

# **HTC Corporation**

**Financial Statements for the  
Years Ended December 31, 2016 and 2015 and  
Independent Auditors' Report**

## **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)

ASSETS	2016		2015	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
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	<u>41,119,540</u>	<u>40</u>	<u>58,086,219</u>	<u>46</u>
<b>NON-CURRENT ASSETS</b>				
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	<u>61,490,774</u>	<u>60</u>	<u>69,388,802</u>	<u>54</u>
<b>TOTAL</b>	<u>\$ 102,610,314</u>	<u>100</u>	<u>\$ 127,475,021</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
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	<u>50,831,122</u>	<u>50</u>	<u>62,664,620</u>	<u>49</u>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities (Note 24)	6,218	-	16,672	-
Guarantee deposits received (Note 28)	1,468	-	1,634	-
Total non-current liabilities	<u>7,686</u>	<u>-</u>	<u>18,306</u>	<u>-</u>
Total liabilities	<u>50,838,808</u>	<u>50</u>	<u>62,682,926</u>	<u>49</u>
<b>EQUITY (Note 21)</b>				
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	<u>51,771,506</u>	<u>50</u>	<u>64,792,095</u>	<u>51</u>
<b>TOTAL</b>	<u>\$ 102,610,314</u>	<u>100</u>	<u>\$ 127,475,021</u>	<u>100</u>

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)	<u>66,859,647</u>	<u>90</u>	<u>100,832,782</u>	<u>86</u>
GROSS PROFIT	7,368,471	10	16,250,255	14
UNREALIZED GAINS	(688,022)	(1)	(1,178,011)	(1)
REALIZED GAINS	<u>1,178,011</u>	<u>2</u>	<u>955,021</u>	<u>1</u>
REALIZED GROSS PROFIT	<u>7,858,460</u>	<u>11</u>	<u>16,027,265</u>	<u>14</u>
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	<u>9,990,574</u>	<u>13</u>	<u>12,714,139</u>	<u>11</u>
Total operating expenses	<u>19,320,650</u>	<u>26</u>	<u>29,653,074</u>	<u>25</u>
LOSS FROM OPERATIONS	<u>(11,462,190)</u>	<u>(15)</u>	<u>(13,625,809)</u>	<u>(11)</u>
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)	<u>(2,823,843)</u>	<u>(4)</u>	<u>(1,369,062)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>369,761</u>	<u>-</u>	<u>(3,155,735)</u>	<u>(3)</u>
LOSS BEFORE INCOME TAX	(11,092,429)	(15)	(16,781,544)	(14)
INCOME TAX BENEFIT (Note 24)	<u>(532,326)</u>	<u>(1)</u>	<u>(1,248,476)</u>	<u>(1)</u>
LOSS FOR THE YEAR	<u>(10,560,103)</u>	<u>(14)</u>	<u>(15,533,068)</u>	<u>(13)</u>

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# 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	%
<b>OTHER COMPREHENSIVE LOSS</b>				
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)	<u>6,377</u>	-	<u>5,720</u>	-
	<u>(47,449)</u>	-	<u>(42,403)</u>	-
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	<u>(153,460)</u>	<u>(1)</u>	<u>(11,448)</u>	<u>-</u>
	<u>(2,408,164)</u>	<u>(4)</u>	<u>(904)</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(2,455,613)</u>	<u>(4)</u>	<u>(43,307)</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<u>\$ (13,015,716)</u>	<u>(18)</u>	<u>\$ (15,576,375)</u>	<u>(13)</u>
<b>LOSS PER SHARE (Note 25)</b>				
Basic	<u>\$ (12.81)</u>		<u>\$ (18.79)</u>	

