HTC Corporation and Subsidiaries

Consolidated Financial Statements for the Nine Months Ended September 30, 2018 and 2017 and Independent Auditors' Review Report

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
HTC Corporation

Introduction

We have reviewed the accompanying consolidated balance sheets of HTC Corporation and its subsidiaries (collectively referred to as the Company) as of September 30, 2018 and 2017, consolidated statements of comprehensive income for the three months ended September 30, 2018 and 2017 and the nine months ended September 30, 2018 and 2017, consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2018 and 2017 and the related notes, including a summary of significant accounting policies (collectively referred to as the consolidated financial statements). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the financial position of the Company as of September 30, 2018 and 2017, its consolidated financial performance for the three months ended September 30, 2018 and 2017 and the nine months ended September 30, 2018 and 2017 and its consolidated cash flows for the nine months ended September 30, 2018 and 2017, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China (Taiwan) (referred to hereafter as the "FSC").

Emphasis of Matter

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

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 5, 2018

<u>*Notice to Readers*</u>

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

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	September 30, 2018 (Reviewed)		December 31, 2017 (Audited)		September30, 2017 (Reviewed)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$ 25,767,839	35	$ 10,443,227	16	$ 14,946,264	18
Financial assets at fair value through profit or loss - current (Note 7)	72,777	-	65,199	-	95,099	-
Financial assets at fair value through other comprehensive income - current (Note 9)	477,412	1	-	-	-	-
Available-for-sale financial assets - current	-	-	312,106	-	369,547	1
Trade receivables, net (Notes 12 and 36)	2,182,543	3	8,537,096	13	9,899,358	12
Other receivables (Note 12)	343,654	-	103,497	-	276,699	-
Current tax assets	125,007	-	131,901	-	169,004	-
Inventories (Note 13)	4,370,403	6	7,381,426	11	15,886,685	19
Prepayments (Note 14)	1,335,274	2	1,742,986	3	1,822,999	2
Non-current assets held for sale (Note 15)	-	-	1,647,763	3	1,640,881	2
Other current financial assets (Notes 11 and 37)	17,554,928	24	7,988,363	12	8,025,496	10
Other current assets	3,220	-	135,821	-	15,561	-
Total current assets	52,233,057	71	38,489,385	58	53,147,593	64
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss - non-current (Note 7)	225,885	-	-	-	-	-
Financial assets at fair value through other comprehensive income - non-current (Note 9)	2,643,362	4	-	-	-	-
Available-for-sale financial assets - non-current	-	-	91	-	95	-
Financial assets measured at cost - non-current (Note 10)	-	-	3,187,240	5	3,338,151	4
Investments accounted for using the equity method (Note 17)	441,284	1	413,120	1	431,924	-
Property, plant and equipment (Notes 18 and 36)	8,501,060	11	10,798,613	16	11,394,112	14
Investment properties, net (Note 19)	2,093,933	3	-	-	-	-
Intangible assets (Note 20)	1,478,179	2	2,315,441	3	2,689,955	3
Deferred tax assets	3,906,684	5	8,990,648	14	8,985,569	11
Refundable deposits	127,267	-	139,016	-	867,970	1
Net defined benefit asset - non-current	28,285	-	18,119	-	48,792	-
Other non-current financial assets (Notes 11 and 37)	152,718	-	-	-	-	-
Other non-current assets (Note 14)	2,220,924	3	2,233,733	3	2,347,666	3
Total non-current assets	21,819,581	29	28,096,021	42	30,104,234	36
TOTAL	$ 74,052,638	100	$ 66,585,406	100	$ 83,251,827	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 21)	$ -	-	$ -	-	$ 2,000,000	2
Financial liabilities at fair value through profit or loss - current (Note 7)	160,816	-	75,184	-	142,698	-
Note and trade payables (Notes 22 and 36)	9,984,557	14	14,569,222	22	18,774,892	23
Other payables (Notes 23 and 36)	9,822,626	13	11,681,890	18	12,161,635	15
Current tax liabilities	285,766	1	253,240	-	154,961	-
Provisions - current (Note 24)	2,447,012	3	3,377,201	5	2,867,052	3
Other current liabilities (Note 23)	1,475,069	2	2,850,713	4	3,124,798	4
Total current liabilities	24,175,846	33	32,807,450	49	39,226,036	47
NON-CURRENT LIABILITIES						
Deferred tax liabilities	33,857	-	47,147	-	80,125	-
Guarantee deposits received	110,072	-	5,681	-	5,803	-
Other non-current liabilities (Note 23)	-	-	-	-	56,811	-
Total non-current liabilities	143,929	-	52,828	-	142,739	-
Total liabilities	24,319,775	33	32,860,278	49	39,368,775	47
EQUITY (Note 25)						
Share capital - ordinary shares	8,190,792	11	8,208,261	12	8,215,276	10
Capital surplus	15,638,617	21	15,551,491	24	15,651,714	19
Retained earnings						
Legal reserve	18,297,655	25	18,297,655	27	18,297,655	22
Unappropriated earnings (accumulated deficits)	10,387,038	14	(6,093,403)	(9)	3,739,344	4
Other equity	(2,844,865)	(4)	(2,268,428)	(3)	(2,054,392)	(2)
Total equity attributable to owners of the parent	49,669,237	67	33,695,576	51	43,849,597	53
NON-CONTROLLING INTERESTS	63,626	-	29,552	-	33,455	-
Total equity	49,732,863	67	33,725,128	51	43,883,052	53
TOTAL	$ 74,052,638	100	$ 66,585,406	100	$ 83,251,827	100

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

(With Deloitte & Touche review report dated November 5, 2018)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except (Loss) Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Notes 8, 26 and 36)	$ 4,044,278	100	$ 15,705,695	100	$ 19,607,481	100	$ 46,372,427	100
OPERATING COST (Notes 13, 27 and 36)	3,852,950	95	14,095,302	90	19,421,635	99	40,183,969	87
GROSS PROFIT	191,328	5	1,610,393	10	185,846	1	6,188,458	13
OPERATING EXPENSES (Notes 27 and 36)								
Selling and marketing	771,998	19	1,350,400	8	2,985,513	15	3,689,727	8
General and administrative	789,561	20	911,973	6	2,664,788	14	2,478,795	5
Research and development	1,416,158	35	2,637,089	17	5,661,591	29	7,863,926	17
Total operating expenses	2,977,717	74	4,899,462	31	11,311,892	58	14,032,448	30
OPERATING LOSS	(2,786,389)	(69)	(3,289,069)	(21)	(11,126,046)	(57)	(7,843,990)	(17)
NON-OPERATING INCOME AND EXPENSES								
Other income (Note 27)	301,046	7	117,618	1	888,429	4	520,384	1
Other gains and losses (Notes 8, 27 and 31)	(102,294)	(3)	80,150	-	31,999,423	163	306,008	1
Finance costs	(698)	-	(31,920)	-	(1,390)	-	(43,202)	-
Share of the loss of associates (Note 17)	(14,784)	-	(11,491)	-	(38,280)	-	(74,687)	-
Total non-operating income and expenses	183,270	4	154,357	1	32,848,182	167	708,503	2
(LOSS) PROFIT BEFORE INCOME TAX	(2,603,119)	(65)	(3,134,712)	(20)	21,722,136	110	(7,135,487)	(15)
INCOME TAX (EXPENSE) BENEFIT (Note 28)	(12,882)	-	7,280	-	(5,333,718)	(27)	24,939	-
(LOSS) PROFIT FOR THE PERIOD	(2,616,001)	(65)	(3,127,432)	(20)	16,388,418	83	(7,110,548)	(15)
OTHER COMPREHENSIVE INCOME AND LOSS, NET OF INCOME TAX								
Items that will not be reclassified subsequently to profit or loss:								
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	(112,351)	(3)	-	-	(452,641)	(2)	-	-

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except (Loss) Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations	$ (368,228)	(9)	$ 204,801	1	$ (12,007)	-	$ (1,160,518)	(2)
Unrealized gain on available-for-sale financial assets	-	-	92,965	1	-	-	183,874	-
Cash flow hedge	-	-	11,668	-	-	-	-	-
Other comprehensive income and loss for the period, net of income tax	(480,579)	(12)	309,434	2	(464,648)	(2)	(976,644)	(2)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	$ (3,096,580)	(77)	$ (2,817,998)	(18)	$ 15,923,770	81	$ (8,087,192)	(17)
NET (LOSS) PROFIT ATTRIBUTABLE TO:								
Owners of the parent	$ (2,603,000)	(65)	$ (3,118,965)	(20)	$ 16,418,775	84	$ (7,102,081)	(15)
Non-controlling interests	(13,001)	-	(8,467)	-	(30,357)	-	(8,467)	-
	$ (2,616,001)	(65)	$ (3,127,432)	(20)	$ 16,388,418	84	$ (7,110,548)	(15)
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:								
Owners of the parent	$ (3,083,073)	(76)	$ (2,810,462)	(18)	$ 15,952,216	81	$ (8,079,656)	(17)
Non-controlling interests	(13,507)	(1)	(7,536)	-	(28,446)	-	(7,536)	-
	$ (3,096,580)	(77)	$ (2,817,998)	(18)	$ 15,923,770	81	$ (8,087,192)	(17)
(LOSS) EARNINGS PER SHARE (Note 29)								
Basic	$ (3.18)		$ (3.80)		$ 20.03		$ (8.64)	
Diluted	$ (3.18)		$ (3.80)		$ 19.65		$ (8.64)	

