	(4,663)	75,389
	$ 97,351	$(4,862)	$(6,532)	$(4,663)	$ 81,294

	2015				
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Translation Adjustment	Closing Balance
Deferred tax assets					
Temporary differences					
Unrealized royalties	$ 1,613,333	$(937,569)	$ -	$ -	$ 675,764
Unrealized marketing expenses	1,920,664	(589,877)	-	(7,494)	1,323,293
Unrealized warranty expense	630,968	(4,373)	-	(676)	625,919
Allowance for loss on decline in value of inventory	483,557	(70,224)	-	(2,297)	411,036
Unrealized profit	209,953	49,023	-	-	258,976
Unrealized salary and welfare	223,172	(92,959)	-	2,878	133,091
Unrealized contingent losses on purchase orders	75,971	5,379	-	-	81,350
Others	488,589	66,749	-	(775)	554,563
Loss carryforwards	2,806,500	1,836,841	-	(8,011)	4,635,330
	$ 8,452,707	$ 262,990	$ -	$(16,375)	$ 8,699,322
Deferred tax liabilities					
Temporary differences					
Unrealized gain on investments	$ 79,450	$(79,450)	$ -	$ -	$ -
Financial assets at FVTPL	28,815	(21,741)	-	-	7,074
Defined benefit plans	13,089	2,164	(5,813)	-	9,440
Others	81,578	3,368	-	(4,109)	80,837
	$ 202,932	$(95,659)	$(5,813)	$(4,109)	$ 97,351

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

	December 31	
	2016	2015
Loss carryforward	$ 35,056,888	$ 22,143,947
Deductible temporary differences	$ 14,239,006	$ 18,867,018

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

Loss carryforwards as of December 31, 2016 comprised of:

Remaining Carrying	Expiry Year
$ 2,219,204	2018
786,209	2019
1,167,159	2020
1,037,460	2021
6,979,331	2023
10,513,823	2024
22,984,428	2025
21,816,516	2026
290,425	2027-2032
$ 67,794,555	

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

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

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

As of December 31, 2016 and 2015, the taxable temporary differences associated with investment in subsidiaries and joint venture for which no deferred tax assets (liabilities) have been recognized were NT$497,194 thousand and NT$(4,152,488) thousand, respectively.

h. Integrated income tax

The imputation credit account ("ICA") information as of December 31, 2016 and 2015, were as follows:

	December 31	
	2016	2015
Unappropriated earnings generated on and after January 1, 1998	$ 10,841,425	$ 21,782,432
Balance of ICA	$ 8,196,519	$ 8,196,056

	For the Year Ended December 31	
	2016 (Expected)	2015 (Actual)
Creditable ratio for distribution of earning	34.87%	34.37%

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

i. Income tax assessments

HTC's tax returns through 2014 had been assessed by the tax authorities. HTC disagreed with the tax authorities' assessment of its 2014 tax return and applied for a re-examination. Nevertheless, to be conservative, HTC had accrued for the income tax assessed by the tax authorities.

The income tax returns of Communication Global Certification Inc., HTC Investment Corporation, HTC I Investment Corporation and Yoda Co., Ltd. for the years through 2014 have been examined and approved by the tax authorities.

28. LOSS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2016	2015
Basic loss per share	$ (12.81)	$ (18.79)

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

Net Loss for the Years

	For the Year Ended December 31	
	2016	2015
Loss for the year attributable to owners of the parent	$ (10,560,103)	$ (15,533,068)

Shares

Unit: In Thousands of Shares

	For the Year Ended December 31	
	2016	2015
Weighted average number of ordinary shares in computation of basic loss per share	824,084	826,784

Since the exercise price of the employee share options issued by the Company exceeded the average market price of the shares for the years ended December 31, 2016 and 2015, respectively, they were anti-dilutive and excluded from the computation of diluted earnings per share.