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

# 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		Exchange Differences on Translating Foreign Operations	Other Equity			Total Equity
	Ordinary Shares	Capital Surplus	Legal Reserve	Unappropriated Earnings		Unrealized Losses on Available-for-sale Financial Assets	Unearned Employee Benefit	Treasury Shares	
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	<u>38,314</u>	<u>485,173</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,201</u>	<u>-</u>	<u>550,688</u>
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	<u>12,992</u>	<u>301,557</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,447</u>	<u>-</u>	<u>431,996</u>
BALANCE, DECEMBER 31, 2016	<u>\$ 8,220,087</u>	<u>\$ 15,614,641</u>	<u>\$ 18,297,655</u>	<u>\$ 10,841,425</u>	<u>\$ (781,298)</u>	<u>\$ (167,082)</u>	<u>\$ (253,922)</u>	<u>\$ -</u>	<u>\$ 51,771,506</u>

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

# 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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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	<u>(12,311,206)</u>	<u>(13,075,161)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
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)

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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)

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	2016	2015
Payments for intangible assets	\$ (48,987)	\$ (81,970)
Increase in other current financial assets	(112,943)	-
Dividend received	<u>1,926</u>	<u>38,362</u>
Net cash generated from (used in) investing activities	<u>8,451,244</u>	<u>(1,747,352)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(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	<u>(1,092,718)</u>	<u>(579,172)</u>
Net cash used in financing activities	<u>(1,529,753)</u>	<u>(1,094,289)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,389,715)	(15,916,802)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>20,688,988</u>	<u>36,605,790</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 15,299,273</u>	<u>\$ 20,688,988</u>

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)

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### 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.

<u>New, Amended or Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
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

(Continued)

<u>New, Amended or Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
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

(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.

<u>New, Amended or Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
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
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

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 supersede 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's 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's 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 employee'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

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
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)	<u>3,063,556</u>	<u>3,092,928</u>
	<u>\$ 15,299,273</u>	<u>\$ 20,688,988</u>

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

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Bank balance	0.01%-0.62%	0.01%-0.75%

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

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

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

### Forward Exchange Contracts

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2016</u>				
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

(Continued)

	<b>Buy/Sell</b>	<b>Currency</b>	<b>Maturity Date</b>	<b>Notional Amount (In Thousands)</b>	
<u>December 31, 2015</u>					
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
(Concluded)					

## 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:

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

## 9. FINANCIAL ASSETS MEASURED AT COST

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

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

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

### Trade Receivables

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

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

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

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

### Aging of trade receivables

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

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

Aging of impaired trade receivables

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

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

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Balance, beginning of the year	\$ 3,012,869	\$ 3,050,907
Less: Impairment loss reversed	(299,951)	-
Less: Amounts written off as uncollectable	<u>(49)</u>	<u>(38,038)</u>
Balance, end of the year	<u>\$ 2,712,869</u>	<u>\$ 3,012,869</u>

**Other Receivables**

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

**11. INVENTORIES**

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
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	<u>173,555</u>	<u>604,543</u>
	<u>\$ 12,685,394</u>	<u>\$ 15,834,166</u>

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

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
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	<u>141,943</u>	<u>195,547</u>
	<u>\$ 3,665,492</u>	<u>\$ 7,895,753</u>
Current	\$ 1,084,696	\$ 3,377,222
Non-current	<u>2,580,796</u>	<u>4,518,531</u>
	<u>\$ 3,665,492</u>	<u>\$ 7,895,753</u>

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

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Land and buildings held for sale	<u>\$ -</u>	<u>\$ 3,768,277</u>

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

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

## Investments in Subsidiaries

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Unlisted equity investments</u>		
H.T.C. (B.V.I.) Corp.	\$ 3,734,361	\$ 3,311,970
Communication Global Certification Inc.	406,654	400,897
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.	<u>64,473</u>	<u>-</u>
	<u>\$ 37,673,892</u>	<u>\$ 41,272,544</u>

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

<b>Name of Subsidiaries</b>	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
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

	<u>December 31</u>	
	2016	2015
<u>Unlisted equity investments</u>		
Huada Digital Corporation	\$ <u>          -</u>	\$ <u>208,312</u>