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

(With Deloitte & Touche review report dated November 5, 2018) (Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Parent										
			Retained Earnings		Other Equity						
	Share Capital Ordinary Shares	Capital Surplus	Legal Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Losses on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized (Losses) Gains on Available-for-sale Financial Assets	Unearned Employee Benefit	Total	Non-controlling Interests	Total Equity
BALANCE, JANUARY 1, 2017	$ 8,220,087	$ 15,614,641	$ 18,297,655	$ 10,841,425	$ (781,298)	$ -	$ (167,082)	$ (253,922)	$ 51,771,506	$ -	$ 51,771,506
Net loss for the nine months ended September 30, 2017	-	-	-	(7,102,081)	-	-	-	-	(7,102,081)	(8,467)	(7,110,548)
Other comprehensive income and loss for the nine months ended September 30, 2017	-	-	-	-	(1,161,449)	-	183,874	-	(977,575)	931	(976,644)
Share-based payments	(4,811)	37,073	-	-	-	-	-	125,485	157,747	-	157,747
Non-controlling interests	-	-	-	-	-	-	-	-	-	40,991	40,991
BALANCE, SEPTEMBER 30, 2017	$ 8,215,276	$ 15,651,714	$ 18,297,655	$ 3,739,344	$ (1,942,747)	$ -	$ 16,792	$ (128,437)	$ 43,849,597	$ 33,455	$ 43,883,052
BALANCE, JANUARY 1, 2018	$ 8,208,261	$ 15,551,491	$ 18,297,655	$ (6,093,403)	$ (2,183,148)	$ -	$ (35,690)	$ (49,590)	$ 33,695,576	$ 29,552	$ 33,725,128
Effect of retrospective application	-	-	-	104,732	-	(171,354)	35,690	-	(30,932)	-	(30,932)
BALANCE, JANUARY 1, 2018 AS RESTATED	8,208,261	15,551,491	18,297,655	(5,988,671)	(2,183,148)	(171,354)	-	(49,590)	33,664,644	29,552	33,694,196
Net profit (loss) for the nine months ended September 30, 2018	-	-	-	16,418,775	-	-	-	-	16,418,775	(30,357)	16,388,418
Other comprehensive income and loss for the nine months ended September 30, 2018	-	-	-	-	(13,918)	(452,641)	-	-	(466,559)	1,911	(464,648)
Changes in capital surplus from investments in associates accounted for using the equity method	-	60,873	-	-	-	-	-	-	60,873	-	60,873
Issuance of shares from exercise of employee share options	1,490	6,631	-	-	-	-	-	-	8,121	-	8,121
Changes in percentage of ownership interests in subsidiaries	-	-	-	(43,066)	-	-	-	-	(43,066)	62,520	19,454
Share-based payments	(18,959)	19,622	-	-	-	-	-	25,786	26,449	-	26,449
BALANCE, SEPTEMBER 30, 2018	$ 8,190,792	$ 15,638,617	$ 18,297,655	$ 10,387,038	$ (2,197,066)	$ (623,995)	$ -	$ (23,804)	$ 49,669,237	$ 63,626	$ 49,732,863

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

(With Deloitte & Touche review report dated November 5, 2018)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before income tax	$ 21,722,136	$ (7,135,487)
Adjustments for:		
Depreciation expense	421,841	774,157
Amortization expense	895,486	1,045,126
Expected credit loss reversed on trade receivables	-	(362,870)
Finance costs	1,390	43,202
Interests income	(425,049)	(217,336)
Dividend income	-	(23,997)
Compensation cost of employee share-based payments	26,449	157,747
Share of the loss of associates	38,280	74,687
Net (gain) loss on disposal of property, plant and equipment	(80,493)	4,943
Net gain on disposal of assets and licensing income (Note 27)	(31,285,385)	-
Net gain on disposal of non-current assets held for sale	(1,077,246)	-
Gain on disposal of investments	-	(24,305)
Net gain on disposal of subsidiary	(15,396)	-
Impairment loss on non-financial assets	646,811	2,772,973
Changes in operating assets and liabilities		
Decrease in financial instruments held for trading	-	57,821
Decrease in financial assets mandatorily classified as at fair value through profit or loss	78,054	-
Decrease in trade receivables	6,350,967	6,425,347
Increase in other receivables	(177,232)	(92,031)
Decrease (increase) in inventories	2,364,212	(4,496,087)
Decrease in prepayments	401,824	10,500
Decrease in other current assets	132,601	52,853
(Increase) decrease in other non-current assets	(20,892)	257,646
Decrease in note and trade payables	(4,584,665)	(7,472,836)
Decrease in other payables	(1,802,391)	(6,240,797)
Decrease in provisions	(930,189)	(517,259)
Increase (decrease) in other current liabilities	877	(1,315,518)
Increase in other operating liabilities	-	56,811
Cash used in operations	(7,318,010)	(16,164,710)
Interest received	362,124	201,194
Interest paid	(1,390)	(28,949)
Income taxes paid	(220,155)	(1,477)
Net cash used in operating activities	(7,177,431)	(15,993,942)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(160,775)	-
Purchase of financial assets at fair value through profit or loss	(97,822)	-

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2018	**2017**
Purchase of debt investment with no active market	$ -	$ (32,918)
Purchase of financial assets measured at cost	-	(180,705)
Proceeds from sale of financial assets measured at cost	-	85,169
Acquisition of associates	-	(6,019)
Net cash inflow on acquisition of subsidiaries	-	15,431
Net cash inflow on disposal of subsidiary	106,918	-
Payments for non-current assets held for sale	-	(3,830)
Proceeds from disposal of non-current assets held for sale	2,748,931	-
Payments for property, plant and equipment	(501,925)	(156,667)
Proceeds from disposal of property, plant and equipment	235,281	2,420
(Decrease) increase in advance receipts - disposal of property	(1,374,465)	1,388,243
Decrease in refundable deposits	11,749	633,510
Payments for intangible assets	(24,341)	-
Increase in other current financial assets	(9,719,283)	(2,275,046)
Dividends received	-	23,997
Proceeds from disposal of assets and licensing income (Note 27)	31,285,385	-
Net cash generated from (used in) investing activities	22,509,653	(506,415)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	-	14,979,185
Decrease in short-term borrowings	-	(12,979,185)
Proceeds from guarantee deposits received	104,391	-
Refund of guarantee deposits received	-	(16,303)
Proceeds from exercise of employee share options	8,121	-
Change in non-controlling interests	19,454	-
Net cash generated from financing activities	131,966	1,983,697
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(139,576)	(617,293)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,324,612	(15,133,953)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,443,227	30,080,217
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 25,767,839	$ 14,946,264

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

(With Deloitte & Touche review report dated November 5, 2018) (Concluded)

1. ORGANIZATION AND OPERATIONS

HTC Corporation (HTC) was incorporated on May 15, 1997 under the Company Law of Taiwan, the Republic of China. HTC and its subsidiaries (collectively referred to as the “Group” or the “Company”) are engaged in design, manufacture, assemble, process, selling smart mobile and virtual reality devices and provide after-sales service.

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by HTC’s Board of Directors and authorized for issue on November 5, 2018.

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

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

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

   1) IFRS 9 “Financial Instruments” and related amendment

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

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

Classification, measurement and impairment of financial assets

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

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

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

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

a) Cash and cash equivalents, time deposits with original maturities of more than 3 months, trade receivables and other receivables and refundable deposits that were previously classified as loans and receivables under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.

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

c) The Company elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the financial assets at FVTOCI increased to NT$312,197 thousand on January 1, 2018. The related other equity - unrealized gains or losses on available-for-sale financial assets of NT$35,690 thousand was reclassified to other equity - unrealized gains or losses on financial assets at FVTOCI.

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

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

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

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

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

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

Under IAS 18, compared with IFRS 15, the related adjustments comprised an increase in assets of NT$721,364 thousand and an increase in liabilities of NT$3,606,818 thousand on September 30, 2018. For the nine months ended September 30, 2018, both net profit and total comprehensive income will decrease by NT$2,885,454 thousand, and the basic earnings per share and diluted earnings per share will decrease by NT$3.52 and NT$3.45, respectively.

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

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

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

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

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

1) IFRS 16 “Leases”

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

Definition of a lease

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

The Company as lessee

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

The Company anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

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

The Company expects to apply the following practical expedients:

a) The Company will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

b) The Company will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

c) The Company will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

d) The Company will use hindsight, such as in determining lease terms, to measure lease liabilities.

For leases currently classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 will be determined as the carrying amount of the leased assets and finance lease payables as of December 31, 2018.

The Company as lessor

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

2) IFRIC 23 "Uncertainty over Income Tax Treatments"

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

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Company 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.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

Basis of Preparation

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

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, 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 an 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 an asset or liability.

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

Basis of Consolidation

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

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

See Note 16 for the detailed information on subsidiaries (including percentages of ownership and main businesses).

Other Significant Accounting Policies

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2017. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2017.

a. Financial instruments

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

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

   1) Financial assets

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

      a) Measurement category

         <u>2018</u>

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

         i. Financial assets at FVTPL

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

            Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 35.

         ii. Financial assets at amortized cost

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

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

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

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

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

i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and

ii) Financial assets that have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

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

iii. Investments in equity instruments at FVTOCI

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

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

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

<u>2017</u>

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.

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on the financial asset. Fair value is determined in the manner described in Note 35.

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

ii. Available-for-sale financial assets

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

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

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

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

iii. Loans and receivables

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

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

b) Impairment of financial assets

2018

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

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

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

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

2017

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

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

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

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

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

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

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

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

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

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.

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

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

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

- Financial liabilities at FVTPL

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

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

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.