29. 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 was as follows:

	For the Year Ended December 31			
	2016		2015	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance at January 1	24,964	$ 137.20	31,908	$ 140.37
Options granted	-		1,000	54.50
Options forfeited	(4,892)		(7,944)	
Balance at December 31	20,072	$ 136.65	24,964	$ 137.20
Options exercisable, end of the year	14,658		5,905	
Weighted-average fair value of options granted per unit (NT$)	$ -		$ 15.00	

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

	December 31	
	2016	2015
Range of exercise price (NT$)	$54.5-$149	$54.5-$149
Weighted-average remaining contractual life (years)	6.30 years	7.30 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 shareholder meeting held on June 19, 2014 and June 2, 2015, the shareholders approved a restricted stock plan for employees with a total amount of $50,000 thousand and $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 shares 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, HTC will recall or buy back and cancel the restricted shares.
In April, July, October 2015, and February, May, August, October 2016, HTC retired 49 thousand, 117 thousand, 409 thousand, and 118 thousand, 223 thousand, 176 thousand, 841 thousand restricted shares for employees amounting to NT$492 thousand, NT$1,167 thousand, NT$4,087 thousand, and NT$1,180 thousand, NT$2,224 thousand, NT$1,762 thousand, NT$8,412 thousand, respectively. As a result, the numbers of the HTC's issued and outstanding employee restricted shares as of December 31, 2016 was 6,558 thousand shares. The related information was 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 recognized was $431,996 thousand and NT$550,688 thousand for the years ended December 31, 2016 and 2015, 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, 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 and debt investments with no active market. The management considers that the carrying amounts of financial assets and financial liabilities not carried at fair value approximate their fair value or the fair value are not measured reliably.

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

a. Fair value hierarchy

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 143,642	$ -	$ 143,642
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 86	$ -	$ -	$ 86
Overseas listed stocks - equity investments	199,344	-	-	199,344
	$ 199,430	$ -	$ -	$ 199,430
Financial liabilities at FVTPL				
Derivative financial instruments	$ -	$ 133,420	$ -	$ 133,420

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 95,493	$ -	$ 95,493
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 75	$ -	$ -	$ 75
Overseas listed stocks - equity investments	303,289	-	-	303,289
	$ 303,364	$ -	$ -	$ 303,364
Financial liabilities at FVTPL				
Derivative financial instruments	$ -	$ 36,544	$ -	$ 36,544

There were no transfers between Levels 1 and 2 for the years ended December 31, 2016 and 2015.

b. 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.

Categories of Financial Instruments

	December 31	
	2016	2015
Financial assets		
FVTPL		
Held for trading	$ 143,642	$ 95,493
Loans and receivables (Note 1)	53,495,584	61,510,211
Available-for-sale financial assets (Note 2)	3,563,166	3,699,515
Financial liabilities		
FVTPL		
Held for trading	133,420	36,544
Amortized cost (Note 3)	45,052,834	54,945,520

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market - current, other current financial assets, trade receivables, other receivables, refundable deposits and debt investments with no active market - non - current.

Note 2: The balances included available-for-sale financial assets and the carrying amount of available-for-sale financial assets measured at cost.

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

Financial Risk Management Objectives and Policies

The Company's financial instruments mainly include equity and debt investments, trade receivables, other receivables, trade payables and other payables. The Company's 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 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, 2016		
USD	$ 44,739	$ (166,009)
EUR	975	(19,292)
RMB	(26,064)	(114,465)
JPY	11,035	(1,284)
For the year ended December 31, 2015		
USD	(17,990)	(167,533)
EUR	(7,488)	(19,563)
RMB	(24,568)	(141,866)
JPY	(932)	(1,159)

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 are disclosed in the Note 11.

c. Liquidity risk

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

1) Liquidity risk tables 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, 2016

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 10,641,728	$ 15,606,000	$ -
Other payables	10,341,957	8,006,777	-
Other current liabilities	371,910	62,356	-
Guarantee deposits received	-	-	22,106
	$ 21,355,595	$ 23,675,133	$ 22,106

December 31, 2015

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 11,276,426	$ 18,321,959	$ -
Other payables	11,682,250	13,311,026	-
Other current liabilities	111,498	212,202	-
Guarantee deposits received	-	-	30,159
	$ 23,070,174	$ 31,845,187	$ 30,159

2) Liquidity risk tables for derivative financial instruments

The following table detailed the Company's liquidity analysis for its derivative financial instruments. The table was 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, 2016

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Net settled			
Foreign exchange contracts	$ 73,323	$ -	$ -
Gross settled			
Foreign exchange contracts			
Inflows	$ 15,227,772	$ -	$ -
Outflows	(15,250,504)	-	-
	$ (22,732)	$ -	$ -

December 31, 2015

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Gross settled			
Foreign exchange contracts			
Inflows	$ 6,658,903	$ 7,187,186	$ -
Outflows	(6,611,069)	(7,158,069)	-
	$ 47,834	$ 29,117	$ -

3) Bank credit limit

	December 31	
	2016	2015
Unsecured bank general credit limit		
Amount used	$ 710,857	$ 2,053,485
Amount unused	22,227,369	30,314,067
	$ 22,938,226	$ 32,367,552

Amount used includes guarantee for customs duties and for patent litigation.