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

<b>Name of Joint Venture</b>	<u>December 31</u>	
	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:

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

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

	<u>December 31</u>	
	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	<u>257,096</u>	<u>364,519</u>
	<u>\$ 10,501,997</u>	<u>\$ 13,152,866</u>

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

	<b>2016</b>				
	<b>Land</b>	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Other Equipment</b>	<b>Total</b>
<u>Cost</u>					
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	<u>6,587</u>	<u>(201,433)</u>	<u>(11,100)</u>	<u>(1,173)</u>	<u>(207,119)</u>
Balance, end of the year	<u>4,546,099</u>	<u>6,852,835</u>	<u>9,836,175</u>	<u>1,295,112</u>	<u>22,530,221</u>
<u>Accumulated depreciation</u>					
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	-	-	<u>(6,443)</u>	<u>(547)</u>	<u>(6,990)</u>
Balance, end of the year	<u>-</u>	<u>1,791,595</u>	<u>8,677,650</u>	<u>1,034,732</u>	<u>11,503,977</u>
<u>Accumulated impairment</u>					
Balance, beginning of the year	-	-	520,963	3,284	524,247
Impairment losses	-	-	-	-	-
Balance, end of the year	<u>-</u>	<u>-</u>	<u>520,963</u>	<u>3,284</u>	<u>524,247</u>
Net book value, end of the year	<u>\$ 4,546,099</u>	<u>\$ 5,061,240</u>	<u>\$ 637,562</u>	<u>\$ 257,096</u>	<u>\$ 10,501,997</u>
<b>2015</b>					
	<b>Land</b>	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Other Equipment</b>	<b>Total</b>
<u>Cost</u>					
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	<u>(1,151,354)</u>	<u>(3,011,581)</u>	<u>-</u>	<u>-</u>	<u>(4,162,935)</u>
Balance, end of the year	<u>6,311,135</u>	<u>6,782,622</u>	<u>9,703,282</u>	<u>1,271,227</u>	<u>24,068,266</u>
<u>Accumulated depreciation</u>					
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	-	<u>(394,658)</u>	<u>-</u>	<u>-</u>	<u>(394,658)</u>
Balance, end of the year	<u>-</u>	<u>1,532,753</u>	<u>7,954,976</u>	<u>903,424</u>	<u>10,391,153</u>
<u>Accumulated impairment</u>					
Balance, beginning of the year	-	-	-	-	-
Impairment losses	-	-	<u>520,963</u>	<u>3,284</u>	<u>524,247</u>
Balance, end of the year	<u>-</u>	<u>-</u>	<u>520,963</u>	<u>3,284</u>	<u>524,247</u>
Net book value, end of the year	<u>\$ 6,311,135</u>	<u>\$ 5,249,869</u>	<u>\$ 1,227,343</u>	<u>\$ 364,519</u>	<u>\$ 13,152,866</u>

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

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

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

	<u>2016</u>		
	Patents	Other Intangible Assets	Total
<u>Cost</u>			
Balance, beginning of the year	\$ 2,516,290	\$ 1,125,837	\$ 3,642,127
Additions	<u>-</u>	<u>48,987</u>	<u>48,987</u>
Balance, end of the year	<u>2,516,290</u>	<u>1,174,824</u>	<u>3,691,114</u>
<u>Accumulated amortization</u>			
Balance, beginning of the year	2,274,264	634,640	2,908,904
Amortization expenses	<u>113,266</u>	<u>248,538</u>	<u>361,804</u>
Balance, end of the year	<u>2,387,530</u>	<u>883,178</u>	<u>3,270,708</u>
<u>Accumulated impairment</u>			
Balance, beginning of the year	111,085	-	111,085
Impairment losses	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of the year	<u>111,085</u>	<u>-</u>	<u>111,085</u>
Net book value, end of the year	<u>\$ 17,675</u>	<u>\$ 291,646</u>	<u>\$ 309,321</u>