4) Derivative financial instruments

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

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

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

b. Hedge accounting

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

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

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

<u>Cash flow hedges</u>

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

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

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

c. Revenue recognition

<u>2018</u>

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

1) Revenue from the sale of goods

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

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

2) Revenue from the rendering of services

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

3) Licensing revenue

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

<u>2017</u>

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowances for sales returns and liabilities for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

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

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

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

3) The amount of revenue can be measured reliably;

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

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

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

d. Retirement benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

e. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings. The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself which gives rise to the tax consequence, and is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Accrued marketing and advertising expenses

The Company recognizes the sale of goods as the conditions are met. The related marketing and advertising expenses recognized as a reduction of the 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 September 30, 2018, December 31, 2017 and September 30, 2017, the carrying amounts of accrued marketing and advertising expenses were NT$4,454,898 thousand, NT$5,964,240 thousand and NT$6,295,994 thousand, respectively.

b. Estimated impairment of financial assets - 2018

The provision for impairment of trade receivables is based on assumptions about risk of default and expected loss rates. The Company uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company’s past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

As of September 30, 2018, the carrying amount of impairment losses was NT$3,893,924 thousand.

c. Estimated impairment of trade receivables - 2017

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, 2017 and September 30, 2017, the carrying amounts of allowances for doubtful debts were NT$3,901,541 thousand and NT$3,904,633 thousand, respectively.

d. 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.

e. Valuation of inventories

Inventories are measured at the lower of cost or net realizable value. Judgment and estimation are applied in the determination of net realizable value at the end of the 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 September 30, 2018, December 31, 2017 and September 30, 2017, the carrying amounts of inventories were NT$4,370,403 thousand, NT$7,381,426 thousand and NT$15,886,685 thousand, respectively.

f. Realization of deferred tax assets

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

As of September 30, 2018, December 31, 2017 and September 30, 2017, the carrying amounts of deferred tax assets were NT$3,906,684 thousand, NT$8,990,648 thousand and NT$8,985,569 thousand, respectively.

g. Estimates of warranty provisions

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

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

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

As of September 30, 2018, December 31, 2017 and September 30, 2017, the carrying amounts of warranty provisions were NT$2,358,387 thousand, NT$2,795,933 thousand and NT$2,561,491 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	September 30, 2018	December 31, 2017	September 30, 2017
Cash on hand	$ 1,555	$ 1,901	$ 1,846
Checking accounts and demand deposits	11,501,342	8,502,868	13,935,823
Time deposits (with original maturities of less than three months)	14,264,942	1,938,458	1,008,595
	$ 25,767,839	$ 10,443,227	$ 14,946,264

7. FINANCIAL INSTRUMENTS AT FAIR VALUE

	September 30, 2018	December 31, 2017	September 30, 2017
Financial assets			
Financial assets held for trading			
Derivative financial assets (not under hedge accounting)			
Foreign exchange contracts	$ 72,777	$ 65,199	$ 95,099
Financial assets mandatorily classified as at FVTPL			
Derivative financial assets (not under hedge accounting)			
Convertible bonds	210,002	-	-
Warrants	15,883	-	-
	$ 298,662	$ 65,199	$ 95,099
Current	$ 72,777	$ 65,199	$ 95,099
Non-current	225,885	-	-
	$ 298,662	$ 65,199	$ 95,099
Financial liabilities - current			
Financial liabilities held for trading			
Derivative financial liabilities (not under hedge accounting)			
Foreign exchange contracts	$ 160,816	$ 75,184	$ 142,698

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 are as follows:

Forward Exchange Contracts

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
September 30, 2018					
Foreign exchange contracts	Sell	USD/NTD	2018.10.05-2018.10.17	USD	77,130
Foreign exchange contracts	Sell	JPY/USD	2018.10.17-2018.12.07	JPY	3,100,000
Foreign exchange contracts	Sell	GBP/USD	2018.10.26-2018.11.28	GBP	12,000
Foreign exchange contracts	Sell	AUD/USD	2018.11.16	AUD	1,000
Foreign exchange contracts	Sell	CAD/USD	2018.11.23	CAD	6,000
Foreign exchange contracts	Sell	RMB/USD	2018.10.17-2018.11.28	RMB	659,962
Foreign exchange contracts	Sell	EUR/USD	2018.10.05-2018.11.28	EUR	24,000
Foreign exchange contracts	Buy	RMB/USD	2018.10.17-2018.12.12	RMB	1,542,132
Foreign exchange contracts	Buy	USD/NTD	2018.10.05-2018.12.07	USD	614,500
Foreign exchange contracts	Buy	JPY/USD	2018.10.17-2018.11.21	JPY	2,818,335
Foreign exchange contracts	Buy	EUR/USD	2018.10.05-2018.12.07	EUR	32,000
Foreign exchange contracts	Buy	AUD/USD	2018.10.05-2018.11.16	AUD	9,000
Foreign exchange contracts	Buy	GBP/USD	2018.10.17-2018.11.28	GBP	16,000
December 31, 2017					
Foreign exchange contracts	Sell	SGD/USD	2018.01.03	SGD	3,000
Foreign exchange contracts	Sell	JPY/USD	2018.01.10-2018.02.14	JPY	4,100,000
Foreign exchange contracts	Sell	GBP/USD	2018.01.19	GBP	3,000
Foreign exchange contracts	Sell	CAD/USD	2018.01.26	CAD	3,500
Foreign exchange contracts	Sell	EUR/USD	2018.01.10-2018.01.19	EUR	8,000
Foreign exchange contracts	Sell	AUD/USD	2018.02.09	AUD	1,000
Foreign exchange contracts	Buy	RMB/USD	2018.01.12-2018.02.09	RMB	750,648
Foreign exchange contracts	Buy	USD/NTD	2018.01.10-2018.03.14	USD	440,500
Foreign exchange contracts	Buy	JPY/USD	2018.01.19	JPY	2,818,335
Foreign exchange contracts	Buy	EUR/USD	2018.01.19-2018.01.26	EUR	20,000
Foreign exchange contracts	Buy	AUD/USD	2018.02.09	AUD	10,000
September 30, 2017					
Forward exchange contracts	Sell	USD/NTD	2017.10.20-2017.11.17	USD	100,000
Forward exchange contracts	Sell	JPY/USD	2017.10.27-2017.11.24	JPY	3,800,000
Forward exchange contracts	Sell	GBP/USD	2017.10.20	GBP	6,000
Forward exchange contracts	Sell	CAD/USD	2017.10.18-2017.10.20	CAD	3,500
Forward exchange contracts	Sell	EUR/USD	2017.10.13	EUR	2,000
Forward exchange contracts	Buy	RMB/USD	2017.10.13-2017.11.22	RMB	954,922
Forward exchange contracts	Buy	USD/NTD	2017.10.13-2017.11.24	USD	644,500
Forward exchange contracts	Buy	SGD/USD	2017.10.20	SGD	242,171
Forward exchange contracts	Buy	JPY/USD	2017.10.25	JPY	2,718,335
Forward exchange contracts	Buy	EUR/USD	2017.10.25	EUR	12,000
Forward exchange contracts	Buy	AUD/USD	2017.11.20	AUD	6,000
Forward exchange contracts	Buy	GBP/USD	2017.10.25	GBP	2,000

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING - 2017

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

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

	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017
Revenue	$ (4,389)	$ (4,389)
Other gains and losses	-	3,538
	$ (4,389)	$ (851)

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

Investments in Equity Instruments at FVTOCI

	September 30, 2018
Domestic investments	
Listed shares and emerging market shares	$ 116,768
Unlisted shares	526,333
	643,101
Foreign investments	
Listed shares	477,412
Unlisted shares	1,247,749
Unlisted beneficiary certificate	752,512
	2,477,673
	$ 3,120,774
Current	$ 477,412
Non-current	2,643,362
	$ 3,120,774

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

10. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2017	September 30, 2017
Domestic unlisted equity investments	$ 626,281	$ 643,961
Overseas unlisted equity investments	1,779,994	1,867,895
Overseas unlisted beneficiary certificates	649,223	697,674
Derivative financial instruments - convertible bonds	116,226	114,380
Derivative financial instruments - overseas warrants	15,516	14,241
	$ 3,187,240	$ 3,338,151
Classified according to financial asset measurement categories		
Financial assets at fair value through profit or loss	$ 131,742	$ 128,621
Available-for-sale financial assets	3,055,498	3,209,530
	$ 3,187,240	$ 3,338,151

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

11. OTHER CURRENT FINANCIAL ASSETS

	September 30, 2018	December 31, 2017	September 30, 2017
Time deposits with original maturities of more than three months	$ 17,707,646	$ 7,988,363	$ 8,025,496
Current	$ 17,554,928	$ 7,988,363	$ 8,025,496
Non-current	152,718	-	-
	$ 17,707,646	$ 7,988,363	$ 8,025,496

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

12. TRADE RECEIVABLES AND OTHER RECEIVABLES

	September 30, 2018	December 31, 2017	September 30, 2017
Trade and overdue receivables			
At amortized cost			
Trade receivables	$ 2,687,160	$ 9,023,748	$ 10,407,436
Trade receivables - related parties	4,435	22,400	974
Overdue receivables	1,840,947	1,840,947	1,840,947
Less: Allowances for impairment loss	(509,052)	(509,052)	(509,052)

(Continued)

	September 30, 2018	December 31, 2017	September 30, 2017
Less: Allowances for impairment loss - overdue receivables	$ (1,840,947)	$ (1,840,947)	$ (1,840,947)
	$ 2,182,543	$ 8,537,096	$ 9,899,358
Current	$ 2,182,543	$ 8,537,096	$ 9,899,358
Non-current	-	-	-
	$ 2,182,543	$ 8,537,096	$ 9,899,358
Other receivables			
Receivables from the disposal of investments	$ 1,319,594	$ 1,326,104	$ 1,328,747
Interest receivables	310,604	248,786	262,049
VAT refund receivables	59,501	38,350	154,468
Others	197,880	41,799	86,069
Less: Allowances for impairment loss	(1,543,925)	(1,551,542)	(1,554,634)
	$ 343,654	$ 103,497	$ 276,699
Current	$ 343,654	$ 103,497	$ 276,699
Non-current	-	-	-
	$ 343,654	$ 103,497	$ 276,699

(Concluded)

a. Trade receivables at amortized cost

For the nine months ended September 30, 2018

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

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

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

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

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

September 30, 2018

	Non Past Due	1-90 Days	91-180 Days	Over 181 Days	Total
Expected credit loss rate	0.55%	30.98%	53.17%	100%	-
Gross carrying amount	$ 2,099,958	$ 80,321	$ 82,697	$ 428,619	$ 2,691,595
Loss allowance (Lifetime ECL)	(11,576)	(24,884)	(43,973)	(428,619)	(509,052)
Amortized cost	$ 2,088,382	$ 55,437	$ 38,724	$ -	$ 2,182,543

There was no difference in the allowance for impairment loss on September 30, 2018 compared to January 1, 2018.