32. 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 as disclosed elsewhere in other notes, details of transactions between the Company and other related parties are disclosed below.

Operating Sales

	For the Year Ended December 31	
	2016	2015
Joint venture	$ 28,955	$ 9,971
Other related parties - Employees' Welfare Committee	937	20,920
Other related parties - other related parties' chairperson or its significant shareholder, is HTC's chairperson	102,003	6,302
	$ 131,895	$ 37,193

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

	December 31	
	2016	2015
Joint venture	$ -	$ 541
Other related parties - other related parties' chairperson or its significant shareholder, is HTC's chairperson	15,720	1,146
	$ 15,720	$ 1,687

The selling prices for products sold to related parties were lower than those sold to third parties, except some related parties have no comparison with those sold to third parties. No guarantees had been given or received for trade receivables from related parties. No bad debt expense had been recognized for the years ended December 31, 2016 and 2015 for the amounts owed by related parties.

Purchase

	For the Year Ended December 31	
	2016	2015
Other related parties - other related parties' chairperson or its significant shareholder, is HTC's chairperson	$ 1,866	$ -

Purchase prices for related parties and third parties were similar.

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

	December 31	
	2016	2015
Other related parties - other related parties' chairperson or its significant shareholder, is HTC's chairperson	$ 1,866	$ -

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	
	2016	2015
Short-term benefits	$ 378,456	$ 247,972
Post-employment benefits	2,709	2,710
Termination benefits	17,583	-
Share-based payments	75,366	85,273
	$ 474,114	$ 335,955

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

Property, Plant and Equipment Acquired

	Price	
	For the Year Ended December 31	
	2016	2015
Other related parties - other related parties' chairperson or its significant shareholder, is HTC's chairperson	$ 81	$ 2,695

Other Related-party Transactions

a. The Company leased staff dormitory owned by a related party under an operating lease agreement. The rental payment is determined at the prevailing rates in the surrounding area. The Company recognized and paid rental expenses, totaling NT$6,560 thousand and NT$3,285 thousand for the years ended December 31, 2016 and 2015, respectively.

b. Other related parties provide selling and marketing service to the Company. The selling and marketing service expenses were NT$6,427 thousand and NT$10,300 thousand for the years ended December 31, 2016 and 2015, respectively.

33. PLEDGED ASSETS

As of December 31, 2016 and 2015, the time of deposits amounting to NT$113,528 thousand and NT$623 thousand and were classified as other current financial assets were provided respectively as collateral for rental deposits and litigation.

34. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

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

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

   In June 2011, IPCom filed a new complaint against the Company alleging patent infringement of patent owned by IPCom with the High Court in London, United Kingdom. In September 2011, the Company filed declaratory judgment action for non-infringement and invalidity in Milan, Italy. Legal proceedings in abovementioned courts in Germany and the United Kingdom are still ongoing. The Company evaluated the lawsuits and considered that the risk of patents-in-suits to be low. Also, the preliminary injunction and summary judgment against the Company are very unlikely.

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

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

b. In July 2014, US patent holding company Acacia Research Corporation (Acacia) enforced its 6 AMR-WB standard essential patent portfolio against Deutsche

Telekom and Vodafone separately in Germany through its subsidiary Saint Lawrence Communications GmbH (SLC).

The litigations between SLC and the Company were settled on November 7, 2016. Both parties withdrew the cases from US and German Court respectively.

c. In April 2015, NTT DOCOMO (NTT) filed a lawsuit against the Company in the District Court of Mannheim, Germany, alleging that the Company infringed three LTE and one UMTS standard essential patents owned by NTT. The dispute was settled between the Company and NTT on November 10, 2016. Both parties withdrew the cases from the District Court of Mannheim, Germany.

d. In December 2015, Koninklijke Philips N.V. (Philips) filed a lawsuit against the Company in the District Court of Mannheim, Germany, alleging that the Company infringed four patents relating to portable/mobile device features and four patents relating to telecommunication standards. In October 2016, the Mannheim Court found that certain smartphone products sold by Company in Germany infringed the German part of European patent No. 0888687 (EP 687 patent), which relates to device user interface, and granted an injunction against the Company. However, Philips has not enforced the injunction. The litigations between the Company and Philips are ongoing. In order to protect the interests of the Company, and its customers, the Company has appealed to the court.