	<b>2015</b>		
	<b>Patents</b>	<b>Other Intangible Assets</b>	<b>Total</b>
<u>Cost</u>			
Balance, beginning of the year	\$ 2,516,290	\$ 1,043,867	\$ 3,560,157
Additions	<u>-</u>	<u>81,970</u>	<u>81,970</u>
Balance, end of the year	<u>2,516,290</u>	<u>1,125,837</u>	<u>3,642,127</u>
<u>Accumulated amortization</u>			
Balance, beginning of the year	1,826,087	400,264	2,226,351
Amortization expenses	<u>448,177</u>	<u>234,376</u>	<u>682,553</u>
Balance, end of the year	<u>2,274,264</u>	<u>634,640</u>	<u>2,908,904</u>
<u>Accumulated impairment</u>			
Balance, beginning of the year	111,085	-	111,085
Impairment losses	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of the year	<u>111,085</u>	<u>-</u>	<u>111,085</u>
Net book value, end of the year	<u>\$ 130,941</u>	<u>\$ 491,197</u>	<u>\$ 622,138</u>

## 17. NOTE AND TRADE PAYABLES

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

The average term of payment is two to four months. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

## 18. OTHER LIABILITIES

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Other payables</u>		
Accrued expenses	\$ 17,761,871	\$ 23,979,056
Payables for purchase of equipment	<u>87,394</u>	<u>127,560</u>
	<u>\$ 17,849,265</u>	<u>\$ 24,106,616</u>

(Continued)

	<u>December 31</u>	
	<b>2016</b>	<b>2015</b>
<u>Other current liabilities</u>		
Advance receipts	\$ 1,769,560	\$ 2,588,745
Agency receipts	391,467	256,703
Others	<u>158,498</u>	<u>172,251</u>
	<u>\$ 2,319,525</u>	<u>\$ 3,017,699</u>
		(Concluded)

### Accrued Expenses

	<u>December 31</u>	
	<b>2016</b>	<b>2015</b>
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	<u>1,161,527</u>	<u>707,446</u>
	<u>\$ 17,761,871</u>	<u>\$ 23,979,056</u>

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

## 19. PROVISIONS

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

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

	<u>2016</u>		
	<b>Warranty Provision</b>	<b>Provisions for Contingent Loss on Purchase Orders</b>	<b>Total</b>
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	<u>164</u>	<u>-</u>	<u>164</u>
Balance, end of the year	<u>\$ 2,692,247</u>	<u>\$ 373,342</u>	<u>\$ 3,065,589</u>

	<b>2015</b>		
	<b>Warranty Provision</b>	<b>Provisions for Contingent Loss on Purchase Orders</b>	<b>Total</b>
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	<u>298</u>	<u>-</u>	<u>298</u>
Balance, end of the year	<u>\$ 4,773,914</u>	<u>\$ 677,893</u>	<u>\$ 5,451,807</u>

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:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Present value of defined benefit obligation	\$ (530,455)	\$ (472,370)
Fair value of plan assets	<u>572,043</u>	<u>552,348</u>
Net defined benefit asset	<u>\$ 41,588</u>	<u>\$ 79,978</u>

Movements in net defined benefit asset were as follows:

	<b>Present Value of Defined Benefit Obligation</b>	<b>Fair Value of Plan Assets</b>	<b>Net Defined Benefit Asset</b>
Balance at January 1, 2015	\$ (441,734)	\$ 551,026	\$ 109,292
Current service cost	(8,017)	-	(8,017)
Net interest (expense) income	<u>(8,835)</u>	<u>11,257</u>	<u>2,422</u>
Recognized in profit or loss	<u>(16,852)</u>	<u>11,257</u>	<u>(5,595)</u>
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	<u>(1,668)</u>	<u>-</u>	<u>(1,668)</u>
Recognized in other comprehensive income	<u>(51,412)</u>	<u>3,745</u>	<u>(47,667)</u>
Contributions from the employer	-	23,948	23,948
Benefits paid	<u>37,628</u>	<u>(37,628)</u>	<u>-</u>
Balance at December 31, 2015	(472,370)	552,348	79,978
Current service cost	(8,751)	-	(8,751)
Net interest (expense) income	<u>(8,266)</u>	<u>9,972</u>	<u>1,706</u>
Recognized in profit or loss	<u>(17,017)</u>	<u>9,972</u>	<u>(7,045)</u>
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	<u>(8,867)</u>	<u>-</u>	<u>(8,867)</u>
Recognized in other comprehensive income	<u>(47,143)</u>	<u>(6,000)</u>	<u>(53,143)</u>
Contributions from the employer	-	21,798	21,798
Benefits paid	<u>6,075</u>	<u>(6,075)</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ (530,455)</u>	<u>\$ 572,043</u>	<u>\$ 41,588</u>

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

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

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:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
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:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Discount rate		
0.25% increase	<u>\$ 19,035</u>	<u>\$ 17,330</u>
0.25% decrease	<u>\$ (19,939)</u>	<u>\$ (18,169)</u>
Expected rate of salary increase		
0.25% increase	<u>\$ (19,180)</u>	<u>\$ (17,518)</u>
0.25% decrease	<u>\$ 18,420</u>	<u>\$ 16,810</u>

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

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
The expected contributions to the plan for the next year	<u>\$ 21,547</u>	<u>\$ 35,034</u>
The average duration of the defined benefit obligation	15.27 years	15.68 years

## 21. EQUITY

### Share Capital

#### a. Ordinary shares

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Numbers of shares authorized (in thousands of shares)	<u>1,000,000</u>	<u>1,000,000</u>
Shares authorized	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>
Number of shares issued and fully paid (in thousands of shares)	<u>822,009</u>	<u>831,870</u>
Shares issued	<u>\$ 8,220,087</u>	<u>\$ 8,318,695</u>

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

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

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, 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 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:

	<b>Appropriation of Earnings (The Loss Off-setting)</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For 2015</b>	<b>For 2014</b>	<b>For 2015</b>	<b>For 2014</b>
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**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
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	<u>(253,922)</u>	<u>(371,369)</u>
	<u>\$ (1,202,302)</u>	<u>\$ 1,088,415</u>

a. Exchange differences on translating foreign operations

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

b. Unrealized 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.

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
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	<u>281,585</u>	<u>257,071</u>
Balance, end of the year	<u>\$ (253,922)</u>	<u>\$ (371,369)</u>

**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
<u>For 2016</u>				
To maintain the Company's credibility and shareholders' interest	<u>4,110</u>	<u>7,050</u>	<u>11,160</u>	<u>-</u>
<u>For 2015</u>				
To transfer shares to the Company's employees	6,914	-	6,914	-
To maintain the Company's credibility and shareholders' interest	<u>-</u>	<u>4,110</u>	<u>-</u>	<u>4,110</u>
	<u>6,914</u>	<u>4,110</u>	<u>6,914</u>	<u>4,110</u>

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

Under the Securities and Exchange Act, 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

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

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

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

b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
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	<u>(28,356)</u>	<u>(42,415)</u>
	<u>\$ 3,005,805</u>	<u>\$ (2,066,354)</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Trade receivables	<u>\$ 299,951</u>	<u>\$ -</u>

d. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Property, plant and equipment	\$ 1,121,095	\$ 1,579,960
Intangible assets	<u>361,804</u>	<u>682,553</u>
	<u>\$ 1,482,899</u>	<u>\$ 2,262,513</u>

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Classification of depreciation - by function		
Operating costs	\$ 516,629	\$ 805,766
Operating expenses	<u>604,466</u>	<u>774,194</u>
	<u>\$ 1,121,095</u>	<u>\$ 1,579,960</u>
Classification of amortization - by function		
Operating costs	\$ -	\$ -
Operating expenses	<u>361,804</u>	<u>682,553</u>
	<u>\$ 361,804</u>	<u>\$ 682,553</u>

(Concluded)

e. Employee benefits expense

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

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.