For the nine months ended September 30, 2017

The Company applied the same credit policy in 2018 and 2017. The credit period on the sale of goods is 30-75 days. No interest is charged on trade receivables before the due date. Thereafter, interest is charged at 1%-18% per annum on the outstanding balance, which is considered to be non-controversial, to some of the customers. In determining the recoverability of a trade receivable, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. For customers with low credit risk, the Company has recognized an allowance for doubtful debts of 1%-5% against receivables past due beyond 31-90 days and of 5%-100% against receivables past due beyond 91 days. For customers with high credit risk, the Company has recognized an allowance for impairment loss of 10-100% against receivables past due more than 31 days.

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

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

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

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

Aging of trade receivables

	December 31, 2017	September 30, 2017
1-90 days	$ 244,443	$ 477,307
91-180 days	63,613	140,128
Over 181 days	340,280	274,332
	$ 648,336	$ 891,767

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

Aging of impaired trade receivables

	December 31, 2017	September 30, 2017
1-90 days	$ 139,284	$ 382,715
91-180 days	-	-
Over 181 days	-	-
	$ 139,284	$ 382,715

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

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

	For the Nine Months Ended September 30, 2017
Balance, beginning of period	$ 2,712,869
Less: Impairment loss reversed	(362,870)
Balance at September 30, 2017	$ 2,349,999

b. Other receivables

Receivables from the disposal of investments are derived from the sale of shares of Saffron Media Group Ltd. in 2013. While the receivables had not been collected yet, the loss allowance was recognized based on the credit risk as of September 30, 2018.

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

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

	For the Nine Months Ended September 30, 2018
Balance at January 1, 2018 (per IAS 39)	$ 1,551,542
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	1,551,542
Foreign exchange gains and losses	(7,617)
Balance at September 30, 2018	$ 1,543,925

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

	For the Nine Months Ended September 30, 2017
Balance, beginning of period	$ 1,475,130
Foreign exchange gains and losses	79,504
Balance at September 30, 2017	$ 1,554,634

13. INVENTORIES

	September 30, 2018	December 31, 2017	September 30, 2017
Finished goods	$ 1,160,184	$ 1,602,962	$ 2,709,568
Work-in-process	252,470	124,318	1,232,221
Semi-finished goods	640,071	1,094,183	2,404,323
Raw materials	2,221,880	4,403,010	9,406,694
Inventory in transit	95,798	156,953	133,879
	$ 4,370,403	$ 7,381,426	$ 15,886,685

The cost of inventories recognized as operating costs for the nine months ended September 30, 2018 and 2017 were NT$646,811 thousand and NT$2,772,973 thousand, respectively.

14. PREPAYMENTS

	September 30, 2018	December 31, 2017	September 30, 2017
Royalties	$ 2,331,790	$ 2,633,750	$ 2,749,927
Net input VAT	512,437	480,516	501,223
Prepayments to suppliers	131,953	9,422	9,741

(Continued)

	September 30, 2018	December 31, 2017	September 30, 2017
Prepaid equipment	$ 30,562	$ 52,744	$ 58,895
Others	549,456	800,287	850,879
	$ 3,556,198	$ 3,976,719	$ 4,170,665
Current	$ 1,335,274	$ 1,742,986	$ 1,822,999
Non-current	2,220,924	2,233,733	2,347,666
	$ 3,556,198	$ 3,976,719	$ 4,170,665

(Concluded)

Prepayments for royalties were primarily for the procurement of royalty rights and were classified as current or non-current in accordance with their nature. For details of content of contracts, please refer to Note 40.

15. NON-CURRENT ASSETS HELD FOR SALE

	September 30, 2018	December 31, 2017	September 30, 2017
Land and buildings held for sale	$ -	$ 1,647,763	$ 1,640,881

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

16. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

The consolidated entities as of September 30, 2018, December 31, 2017 and September 30, 2017 are as follows:

			% of Ownership			
Investor	Investee	Main Businesses	September 30, 2018	December 31, 2017	September 30, 2017	Remark
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company and general investing activities	100.00	100.00	100.00	-
	Communication Global Certification Inc.	Import of controlled telecommunications radio-frequency devices and software services	-	100.00	100.00	1)
	High Tech Computer Asia Pacific Pte. Ltd.	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Investment Corporation	General investing activities	100.00	100.00	100.00	-
	PT. High Tech Computer Indonesia	Marketing, repair and after-sales services	1.00	1.00	1.00	-
	HTC I Investment Corporation	General investing activities	-	100.00	100.00	3)
	HTC Holding Cooperatief U.A.	International holding company	0.01	0.01	0.01	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership September 30, 2018	December 31, 2017	September 30, 2017	Remark
HTC Corporation	HTC Investment One (BVI) Corporation	Holding S3 Graphics Co., Ltd. and general investing activities	100.00	100.00	100.00	-
	HTC Investment (BVI) Corporation	General investing activities	100.00	100.00	100.00	-
	HTC VIVE Holding (BVI) Corp.	International holding company	100.00	100.00	100.00	-
	HTC VIVE Investment (BVI) Corp.	General investing activities	100.00	100.00	100.00	-
	DeepQ Holding (BVI) Corp.	International holding company	100.00	100.00	100.00	-
	HTC VR Content (BVI) Corp.	〃	100.00	100.00	100.00	-
	HTC Smartphone (BVI) Corp.	〃	100.00	100.00	100.00	-
H.T.C. (B.V.I.) Corp.	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart mobile devices	100.00	100.00	100.00	-
High Tech Computer Asia Pacific Pte. Ltd.	HTC (Australia and New Zealand) PTY. Ltd.	Marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Philippines Corporation	〃	99.99	99.99	99.99	-
	PT. High Tech Computer Indonesia	〃	99.00	99.00	99.00	-
	HTC (Thailand) Limited	〃	100.00	100.00	100.00	-
	HTC India Private Ltd.	〃	99.00	99.00	99.00	-
	HTC Malaysia Sdn. Bhd.	〃	100.00	100.00	100.00	-
	HTC Communication Co., Ltd.	Manufacture and sale of smart mobile devices and after-sales services	100.00	100.00	100.00	-
	HTC HK, Limited	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Holding Cooperatief U.A.	International holding company	99.99	99.99	99.99	-
	HTC Communication Technologies (SH)	Design, research and development of application software	100.00	100.00	100.00	-
	HTC Vietnam Services One Member Limited Liability Company	Marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Myanmar Company Limited	〃	99.00	99.00	99.00	-
HTC Investment Corporation	Yoda Co., Ltd.	Operation of restaurant business, parking lot and building cleaning services	-	100.00	100.00	3)
HTC Investment One (BVI) Corporation	S3 Graphics Co., Ltd.	Design, research and development of graphics technology	100.00	100.00	100.00	-
HTC Communication Technologies (SH)	HTC Communication (BJ) Tech Co.	Design, research and development of application software	100.00	100.00	100.00	-
HTC HK, Limited	HTC Corporation (Shanghai WGQ)	Smart mobile devices examination and after-sale services and technique consultations	100.00	100.00	100.00	-
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart mobile devices	100.00	100.00	100.00	-
	HTC Myanmar Company Limited	Marketing, repair and after-sales services	1.00	1.00	1.00	-
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC India Private Ltd.	Marketing, repair and after-sales services	1.00	1.00	1.00	-
	HTC South Eastern Europe Limited Liability Company	〃	0.67	0.67	0.67	-
	HTC Communication Solutions Mexico, S.A DE C.V.	〃	1.00	1.00	1.00	-
	HTC Servicios DE Operacion Mexico, S.A DE C.V.	Human resources management	1.00	1.00	1.00	-
HTC Netherlands B.V.	HTC EUROPE CO., LTD.	International holding company Marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC BRASIL	Marketing, repair and after-sales services	99.99	99.99	99.99	-
	HTC Belgium BVBA/SPRL	〃	100.00	100.00	100.00	-
	HTC NIPPON Corporation	Sale of smart mobile devices	100.00	100.00	100.00	-
	HTC FRANCE CORPORATION	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC South Eastern Europe Limited liability Company	Marketing, repair and after-sales services	99.33	99.33	99.33	-
	HTC Nordic ApS.	〃	100.00	100.00	100.00	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership September 30, 2018	December 31, 2017	September 30, 2017	Remark
HTC Netherlands B.V.	HTC Italia SRL	Marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Germany GmbH	〃	100.00	100.00	100.00	-
	HTC Iberia, S.L.	〃	100.00	100.00	100.00	-
	HTC Poland sp. z.o.o.	〃	100.00	100.00	100.00	-
	HTC Communication Canada, Ltd.	〃	100.00	100.00	100.00	-
	HTC Communication Sweden AB	〃	100.00	100.00	100.00	-
	HTC Luxembourg S.a.r.l.	Online/download media services	100.00	100.00	100.00	-
	HTC Middle East FZ-LLC	Marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Communication Solutions Mexico, S.A DE C.V.	〃	99.00	99.00	99.00	-
	HTC Servicios DE Operacion Mexico, S.A DE C.V.	Human resources management	99.00	99.00	99.00	-
	HTC Czech RC s.r.o.	Smart mobile devices examination and after-sale services and technique consultations	100.00	100.00	100.00	-
HTC EUROPE CO., LTD.	HTC America Holding Inc.	International holding company	100.00	100.00	100.00	-
HTC America Holding Inc.	HTC America Inc.	Sale of smart mobile devices	100.00	100.00	100.00	-
	One & Company Design, Inc.	Design, research and development of application software	100.00	100.00	100.00	-
	HTC America Innovation Inc.	〃	100.00	100.00	100.00	-
	HTC America Content Services, Inc.	Online/download media services	100.00	100.00	100.00	-
	Dashwire, Inc.	Design and management of cloud synchronization technology	100.00	100.00	100.00	-
	Inquisitive Minds, Inc.	Development and sale of digital education platform	100.00	100.00	100.00	-
HTC VIVE Holding (BVI) Corp.	HTC VIVE TECH (BVI) Corp.	International holding company	100.00	100.00	100.00	-
HTC VIVE TECH (BVI) Corp.	HTC VIVE TECH Corp.	Research, development and sale of virtual reality devices	100.00	100.00	100.00	-
	HTC VIVE TECH (HK) Limited	〃	100.00	100.00	100.00	-
HTC VIVE TECH (HK) Limited	HTC VIVE TECH (UK) Limited	Research, development and sale of virtual reality devices	100.00	100.00	100.00	-
	HTC VIVE TECH (Beijing)	〃	100.00	100.00	100.00	-
DeepQ Holding (BVI) Corp.	DeepQ (BVI) Corp.	International holding company	100.00	100.00	100.00	-
DeepQ (BVI) Corp.	DeepQ Technology Corp.	Medical technology and health care	100.00	100.00	100.00	-
	DeepQ Technology (Beijing)	Development and marketing of softwares technology	100.00	-	-	2)
HTC Investment (BVI) Corporation	VRChat, Inc.	Development of virtual reality contents	51.26	53.16	53.16	-
VRChat, Inc.	VRChat Ca. Development Inc.	Development of virtual reality contents	100.00	100.00	100.00	-
HTC VR Content (BVI) Corp.	Uomo Vitruviano Corp.	Development of virtual reality contents	100.00	100.00	100.00	-

(Concluded)

Remark:

1) The Company disposed of 100% of their equity interest in Communication Global Certification Inc. in January 2018. For details of the disposal, please refer to Note 31.