As of the date that the board of directors approved and authorized for issuing consolidated financial statements, no other court decisions were issued with respect to the EP 687 patent.

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

	December 31			
	2016		2015	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
Financial assets				
Monetary items				
USD	$ 1,914,574	32.27	$ 1,806,236	33.06
EUR	101,434	33.91	131,664	36.13
JPY	2,711,104	0.2756	2,592,347	0.2747
RMB	1,208,051	4.62	827,354	5.03
Non-monetary items				
USD	84,259	32.27	83,243	33.06
RMB	167	4.62	-	-
Investments accounted for by the equity method				
USD	$ 16,111	32.27	$ 966	33.06
RMB	2,500	4.62	-	-
Financial liabilities				
Monetary items				
USD	1,445,356	32.27	1,291,619	33.06
EUR	93,533	33.91	102,841	36.13
JPY	6,745,333	0.2756	2,538,893	0.2747
RMB	212,669	4.62	375,856	5.03

For the years ended December 31, 2016 and 2015, realized and unrealized net foreign exchange gains were NT$348,061 thousand and NT$689,281 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 group entities.

36. SIGNIFICANT CONTRACTS

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

Contractor	Term	Description
Apple, Inc.	January 1, 2015 - December 31, 2017	The scope of this license covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with payment based on the agreement.
Qualcomm Incorporated.	December 20, 2000 to the following dates: a. If the Company materially breaches any agreement terms and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units, royalty payment based on agreement.
Nokia Corporation	January 1, 2003 - December 31, 2016	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
	January 1, 2014 - December 31, 2018	Patent and technology collaboration; payment for use of implementation patents based on agreement.
InterDigital Technology Corporation	December 31, 2003 to the expiry dates of these patents stated in the agreement.	Authorization to use TDMA and CDMA technologies; royalty payment based on agreement.
Koninklijke Philips Electronics N.V.	January 5, 2004 to the expiry dates of these patents stated in the agreement.	GSM/DCS 1800/1900 patent license; royalty payment based on agreement.
MOTOROLA, Inc.	December 23, 2003 to the latest of the following dates: a. Expiry dates of patents stated in the agreement. b. Any time when the Company is not using any of Motorola's intellectual properties.	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA standards patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents stated in the agreement.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
IV International Licensing Netherlands, B.V.	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson (PUBL)	December 31, 2014 - December 31, 2016	Authorization to use GSM and wireless technology; royalty payment based on agreement.

37. SEGMENT INFORMATION

The Company's operations are mainly in the research, design, manufacture and sale of smart mobile devices and the operating revenue is more than 90 percent of the total revenue.

Operating segment financial information was as follows:

Geographical Areas

The Company's non-current assets (other than financial instruments, deferred tax assets and post-employment benefit assets) located in Taiwan and in single foreign country as of December 31, 2016 and 2015 were as follows:

	December 31	
	2016	2015
Taiwan	$ 13,565,322	$ 18,544,478
Country Z	159,072	208,632
Others	6,442,335	8,716,199
	$ 20,166,729	$ 27,469,309

The Company's revenues from Taiwan and from single foreign country that were 10 percent or more of consolidated total revenues for the years ended December 31, 2016 and 2015 were as follows:

	For the Year Ended December 31	
	2016	2015
Taiwan	$ 10,087,044	$ 18,019,108
Country Z	32,476,961	35,220,079
Others	35,597,153	68,445,044
	$ 78,161,158	$ 121,684,231

Major Customer

Single external customer which revenues amounted to 10 percent or more of the Company's total revenues for the years ended December 31, 2016 and 2015 was as follow:

	For the Year Ended December 31	
	2016	2015
Customer A	$ 16,374,256	$ -

HTC's Code of Conduct

HTC's Code of Conduct is a guideline to provide high ethical standards for all employees in conducting HTC business activities. All employees of HTC Corp., including branches and subsidiary companies, must follow these ethical standards regardless of the employees' position, grade level, and location.