	<b>For the Year Ended December 31 2014</b>	
	<b>Cash Dividends</b>	<b>Share Dividends</b>
Employees' bonuses	<u>\$ 88,334</u>	<u>\$ -</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
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)	<u>-</u>	<u>1,268,643</u>
	<u>\$ 1,956,188</u>	<u>\$ 3,943,192</u>

g. Gain or loss on foreign currency exchange

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
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	<u>2,056</u>	<u>1,258</u>
	<u>\$ (165,342)</u>	<u>\$ (231,343)</u>

## 24. INCOME TAXES RELATING TO CONTINUING OPERATIONS

### a. Income tax benefit recognized in profit or loss

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Current tax		
In respect of the current year	\$ 46,617	\$ 211
Land value increment	226,333	-
Adjustments for previous years	<u>(276)</u>	<u>(2,451)</u>
	<u>272,674</u>	<u>(2,240)</u>
Deferred tax		
In respect of the current year	<u>(805,000)</u>	<u>(1,246,236)</u>
Income tax benefit recognized in profit or loss	<u>\$ (532,326)</u>	<u>\$ (1,248,476)</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Loss before income tax	<u>\$ (11,092,429)</u>	<u>\$ (16,781,544)</u>
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	-
Adjustments for previous years' tax	(276)	(2,451)
Overseas income tax	<u>46,617</u>	<u>211</u>
Income tax benefit recognized in profit or loss	<u>\$ (532,326)</u>	<u>\$ (1,248,476)</u>

### b. Income tax recognized in other comprehensive income

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

c. Current tax assets and liabilities

	<u>December 31</u>	
	<b>2016</b>	<b>2015</b>
Current tax assets		
Tax refund receivable	<u>\$ 33,505</u>	<u>\$ 43,707</u>
Current tax liabilities		
Income tax payable	<u>\$ 12,202</u>	<u>\$ 12,495</u>

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:

	<u>2016</u>			
	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>				
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	<u>4,155,665</u>	<u>1,927,211</u>	<u>-</u>	<u>6,082,876</u>
	<u>\$ 7,630,919</u>	<u>\$ 800,923</u>	<u>\$ -</u>	<u>\$ 8,431,842</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Defined benefit plans	\$ 9,598	\$ 1,770	\$ (6,377)	\$ 4,991
Financial assets at FVTPL	<u>7,074</u>	<u>(5,847)</u>	<u>-</u>	<u>1,227</u>
	<u>\$ 16,672</u>	<u>\$ (4,077)</u>	<u>\$ (6,377)</u>	<u>\$ 6,218</u>

	<b>2015</b>			
	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>				
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	<u>2,046,282</u>	<u>2,109,383</u>	<u>-</u>	<u>4,155,665</u>
	<u>\$ 6,483,671</u>	<u>\$ 1,147,248</u>	<u>\$ -</u>	<u>\$ 7,630,919</u>
<u>Deferred tax liabilities</u>				
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	<u>79,450</u>	<u>(79,450)</u>	<u>-</u>	<u>-</u>
	<u>\$ 121,380</u>	<u>\$ (98,988)</u>	<u>\$ (5,720)</u>	<u>\$ 16,672</u>

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Loss carryforward	<u>\$ 26,512,471</u>	<u>\$ 16,508,588</u>
Deductible temporary differences	<u>\$ 14,239,006</u>	<u>\$ 18,867,018</u>

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

Loss carryforwards as of December 31, 2016 comprised of:

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

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

<u>Item Exempt from Corporate Income Tax</u>	<u>Expiry Year</u>
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:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Unappropriated earnings generated on and after January 1, 1998	<u>\$ 10,841,425</u>	<u>\$ 21,782,432</u>
Balance of ICA	<u>\$ 8,196,519</u>	<u>\$ 8,196,056</u>
	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
	<u>(Expected)</u>	<u>(Actual)</u>
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**

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Basic loss per share	<u>\$ (12.81)</u>	<u>\$ (18.79)</u>

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**

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

**Shares**

**Unit: In Thousands of Shares**

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

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:

	<b>For the Year Ended December 31</b>			
	<b>2016</b>		<b>2015</b>	
	<b>Number of Options (In Thousands)</b>	<b>Weighted- average Exercise Price (NT\$)</b>	<b>Number of Options (In Thousands)</b>	<b>Weighted- average Exercise Price (NT\$)</b>
Balance at January 1	24,964	\$ 137.20	31,908	\$ 140.37
Options granted	-		1,000	54.50
Options forfeited	<u>(4,892)</u>		<u>(7,944)</u>	
Balance at December 31	<u>20,072</u>	\$ 136.65	<u>24,964</u>	\$ 137.20
Options exercisable, end of the year	<u>14,658</u>		<u>5,905</u>	
Weighted-average fair value of options granted per unit (NT\$)	<u>\$ -</u>		<u>\$ 15.00</u>	

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
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:

	<b>August 2015</b>	<b>October 2014</b>	<b>November 2013</b>
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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVTPL				
Derivative financial instruments	<u>\$ -</u>	<u>\$ 143,642</u>	<u>\$ -</u>	<u>\$ 143,642</u>
Available-for-sale financial assets				
Domestic listed stocks - equity investments	<u>\$ 86</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86</u>
Financial liabilities at FVTPL				
Derivative financial instruments	<u>\$ -</u>	<u>\$ 133,420</u>	<u>\$ -</u>	<u>\$ 133,420</u>

December 31, 2015

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVTPL				
Derivative financial instruments	<u>\$ -</u>	<u>\$ 95,493</u>	<u>\$ -</u>	<u>\$ 95,493</u>
Available-for-sale financial assets				
Domestic listed stocks - equity investments	<u>\$ 75</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75</u>
Financial liabilities at FVTPL				
Derivative financial instruments	<u>\$ -</u>	<u>\$ 36,544</u>	<u>\$ -</u>	<u>\$ 36,544</u>

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

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

## Categories of Financial Instruments

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Financial assets</u>		
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
<u>Financial liabilities</u>		
FVTPL		
Held for trading	133,420	36,544
Amortized cost (Note 3)	45,693,321	54,404,412

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 States dollars ("USD"), currency Euro ("EUR"), currency Renminbi ("RMB") and currency Japanese yen ("JPY").

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

	<b>Profit or Loss</b>	<b>Equity</b>
<u>For the year ended December 31, 2016</u>		
USD	\$ 44,739	\$(166,009)
EUR	975	(19,292)
RMB	(26,064)	(114,465)
JPY	11,035	(1,284)
<u>For the year ended December 31, 2015</u>		
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

	<b>Less Than 3 Months</b>	<b>3 to 12 Months</b>	<b>Over 1 Year</b>
<u>Non-derivative financial liabilities</u>			
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
	<u>\$ 18,282,802</u>	<u>\$ 27,409,051</u>	<u>\$ 1,468</u>

December 31, 2015

	<b>Less Than 3 Months</b>	<b>3 to 12 Months</b>	<b>Over 1 Year</b>
<u>Non-derivative financial liabilities</u>			
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
	<u>\$ 23,033,982</u>	<u>\$ 31,368,796</u>	<u>\$ 1,634</u>

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

	<b>Less Than 3 Months</b>	<b>3 Months to 1 Year</b>	<b>Over 1 Year</b>
<u>Net settled</u>			
Foreign exchange contracts	\$ <u>73,323</u>	\$ <u>-</u>	\$ <u>-</u>
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 15,227,772	\$ -	\$ -
Outflows	<u>(15,250,504)</u>	<u>-</u>	<u>-</u>
	<u>\$ (22,732)</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2015