2) DeepQ Technology (Beijing) was incorporated in March 2018.

3) Both the dissolution of HTC Investment Corporation and Yoda Co., Ltd. were approved in their shareholders' meeting held in November 2017 and the date of dissolution was set on November 30, 2017. Both liquidation processes had been completed on April 30, 2018.

b. Subsidiaries excluded from the consolidated financial statements: None.

c. Details of subsidiaries that have material non-controlling interests: None.

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	September 30, 2018	December 31, 2017	September 30, 2017
Investment in associates	$ 441,284	$ 413,120	$ 431,924

Investments in Associates - Associates That Are Not Individually Material

	September 30, 2018	December 31, 2017	September 30, 2017
Unlisted equity investments			
East West Artists, LLC	$ 26,158	$ 26,834	$ 28,303
Steel Wool Games, Inc.	88,867	99,921	109,729
Surgical Theater, LLC	263,875	274,864	287,919
Gui Zhou Wei Ai Educational Technology Co., Ltd.	62,384	11,501	5,973
	$ 441,284	$ 413,120	$ 431,924

At the end of the reporting periods, the percentages of ownership and voting rights in associates held by the Company are as follows:

Name of Associate	September 30, 2018	December 31, 2017	September 30, 2017
East West Artists, LLC	30.00%	30.00%	30.00%
Steel Wool Games, Inc.	49.00%	49.00%	49.00%
Surgical Theater, LLC	16.68%	16.68%	16.68%
Gui Zhou Wei Ai Educational Technology Co., Ltd.	23.20%	25.00%	25.00%

Aggregate information of associates that are not individually material:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
The Company’s share of:				
Loss from continuing operations	$ (14,784)	$ (11,491)	$ (38,280)	$ (74,687)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	$ (14,784)	$ (11,491)	$ (38,280)	$ (74,687)

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

18. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2018	December 31, 2017	September 30, 2017
Carrying amounts			
Land	$ 4,675,750	$ 4,676,726	$ 4,678,100
Buildings	3,002,751	5,260,727	5,309,527
Machinery and equipment	507,246	417,379	909,347
Other equipment	315,313	443,781	497,138
	$ 8,501,060	$ 10,798,613	$ 11,394,112

Movement of property, plant and equipment for the nine months ended September 30, 2018 and 2017 were as follows:

	2018				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
Cost					
Balance, beginning of period	$ 4,676,726	$ 7,383,032	$ 12,901,808	$ 2,219,343	$ 27,180,909
Additions	-	58,921	348,464	81,667	489,052
Disposals	-	(48,259)	(3,395,408)	(347,711)	(3,791,378)
Reclassified as non-current assets held for sale	-	-	(2,619)	-	(2,619)
Reclassified as investment properties	-	(2,807,020)	-	-	(2,807,020)
Disposal of subsidiary	-	-	(824,206)	(48,758)	(872,964)
Effect of foreign currency exchange differences	(976)	(3,644)	(63,696)	(2,593)	(70,909)
Balance, end of period	4,675,750	4,583,030	8,964,343	1,901,948	20,125,071
Accumulated depreciation					
Balance, beginning of period	-	2,122,305	11,640,682	1,757,876	15,520,863
Depreciation expenses	-	142,674	106,524	106,290	355,488
Disposals	-	(37,376)	(3,091,591)	(268,688)	(3,397,655)
Reclassified as non-current assets held for sale	-	-	(1,885)	-	(1,885)
Reclassified as investment properties	-	(646,734)	-	-	(646,734)
Disposal of subsidiary	-	-	(750,842)	(16,952)	(767,794)
Effect of foreign currency exchange differences	-	(590)	(55,088)	(1,261)	(56,939)
Balance, end of period	-	1,580,279	7,847,800	1,577,265	11,005,344
Accumulated impairment					
Balance, beginning of period	-	-	843,747	17,686	861,433
Disposals	-	-	(230,512)	(8,423)	(238,935)
Effect of foreign currency exchange differences	-	-	(3,938)	107	(3,831)
Balance, end of period	-	-	609,297	9,370	618,667
Net book value, end of period	$ 4,675,750	$ 3,002,751	$ 507,246	$ 315,313	$ 8,501,060

	2017				
	Land	**Buildings**	**Machinery and Equipment**	**Other Equipment**	**Total**
Cost					
Balance, beginning of period	$ 4,674,792	$ 7,321,116	$ 13,614,889	$ 2,301,452	$ 27,912,249
Additions	-	30,151	99,968	50,433	180,552
Disposals	-	-	(158,301)	(25,904)	(184,205)
Reclassification	-	-	(59,186)	-	(59,186)
Effect of foreign currency exchange differences	3,308	12,112	(41,243)	(27,149)	(52,972)
Balance, end of period	4,678,100	7,363,379	13,456,127	2,298,832	27,796,438
Accumulated depreciation					
Balance, beginning of period	-	1,847,304	11,816,261	1,686,963	15,350,528
Depreciation expenses	-	204,818	417,076	146,327	768,221
Disposals	-	-	(154,894)	(21,936)	(176,830)
Reclassification	-	-	(21,013)	-	(21,013)
Effect of foreign currency exchange differences	-	1,730	(33,374)	(15,067)	(46,711)
Balance, end of period	-	2,053,852	12,024,056	1,796,287	15,874,195
Accumulated impairment					
Balance, beginning of period	-	-	530,786	5,439	536,225
Disposals	-	-	(9)	(3)	(12)
Reclassification	-	-	(7,868)	-	(7,868)
Effect of foreign currency exchange differences	-	-	(185)	(29)	(214)
Balance, end of period	-	-	522,724	5,407	528,131
Net book value, end of period	$ 4,678,100	$ 5,309,527	$ 909,347	$ 497,138	$ 11,394,112

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

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

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

The Company leased part of the buildings in February 2018. The leased assets were reclassified as investment properties for their correspondence with the principal of investment properties. For the detail, please refer to Note 19.

There were no capitalized interests for the nine months ended September 30, 2018 and 2017.

19. INVESTMENT PROPERTIES, NET

Movement of investment properties, net for the nine months ended September 30, 2018 and 2017 are as follows:

	2018	2017
Cost		
Balance, beginning of period	$ -	$ 1,829,827
Eliminations	-	(1,504)
Reclassification	2,807,020	(1,791,715)
Effect of foreign currency exchange differences	-	(36,608)
Balance, end of period	2,807,020	-
Accumulated depreciation		
Balance, beginning of period	-	302,826
Depreciation expense	66,353	5,936
Eliminations	-	(1,504)
Reclassification	646,734	(301,200)
Effect of foreign currency exchange differences	-	(6,058)
Balance, end of period	713,087	-
Net book value, end of period	$ 2,093,933	$ -

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

Main buildings	40-50 years
Electricity Distribution System	20 years
Air-conditioning	5-10 years
Others	3-5 years

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

The determination of fair value for the investment properties leased in February 2018 was performed by independent qualified professional appraisers, and the fair value was measured using Level 3 inputs. The fair value is assessed as having no material impact compared to December 31, 2017 and September 30, 2018. The valuation was arrived at with reference to market evidence of transaction prices for similar properties. The fair values as of September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018	December 31, 2017
Fair value	$ 2,467,267	$ 2,467,267

20. INTANGIBLE ASSETS

	September 30, 2018	December 31, 2017	September 30, 2017
Carrying amounts			
Patents	$ 1,341,676	$ 2,154,987	$ 2,473,085
Goodwill	68,608	67,025	65,962
Other intangible assets	67,895	93,429	150,908
	$ 1,478,179	$ 2,315,441	$ 2,689,955

Movements of intangible assets for the nine months ended September 30, 2018 and 2017 are as follows:

	2018			
	Patents	Goodwill	Other Intangible Assets	Total
Cost				
Balance, beginning of period	$ 11,467,990	$ 713,250	$ 1,753,620	$ 13,934,860
Additions	-	-	24,341	24,341
Effect of foreign currency exchange differences	211,350	12,726	8,850	232,926
Balance, end of period	11,679,340	725,976	1,786,811	14,192,127
Accumulated amortization				
Balance, beginning of period	9,201,918	-	1,497,864	10,699,782
Amortization expenses	846,378	-	49,108	895,486
Effect of foreign currency exchange differences	178,283	-	5,784	184,067
Balance, end of period	10,226,579	-	1,552,756	11,779,335
Accumulated impairment				
Balance, beginning of period	111,085	646,225	162,327	919,637
Effect of foreign currency exchange differences	-	11,143	3,833	14,976
Balance, end of period	111,085	657,368	166,160	934,613
Net book value, end of period	$ 1,341,676	$ 68,608	$ 67,895	$ 1,478,179