This Code includes three major sections: the General Moral Imperative, Vendors/Suppliers and Customers Relationship, and Conflict of Interests.

The General Moral Imperative section requires that HTC commits to providing a safe and healthy work environment and equal opportunities, and that it establishes a behavioral code for the treatment of knowledge about the company's assets/properties/ information.

The Vendors/Suppliers and Customer Relationship section requires that HTC commits to maintaining a fair, legal, and 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 notlimited to physical equipment and facilities only, but also include technologies, trademarks, and other invisible concepts & confidential information. The utilization of company assets is for business matters and should be maintained, updated, and recorded properly and regularly. This is also applicable to the use of employee personal data. Those who are dealing with employee data shall consider the business matters and employees' privacy as well. The only exception that permits the revelation of employees' personal data is where such disclosure is required by government laws.

1.4 Equal Opportunity:

HTC's Employment Policy is to comply with all applicable laws. Hiring decisions are based on HTC's business needs and the qualifications of applicants, and HTC strives to provide equal employment opportunities for all applicants and employees without regard to non-job-related factors, such as race, color, social class, language, religion, political affiliation, national origin, gender, sexual orientation, marital status, appearance, disability, previous union membership etc. Everyone must be treated with dignity and respect. This principle applies to all areas of employment, including, but not limited to, recruitment, hiring, training, promotion, compensation, benefits, transfer, and social and recreational programs. All employees should be responsible for the data accuracy and quality in any type of report in all aspects of their daily work. Any intention of misleading or incorrect data is not acceptable and may cause disciplinary action.

1.5 Political Activities:

The Company encourages employees to participate in public activities as responsible citizens. However, HTC employees are prohibited from engaging in political activities on behalf of HTC. The Company is not allowed to donate or engage the political activities in most global operations. Therefore, employees must be aware of that their involvements are on an individual basis, and no contribution or donation to political candidates or parties can be made under the company name. Furthermore, employees must not organize or hold any speeches or activities connected to political activities on Company premises.

2.0 Venders/Suppliers and Customers Relationship

It is a basic principle in Company business operations to maintain a good relationship with our venders/suppliers and customers.

2.1 Firm and Rational Attitude:

In securing and negotiating business, all employees should attempt to establish long-term relationships with our customers and venders/suppliers by providing essential and accurate information about our products and services. Employees shall demonstrate their professionalism with a sincere, firm, and rational attitude while dealing with customers or venders/suppliers. Conflicts caused by emotional languages or behaviors are strictly prohibited.

2.2 Product Quality and Safety:

The Company is committed to pursue excellence and maintain quality at all times. The Company strives to continuously improve the quality of products and service in compliance with the related safety regulations/laws in order to benefit our customers and venders/suppliers and achieve world-class competitiveness. To maintain HTC's valuable reputation and the benefits to our customers and venders/suppliers, all employees must comply with our quality processes and safety requirements.

2.3 Performance of Contracts:

Company contracts must be executed not only in accordance with the requirements of each contract, but also in compliance with all the laws and regulations applicable to our business. Any unfair or unreasonable regulation or condition should be avoided. Purchasing decisions must be made in the best interests of HTC by considering the venders'/suppliers' suitability, quality, price, and delivery of products or services; any personal preferences are not allowed for special offers. Purchasing agreements/sales contracts and related evaluation information should be documented clearly and confidentially. The contract information of customers and venders/suppliers, including but not limited to their names, price, delivery condition, payment terms, are as confidential as Company documents. Every employee must protect this confidential information from misuse and disclosure.

2.4 Gifts, Entertainment and Business Courtesies:

All employees or their family (means employee's spouse, parents, the parents of the spouse, children, siblings, grandparents, grandchildren, and other close relatives and friends) are not allowed to request, accept, or offer bribes or illegal profits (including but not limited to kickbacks, commissions, cash, securities, costly gifts and undue entertainment, or any direct or indirect improper gifts inconsistent with the normal trading course or insider trading) from/to customers, suppliers/vendors, or anyone in a business relationship in any kind of situation, nor to conduct any behavior that violates his/her duties and cause damage to HTC and directly or indirectly favor himself/ herself, employees of HTC's vendor/supplier/ business partner, or related parties. Employees may provide or accept meals or entertainment if these activities are legitimate, consistent with accepted business practices and demonstrably help to build a business relationship. However, regardless of the amount, employees are not allowed to accept or give kickbacks and bribes, such as(but not limited to) any type of gift, cash, stock, bond or its equivalent, or to participate in any business courtesy that may compromise the employees' judgment or motivate the employees to perform acts prohibited by laws/regulations or HTC policies. Meal expenses between/among colleagues cannot be treated as entertainment expenses. However, expenditures incurred for entertainment immediately before, during, or after a business meeting are acceptable, if those who will enjoy the entertainment are from another country or continent.