	<b>Less Than 3 Months</b>	<b>3 Months to 1 Year</b>	<b>Over 1 Year</b>
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 6,658,903	\$ 7,187,186	\$ -
Outflows	<u>(6,611,069)</u>	<u>(7,158,069)</u>	<u>-</u>
	<u>\$ 47,834</u>	<u>\$ 29,117</u>	<u>\$ -</u>

3) Bank credit limit

	<u>December 31</u>	
	<b>2016</b>	<b>2015</b>
Unsecured bank general credit limit		
Amount used	\$ 710,857	\$ 2,053,485
Amount unused	<u>22,227,369</u>	<u>30,314,067</u>
	<u>\$ 22,938,226</u>	<u>\$ 32,367,552</u>

Amount used includes guarantee for customs duties and for patent litigation.

## 29. RELATED-PARTY TRANSACTIONS

### Operating Sales

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
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	<u>102,003</u>	<u>6,302</u>
	<u>\$ 29,689,823</u>	<u>\$ 35,609,237</u>

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

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
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	<u>15,720</u>	<u>1,146</u>
	<u>\$ 6,659,174</u>	<u>\$ 7,955,352</u>

The selling prices for products sold to related parties were lower than those sold to third parties, except some related parties have no comparison with those sold to third parties. No guarantees had been given or received for trade receivables from related parties. No bad debt expense had been recognized for the years ended December 31, 2016 and 2015 for the amounts owed by related parties.

### Purchase and Outsourcing Expense

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Purchase</u>		
Subsidiaries	\$ 637,607	\$ 1,455,390
Other related parties - other related parties' chairperson or its significant shareholder, is the Company's chairperson	<u>1,866</u>	<u>-</u>
	<u>\$ 639,473</u>	<u>\$ 1,455,390</u>
<u>Outsourcing expense</u>		
Subsidiaries	<u>\$ 22,001</u>	<u>\$ 1,572,174</u>

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:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Subsidiaries	\$ 801,599	\$ 384,914
Other related parties - other related parties' chairperson or its significant shareholder, is the Company's chairperson	<u>1,866</u>	<u>-</u>
	<u>\$ 803,465</u>	<u>\$ 384,914</u>

The outstanding balances of trade payables to related parties are unsecured and will be settled in cash.

### **Compensation of Key Management Personnel**

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Short-term benefits	\$ 280,916	\$ 177,236
Post-employment benefits	2,355	2,274
Share-based payments	<u>76,237</u>	<u>67,843</u>
	<u>\$ 359,508</u>	<u>\$ 247,353</u>

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**

	<b>Price</b>	
	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Subsidiaries	\$ 417	\$ -
Other related parties - other related parties' chairperson or its significant shareholder, is the Company's chairperson	<u>81</u>	<u>2,695</u>
	<u>\$ 498</u>	<u>\$ 2,695</u>

### **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
<u>Financial assets</u>				
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
<u>Financial liabilities</u>				
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:

<b>Contractor</b>	<b>Term</b>	<b>Description</b>
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  January 1, 2014 - December 31, 2018	Authorization to use wireless technology, like GSM; royalty payment based on agreement.  Patent and technology collaboration; payment for use of implementation patents based on agreement.
InterDigital Technology Corporation	December 31, 2003 to the expiry dates of these patents stated in the agreement.	Authorization to use TDMA and CDMA technologies; royalty payment based on agreement.
Koninklijke Philips Electronics N.V.	January 5, 2004 to the expiry dates of these patents stated in the agreement.	GSM/DCS 1800/1900 patent license; royalty payment based on agreement.

(Continued)

<b>Contractor</b>	<b>Term</b>	<b>Description</b>
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.

(Concluded)