	2017			
	Patents	Goodwill	Other Intangible Assets	Total
Cost				
Balance, beginning of period	$ 12,197,140	$ 684,668	$ 1,840,154	$ 14,721,962
Additions	-	66,501	-	66,501

(Continued)

	2017			
	Patents	Goodwill	Other Intangible Assets	Total
Eliminations	$ -	$ -	$ (7,093)	$ (7,093)
Effect of foreign currency exchange differences	(591,150)	(31,707)	(33,814)	(656,671)
Balance, end of period	11,605,990	719,462	1,799,247	14,124,699
Accumulated amortization				
Balance, beginning of period	8,538,904	-	1,333,403	9,872,307
Amortization expenses	865,506	-	179,620	1,045,126
Eliminations	-	-	(7,093)	(7,093)
Effect of foreign currency exchange differences	(382,590)	-	(22,419)	(405,009)
Balance, end of period	9,021,820	-	1,483,511	10,505,331
Accumulated impairment				
Balance, beginning of period	111,085	684,668	175,546	971,299
Effect of foreign currency exchange differences	-	(31,168)	(10,718)	(41,886)
Balance, end of period	111,085	653,500	164,828	929,413
Net book value, end of period	$ 2,473,085	$ 65,962	$ 150,908	$ 2,689,955

(Concluded)

The Company owns patents of graphics technologies. As of September 30, 2018, December 31, 2017 and September 30, 2017, the carrying amounts of such patents were NT$1,336,278 thousand, NT$2,144,678 thousand and NT$2,461,794 thousand, respectively. The patents will be fully amortized over their remaining economic lives.

21. SHORT-TERM BORROWINGS

	September 30, 2018	December 31, 2017	September 30, 2017
Unsecured borrowings			
Line of credit borrowings	$ -	$ -	$ 2,000,000

As of September 30, 2017, the range of interest rates was 1.05%-1.15% per annum.

22. NOTE AND TRADE PAYABLES

	September 30, 2018	December 31, 2017	September 30, 2017
Notes payable	$ 152	$ 27	$ 305
Trade payables	9,978,920	14,568,235	18,774,587
Trade payables - related parties	5,485	960	-
	$ 9,984,557	$ 14,569,222	$ 18,774,892

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

23. OTHER LIABILITIES

	September 30, 2018	December 31, 2017	September 30, 2017
Other payables			
Accrued expenses	$ 9,800,778	$ 11,624,987	$ 12,060,980
Payables for purchase of equipment	21,848	56,903	100,655
	$ 9,822,626	$ 11,681,890	$ 12,161,635
Other liabilities			
Advance receipts	$ 1,091,482	$ 2,480,454	$ 2,814,591
Agency receipts	69,109	132,387	120,564
Others	314,478	237,872	246,454
	$ 1,475,069	$ 2,850,713	$ 3,181,609
Current	$ 1,475,069	$ 2,850,713	$ 3,124,798
Non-current	-	-	56,811
	$ 1,475,069	$ 2,850,713	$ 3,181,609

Accrued Expenses

	September 30, 2018	December 31, 2017	September 30, 2017
Marketing	$ 4,454,898	$ 5,964,240	$ 6,295,994
Salaries, bonuses and compensation	2,263,087	2,004,912	1,983,750
Services	1,120,987	766,310	757,111
Materials and molding expenses	1,076,088	1,796,104	1,885,024
Import, export and freight	154,183	181,885	257,082
Insurance	70,814	111,477	110,414
Repairs, maintenance and sundry purchase	57,901	76,785	94,263
Others	602,820	723,274	677,342
	$ 9,800,778	$ 11,624,987	$ 12,060,980

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

24. PROVISIONS

	September 30, 2018	December 31, 2017	September 30, 2017
Warranties	$ 2,358,387	$ 2,795,933	$ 2,561,491
Provisions for contingent loss on purchase orders	88,625	581,268	305,561
	$ 2,447,012	$ 3,377,201	$ 2,867,052

Movement of provisions for the nine months ended September 30, 2018 and 2017 are as follows:

	2018		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of period	$ 2,795,933	$ 581,268	$ 3,377,201
Provisions recognized (reversed)	866,548	(383,200)	483,348
Usage	(1,301,363)	(109,443)	(1,410,806)
Effect of foreign currency exchange differences	(2,731)	-	(2,731)
Balance, end of period	$ 2,358,387	$ 88,625	$ 2,447,012

	2017		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of period	$ 3,010,969	$ 373,342	$ 3,384,311
Provisions recognized (reversed)	2,077,568	(5,693)	2,071,875
Usage	(2,516,322)	(62,088)	(2,578,410)
Effect of foreign currency exchange differences	(10,724)	-	(10,724)
Balance, end of period	$ 2,561,491	$ 305,561	$ 2,867,052

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

The provisions 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.

25. EQUITY

Share Capital

a. Ordinary shares

	September 30, 2018	December 31, 2017	September 30, 2017
Numbers of shares authorized (in thousands of shares)	1,000,000	1,000,000	1,000,000
Value of shares authorized	$ 10,000,000	$ 10,000,000	$ 10,000,000
Number of shares issued and fully paid (in thousands of shares)	819,079	820,826	821,528
Value of shares issued	$ 8,190,792	$ 8,208,261	$ 8,215,276

In March, May and July 2017, HTC retired 105 thousand, 109 thousand and 268 thousand restricted shares for employees, totaling NT$1,045 thousand, NT$1,090 thousand and NT$2,676 thousand, respectively. As a result, HTC's issued and outstanding ordinary shares as of September 30, 2017 decreased to NT$8,215,276 thousand, divided into 821,528 thousand ordinary shares at a par value of NT$10. Every ordinary share carries one vote per share and a right to dividends.

In March, May and July 2018, HTC retired 16 thousand, 1,697 thousand and 183 thousand restricted shares for employees, totaling NT$162 thousand, NT$16,972 thousand and NT$1,825 thousand, respectively. In January and February 2018, the employee share options have been exercised by the issuance of 129 thousand and 20 thousand shares amounting to NT$1,290 thousand and NT$200 thousand, respectively. As a result, HTC's issued and outstanding common shares as of September 30, 2018 decreased to NT$8,190,792 thousand, divided into 819,079 thousand ordinary shares at a par value of NT$10. Every ordinary share carries one vote per share and a right to dividends.

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

b. Global depositary receipts

In November 2003, HTC issued 14,400 thousand ordinary shares corresponding to 3,600 thousand units of Global Depositary Receipts ("GDRs"). For this GDR issuance, HTC's shareholders, including Via Technologies Inc., also issued 12,878.4 thousand ordinary shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Taking into account the effect of share dividends, the GDRs increased to 8,782.1 thousand units (36,060.5 thousand shares). The holders of these GDRs requested HTC to redeem the GDRs to get HTC's ordinary shares. As of September 30, 2018, there were 5,745 thousand units of GDRs redeemed, representing 22,982 thousand ordinary shares, and the outstanding GDRs represented 13,079 thousand ordinary shares or 1.60% of HTC's outstanding ordinary shares.

Capital Surplus

	September 30, 2018	December 31, 2017	September 30, 2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital			
Arising from the issuance of ordinary shares	$ 14,675,646	$ 14,659,563	$ 14,121,223
Arising from consolidation excess	23,288	23,288	23,288
Arising from expired share options	488,828	186,052	167,446
May be used to offset a deficit only			
Changes in equity-method associates capital surplus	60,873	-	-
May not be used for any purpose			
Arising from employee share options	268,056	572,369	594,389
Arising from employee restricted shares	121,926	110,219	745,368
	$ 15,638,617	$ 15,551,491	$ 15,651,714

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

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

Retained Earnings and Dividend Policy

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

a. To pay taxes.

b. To cover accumulated losses, if any.

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

d. To recognize or reverse special reserve return earnings.

e. The Board of Directors shall propose allocation ratios for any remainder profit after withholding the amounts under subparagraphs 1 to 4 above plus any unappropriated retained earnings of previous years based on the dividend policy set forth in the Article and propose such allocation ratio at the shareholders' meeting.

The policy of employees' compensation and remuneration to directors and supervisors, refer to the employees' compensation and remuneration of directors and supervisors section in Note 27.

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

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

The loss off-setting for 2017 and 2016 had been resolved in the shareholders' meeting on June 26, 2018 and June 15, 2017, respectively.

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

Other Equity Items

a. Exchange differences on translating foreign operations

   Exchange differences relating to the translation of the results and net assets of the Company's foreign operations from their functional currencies to the Company's presentation currency (the New Taiwan dollar) 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 operations.

b. Unrealized losses on available-for-sale financial assets - 2017

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

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

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

d. Cash flow hedge

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

e. Unearned employee benefit

In the shareholders' meetings held on June 2, 2015 and June 19, 2014, the shareholders approved a restricted share plan for employees. Refer to Note 33 for the information of restricted shares issued.