2.5 Business Travel:

All employees are responsible for ensuring that their business travels are intended to further Company business interests, and the business travel and entertainment expenditures shall be reasonable, prudent, and in accordance with applicable Company policies. On behalf of the Company, employees should be aware that certain venues, whose entertainment nature or atmosphere may impact negatively on the Company's reputation, such as a sexually-oriented site or similar environment, are not appropriate for business-related meetings or activities. These venues are not acceptable even if the expenses incurred are not paid by the Company. If the common local custom is to engage in recreational activities (e.g. golf tournaments) for business purposes, then these activities should be minimized when possible in case of the expenses are not paid in personal.

2.6 In the event that any HTC employee is offered/ requested kickbacks, commissions, gifts, or inappropriate offers from a representative of a vendor, supplier or business partner, he/ she is required to report the incident to HTC (anticorruption@htc.com). An internal investigation team will look into the matter, with the employee's identity treated in strict confidentiality.

2.7 Employees are not to solicit or lure other employees in the company to violate their duties.

2.8 Employees who are responsible for the custody or use of any HTC property are not misuse or abuse the company's property.

3.0 Conflict of Interest

All employees must avoid any activity that is or has the appearance of being hostile, adverse, or competitive with the Company, or that interfaces with the proper performance of their duties, responsibilities or loyalties to the Company.

3.1 Outside Employment:

All employees are prohibited to work either part-time or full-time for or receive payments of services from any competitors, customers, venders/suppliers or subcontractors of HTC. If any employee is invited to serve as a lecturer, board member of an outside company, advisory board, committee or agency, he/she must get appropriate approval from the local top manager of Company in advance. Even if an invitation is not listed as above, permission from a top manager is required. In general, employees are not restricted from being members of the boards of charitable or community organizations. HTC also permits employees obtaining appropriate approval to serve as directors of an outside company that is invested in by HTC or is not a competitor or service provider of a competitor.

3.2 Inside Trading:

All employees are not permitted, using their own names or the names of people with whom they have personal relationships, to engage in business ventures the same as or similar to HTC or to invest exceeding five percent of total market value in such a company. Employees are also prohibited from use so-called "Inside Information" to gain personal profit or to influence the independent judgment of business entities, such as investment in competitors, customers, venders/suppliers or subcontractors. "Inside Information" comprises facts that an employee knows, but people outside of HTC may not know, which might be in written form or discussed orally in a meeting. Inside information may also be information received from another company, such as from customers, suppliers or companies with which HTC has a joint research or development program. Therefore, employees may never use inside information to trade or influence the trading of stocks of HTC or other companies and should also not provide "tips" or share inside information with any other person who might trade stock. Insider trading violates company policies and may subject the employee to criminal penalties in accordance with the government's regulations/ laws.

3.3 Creditor and debtor relations:

Employees may have debtor and creditor relations with colleagues without interest to help each other for urgent situation, but are not allowed to have creditor or debtor relations with subordinates, customers, suppliers/venders, or anyone in a business relationship, nor introduce such persons (including colleagues)to anyone to enter any debtor- creditor relations.

3.4 Third party invitations, which may reference your role and/or knowledge as an employee at HTC:

If any HTC employee is invited to join external meetings, conferences, seminars, lectures, etc., or if asked to be a host or judge for an event during or outside of office hours, he/ she must secure approval from the line manager and local PR team prior to participation.

3.5 The company provides employees with a full range of welfare measures such as life insurance, health and convenience services. As employees, you should appreciate the resources provided by the company and do not abuse or misuse the corporate welfare system.

3.6 HTC employees are not allowed to persuade anyone in the company, customers or third-parties such as suppliers or subcontractors to invest in other businesses.

宏達國際電子股份有限公司

HTC Corporation

Chairwoman: Cher Wang