	For the Nine Months Ended September 30	
	2018	2017
Balance, beginning of period	$ (49,590)	$ (253,922)
Share-based payment expenses recognized	25,786	125,485
Balance, end of period	$ (23,804)	$ (128,437)

26. OPERATING REVENUE

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Sale of goods	$ 3,931,668	$ 14,220,525	$ 19,109,928	$ 44,354,758
Other operating income	112,610	1,485,170	497,553	2,017,669
	$ 4,044,278	$ 15,705,695	$ 19,607,481	$ 46,372,427

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

a. Other income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Interest income				
Bank deposits	$ 113,481	$ 62,111	$ 424,704	$ 190,738
Others	25	4,255	345	26,598
	113,506	66,366	425,049	217,336
Rental income	132,447	-	328,877	-
Dividends	-	8,135	-	23,997
Others	55,093	43,117	134,503	279,051
	$ 301,046	$ 117,618	$ 888,429	$ 520,384

b. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Net gain on disposal of assets and licensing income	$ -	$ -	$ 31,285,385	$ -
Net gain on disposal of non-current assets held for sale (Note 15)	-	-	1,077,246	-
Net gain (loss) on the disposal of property, plant and equipment	82,984	(13)	80,493	(4,943)
Net gain on disposal of subsidiary (Note 31)	-	-	15,396	-
Net gain on disposal of investment	-	-	-	24,305
Net foreign exchange gain	251,383	134,207	386,879	346,266
Net loss arising from financial instruments classified as held for trading	-	(47,599)	-	(47,599)
Net loss on valuation of financial instruments at fair value	(88,039)	-	(88,039)	-
Ineffective portion of cash flow hedge (Note 8)	-	-	-	3,538
Other loss	(348,622)	(6,445)	(757,937)	(15,559)
	$ (102,294)	$ 80,150	$ 31,999,423	$ 306,008

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

c. Impairment reversal gain on financial assets

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Trade receivables	$ -	$ -	$ -	$ (362,870)

d. Depreciation and amortization

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Property, plant and equipment	$ 120,878	$ 242,243	$ 355,488	$ 768,221
Investment properties	24,931	-	66,353	5,936
Intangible assets	301,138	344,464	895,486	1,045,126
	$ 446,947	$ 586,707	$ 1,317,327	$ 1,819,283
An analysis of depreciation - by function				
Operating costs	$ 24,130	$ 69,499	$ 70,261	$ 216,082
Operating expenses	96,748	172,744	285,227	552,139
Other expenses	24,931	-	66,353	5,936
	$ 145,809	$ 242,243	$ 421,841	$ 774,157
An analysis of amortization - by function				
Operating costs	$ -	$ 245	$ -	$ 1,498
Operating expenses	301,138	344,219	895,486	1,043,628
	$ 301,138	$ 344,464	$ 895,486	$ 1,045,126

e. Employee benefits expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Short-term benefits	$ 1,635,000	$ 2,742,994	$ 6,507,437	$ 8,356,711
Post-employment benefits				
Defined contribution plans	67,194	104,788	228,521	319,426
Defined benefit plans	2,765	1,819	8,297	5,450
	69,959	106,607	236,818	324,876
Share-based payments (Note 33)				
Equity-settled share-based payments	8,578	52,529	26,449	157,747
Separation benefits	233,335	-	532,678	-
Total employee benefits expense	$ 1,946,872	$ 2,902,130	$ 7,303,382	$ 8,839,334
An analysis of employee benefits expense - by function				
Operating costs	$ 411,307	$ 609,025	$ 1,403,310	$ 1,860,834
Operating expenses	1,302,230	2,293,105	5,367,394	6,978,500
Other expenses	233,335	-	532,678	-
	$ 1,946,872	$ 2,902,130	$ 7,303,382	$ 8,839,334

f. Employees' compensation and remuneration of directors and supervisors

In compliance with HTC's Articles of Incorporation, the amendments stipulate the distribution of employees' compensation and remuneration to directors and supervisors at rates of no less than 4% and of no more than 0.25%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. For the nine months ended September 30, 2018 and 2017, the accrual rates and amount of employees' compensation are as follows:

Accrual rate

	For the Nine Months Ended September 30	
	2018	2017
Employees' compensation	4%	4%

Amount

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Employees' compensation	$ (110,462)	$ -	$ 643,492	$ -

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

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

g. Impairment loss

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Inventories (included in operating costs)	$ 56,321	$ 534,946	$ 646,811	$ 2,772,973

h. Gain or loss on foreign currency exchange

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Foreign exchange gains	$ 587,660	$ 692,104	$ 2,166,570	$ 4,688,726
Foreign exchange losses	(336,277)	(557,897)	(1,779,691)	(4,342,460)
Valuation loss arising from financial instruments classified as held for trading	-	(47,599)	-	(47,599)
Valuation loss arising from financial instruments at fair value	(88,039)	-	(88,039)	-
Ineffective portion of cash flow hedges	-	-	-	3,538
	$ 163,344	$ 86,608	$ 298,840	$ 302,205

28. INCOME TAXES RELATING TO CONTINUING OPERATIONS

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Current tax				
In respect of the current period	$ 76,937	$ 17,188	$ 247,098	$ 104,555
Land value increment tax	-	-	84,027	-
Adjustments for prior periods	(70,638)	(27,955)	(70,638)	(87,955)
	6,299	(10,767)	260,487	16,600
Deferred tax				
In respect of the current period	6,583	3,487	5,073,231	(41,539)
Income tax expense (benefit) recognized in profit or loss	$ 12,882	$ (7,280)	$5,333,718	$ (24,939)

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

b. Income tax assessments

HTC's tax returns through 2015 had been assessed by the tax authorities.

HTC Investment Corporation's tax returns through 2016 have been examined and approved by the tax authorities.

29. (LOSS) EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	**2017**	**2018**	**2017**
Basic (loss) earnings per share	$ (3.18)	$ (3.80)	$ 20.03	$ (8.64)
Diluted (loss) earnings per share	$ (3.18)	$ (3.80)	$ 19.65	$ (8.64)

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

Net (Loss) Profit for the Period

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	**2017**	**2018**	**2017**
(Loss) profit for the period attributable to owners of the parent	$ (2,603,000)	$ (3,118,965)	$ 16,418,775	$ (7,102,081)

Shares

Unit: In Thousands of Shares

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	**2017**	**2018**	**2017**
Weighted average number of ordinary shares used in the computation of basic (loss) earnings per share	819,139	821,565	819,890	821,774
Effect of potentially dilutive ordinary shares:				
Employee share options	-	-	5	-
Employees' compensation issued	-	-	15,850	-
Weighted average number of ordinary shares used in the computation of diluted (loss) earnings per share	819,139	821,565	835,745	821,774

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

The exercise price of the outstanding options issued by the Company was beneath the average market price of the shares during the nine months ended September 30, 2018, which was included in the computation of diluted (loss) earnings per share. The exercise price of the options issued by the Company exceeded the average market price of the shares during the nine months ended September 30, 2017, which were anti-dilutive and excluded from the computation of diluted (loss) earnings per share.

30. BUSINESS COMBINATIONS

a. Subsidiaries acquired

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

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

b. Considerations transferred

	VRChat. Inc.
Convertible bonds converted to preferred shares	$ 8,322
Cash	110,434
	$ 118,756

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

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

d. Non-controlling interests

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

e. Goodwill recognized on acquisition

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

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

The total amount of acquisition goodwill was not deductible for tax purposes.

f. Net cash inflow on acquisition of subsidiaries

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

g. Impact of acquisitions on the results of the Company

Had these business combinations been in effect at the beginning of the annual reporting period, the Company's revenue from continuing operations would have been NT$46,372,427 thousand, and the loss from continuing operations would have been NT$7,137,256 thousand for the nine months ended September 30, 2017. This pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Company that actually would have been achieved had the acquisition been completed on August 2, 2017, nor is it intended to be a projection of future results.

31. DISPOSAL OF SUBSIDIARIES

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

a. Consideration received from the disposal

	CGC
Consideration received in cash	$ 410,857

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

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

c. Gain on disposal of subsidiary

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

d. Net cash inflow on disposal of subsidiary

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

32. OPERATING LEASE ARRANGEMENTS

The Company as Lessee

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

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

	September 30, 2018	December 31, 2017	September 30, 2017
Not later than 1 year	$ 130,349	$ 139,557	$ 126,988
Later than 1 year and not later than 5 years	266,951	309,453	299,195
Later than 5 years	35,954	59,321	77,088
	$ 433,254	$ 508,331	$ 503,271

The Company as Lessor

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

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

	September 30, 2018	December 31, 2017	September 30, 2017
Not later than 1 year	$ 386,237	$ -	$ -
Later than 1 year and not later than 5 years	-	-	-
Later than 5 years	-	-	-
	$ 386,237	$ -	$ -

33. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company

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

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

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

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

Information on employee share options are as follows:

	For the Nine Months Ended September 30			
	2018		2017	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance, beginning of period	16,068	$137.45	20,072	$136.65
Options exercised	(149)		-	
Options forfeited	(8,542)		(3,281)	
Balance, end of period	7,377	139.19	16,791	137.49
Options exercisable, end of period	7,357		12,784	

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

	September 30, 2018	December 31, 2017	September 30, 2017
Range of exercise prices (NT$)	$54.5-$149	$54.5-$149	$54.5-$149
Weighted-average remaining contractual life (years)	4.46 years	5.24 years	5.50 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 are as follows:

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

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

Employee Restricted Shares

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

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

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

If an employee fails to meet the vesting conditions, HTC will recall or buy back and cancel the restricted shares. For 2017 and the nine months ended September 30, 2018, HTC retired 1,193 thousand and 1,896 thousand restricted shares for employees amounting to NT$11,926 thousand and NT$18,959 thousand, respectively. As a result, the numbers of HTC's issued and outstanding employee restricted shares as of September 30, 2018 was 1,176 thousand shares. The related information is as follows:

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

Compensation Cost of Share-based Payment Arrangements

Compensation costs of share-based payment arrangements recognized were NT$26,449 thousand and NT$157,747 thousand for the nine months ended September 30, 2018 and 2017, respectively.

34. CAPITAL RISK MANAGEMENT

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

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

35. FINANCIAL INSTRUMENTS

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

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

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

a. Fair value hierarchy

September 30, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	$ -	$ 72,777	$ -	$ 72,777
Financial assets at FVTPL				
Derivative financial instruments				
Convertible bonds	-	-	210,002	210,002
Warrants	-	-	15,883	15,883
	$ -	$ 72,777	$ 225,885	$ 298,662
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic listed shares and emerging market shares	$ 116,768	$ -	$ -	$ 116,768
Domestic unlisted shares	-	-	526,333	526,333
Overseas listed shares	477,412	-	-	477,412
Overseas unlisted shares	-	-	1,247,749	1,247,749
Overseas unlisted beneficiary certificates	-	-	752,512	752,512
	$ 594,180	$ -	$ 2,526,594	$ 3,120,774
Financial liabilities at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	$ -	$ 160,816	$ -	$ 160,816

December 31, 2017

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

September 30, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 95,099	$ -	$ 95,099
Available-for-sale financial assets				
Domestic listed shares - equity investments	$ 95	$ -	$ -	$ 95
Available-for-sale financial assets				
Overseas listed shares - equity investments	369,547	-	-	369,547
	$ 369,642	$ -	$ -	$ 369,642
Financial liabilities at FVTPL				
Derivative financial instruments	$ -	$ 142,698	$ -	$ 142,698

There were no transfers between Levels 1 and 2 for the nine months ended September 30, 2018 and 2017.

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

For the nine months ended September 30, 2018

Financial Assets	Financial Assets at FVTPL Derivatives	Financial Assets at FVTOCI Equity Instruments	Total
Balance at January 1, 2018	$ 131,742	$ 3,024,565	$ 3,156,307
Recognized in other comprehensive income	-	(606,702)	(606,702)
Reclassification	(7,378)	7,378	-
Purchases	97,822	40,221	138,043
Effect of foreign currency exchange differences	3,699	61,132	64,831
Balance at September 30, 2018	$ 225,885	$ 2,526,594	$ 2,752,479

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

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

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

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

e. Valuation process for Level 3 fair value measurement

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

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

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

Categories of Financial Instruments

	September 30, 2018	December 31, 2017	September 30, 2017
Financial assets			
Financial assets at FVTPL			
Held for trading (Note 1)	$ 72,777	$ 196,941	$ 223,720
Mandatorily at FVTPL	225,885	-	-
Loans and receivables (Note 2)	-	27,211,199	34,015,787
Available-for-sale financial assets (Note 3)	-	3,367,695	3,579,172
Amortized cost (Note 4)	46,128,949	-	-
Financial assets at FVTOCI			
Equity instruments	3,120,774	-	-
Financial liabilities			
Financial liabilities at FVTPL			
Held for trading	160,816	75,184	142,698
Amortized cost (Note 5)	19,986,364	26,389,180	33,062,894

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

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

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

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

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

Financial Risk Management Objectives and Policies

The Company sought to minimize the effects of these risks by using derivative financial instruments and non-derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Company's policies which were approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies was reviewed by the internal auditors on a continuous basis. The Company did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The 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 department and Board of Directors for monitoring risks and implementing policies 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.

<u>Foreign currency risk</u>

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 exposed to foreign currency risk at the end of the reporting period are set out in Note 39.

Sensitivity analysis

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

The following table details the Company’s sensitivity to a 1% increase and decrease in the New Taiwan dollar (“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 strengthening 1% against the relevant currency. For a 1% weakening of the NTD against the relevant currency, there would be an equal and opposite impact on pre-tax profit (loss) or equity, and the balances below would be negative.

	Profit or Loss	Equity
For the nine months ended September 30, 2018		
USD	$ (16,251)	$ (134,861)
EUR	427	(3,334)
RMB	(17,398)	(102,649)
JPY	(4,119)	(1,436)
For the nine months ended September 30, 2017		
USD	45,153	(143,755)
EUR	482	(4,928)
RMB	(6,486)	(106,084)
JPY	(1,497)	(1,384)

b. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a 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 the failure of counterparties to discharge an obligation and financial guarantees provided by the Company could arise from the carrying amounts of the respective recognized financial assets as stated in the balance sheets. The Company does not issue any financial guarantees involving credit risk.

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

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

c. Liquidity risk

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

1) Liquidity risk rate tables for non-derivative financial liabilities

The following table details the Company’s remaining contractual maturities 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.

September 30, 2018

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 3,136,391	$ 6,848,166	$ -
Other payables	4,870,499	4,952,127	-
Other current liabilities	69,109	-	-
Guarantee deposits received	-	-	110,072
	$ 8,075,999	$ 11,800,293	$ 110,072

December 31, 2017

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

September 30, 2017

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Non-derivative financial liabilities			
Short-term borrowings	$ 2,000,000	$ -	$ -
Note and trade payables	10,625,447	8,149,445	-
Other payables	6,291,841	5,869,794	-
Other current liabilities	120,564	-	-
Guarantee deposits received	-	-	5,803
	$ 19,037,852	$ 14,019,239	$ 5,803

2) Liquidity risk rate tables for derivative financial instruments

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

September 30, 2018

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Net settled			
Foreign exchange contracts	$ 18,257	$ -	$ -
Gross settled			
Foreign exchange contracts			
Inflows	$ 26,930,185	$ -	$ -
Outflows	(26,982,512)	-	-
	$ (52,327)	$ -	$ -

December 31, 2017

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

September 30, 2017

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Net settled			
Foreign exchange contracts	$ 31,802	$ -	$ -
Gross settled			
Foreign exchange contracts			
Inflows	$ 19,497,643	$ -	$ -
Outflows	(19,544,951)	-	-
	$ (47,308)	$ -	$ -

3) Bank credit limit

	September 30, 2018	December 31, 2017	September 30, 2017
Unsecured bank general credit limit			
Amount used	$ 569,070	$ 294,870	$ 2,332,726
Amount unused	18,166,043	18,315,345	16,362,589
	$ 18,735,113	$ 18,610,215	$ 18,695,315

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

36. RELATED-PARTY TRANSACTIONS

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

Names and Relationships of Related-parties

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

Operating Sales

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Other related parties	$ 13,294	$ 6,357	$ 31,243	$ 12,324

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

	September 30, 2018	December 31, 2017	September 30, 2017
Other related parties	$ 4,435	$ 22,400	$ 974

Some related parties whose received products sold at prices which were no different from sales to third parties. No guarantees had been given or received for trade receivables from related parties. Trade receivables from related parties were assessed to have no bad debt risk, hence no bad debt expense had been recognized for the nine months ended September 30, 2018 and 2017.

Purchase

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Other related parties	$ 4,216	$ -	$ 8,784	$ 2,392

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

	September 30, 2018	December 31, 2017	September 30, 2017
Other related parties	$ 5,485	$ 960	$ -

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

Compensation of Key Management Personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Short-term benefits	$ 19,165	$ 17,086	$ 125,292	$ 61,177
Post-employment benefits	165	208	437	1,048
Share-based payments	2,107	17,066	6,253	42,356
	$ 21,437	$ 34,360	$ 131,982	$ 104,581

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

Rental Expenses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
VIA Technologies (China) Co., Ltd.	$ 6,855	$ 8,266	$ 22,121	$ 24,604
Other related parties	1,650	1,047	4,589	3,122
	$ 8,505	$ 9,313	$ 26,710	$ 27,726

The Company leased offices, staff dormitories and meeting rooms owned by VIA Technologies (China) Co., Ltd. and a related party under operating lease agreements. The rental payment is determined based on the prevailing rate in the surrounding area.

Acquisitions of Property, Plant and Equipment

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Other related parties	$ 224	$ -	$ 224	$ -

Other Related-party Transactions

Other related parties provide selling and marketing services to the Company. The selling and marketing service expenses was NT$6,000 thousand for the nine months ended September 30, 2017.

37. PLEDGED ASSETS

As of September 30, 2018, December 31, 2017 and September 30, 2017, time deposits amounting to NT$473,424 thousand, NT$149,810 thousand and NT$152,111 thousand which were classified as other financial assets were provided respectively as collateral for rental deposits, litigation and cooperative vendors.

38. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

a. In April 2008, IPCom GMBH & CO., KG ("IPCom") filed a multi-claim lawsuit against the Company 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 the District Court of Dusseldorf, Germany.

   In June 2011, IPCom filed a new complaint against the Company alleging patent infringement of patent owned by IPCom with the High Court in London, the United Kingdom. In September 2011, the Company filed declaratory judgment action for non-infringement and invalidity in Milan, Italy. Legal proceedings in the abovementioned Courts in Germany and the United Kingdom are still ongoing. Because of the lawsuit, the Company implemented alternative solution since 2012. The Company evaluated the lawsuits and considered the risk of patents-in-suits as low. Also, preliminary injunction and summary judgment against the alternative solution of the Company are very unlikely.

   In March 2012, the Washington Court granted 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 of the Federal Circuit affirmed the Washington Court's decision.

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

   As of the date the board of directors of HTC approved and authorized for issuing the consolidated financial statements, the Court has not made critical decision, except for the above.

b. In December 2015, Koninklijke Philips N.V. (Philips) filed a lawsuit against the Company in the District Court of Mannheim, Germany, alleging infringement of certain Philips patents. In October 2016, the Mannheim Court found that certain smartphone products sold by the 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' attempts to enforce an injunction based on this patent were unsuccessful due to a workaround, supplied by Google, being implemented in the Company devices. In July 2017, the German Federal Patent Court found that EP '687 patent is invalid.

   The court hearing about Philips' claims regarding an infringement of their patent, European Patent No. 1459165, was held on May 16, 2018. The patent concerned scrolling functionality. Unusually, the judges dismissed the infringement allegations at the hearing rather than waiting to issue a written decision. The other infringement case, which is also based on an infringement of Philips' patents, has been taking place in the second quarter of 2018. This case is based on the patent, European Patent No. 1356367, which relates to dimming control of a device screen. The infringement trial was held on June 22, 2018 and has stayed the infringement action pending the outcome of the nullity action on September 28, 2018.

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

   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 the court's decision. As of the date the board of directors of HTC approved and authorized for issuing the consolidated financial statements, the appeals court has not issued a ruling with respect to the abovementioned patent-in-suit.

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

39. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	September 30, 2018		December 31, 2017		September 30, 2017	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
Financial assets						
Monetary items						
USD	$ 1,336,228	30.54	$ 1,156,853	29.84	$ 1,555,373	30.30
EUR	84,114	35.49	63,262	35.66	57,663	35.73
JPY	6,167,833	0.2693	5,825,499	0.2649	5,008,616	0.2695
RMB	1,708,298	4.44	1,188,839	4.58	858,174	4.56

(Continued)

	September 30, 2018		December 31, 2017		September 30, 2017	
	Foreign Currencies	**Exchange Rate**	**Foreign Currencies**	**Exchange Rate**	**Foreign Currencies**	**Exchange Rate**
Non-monetary items						
USD	$ 87,805	30.54	$ 85,590	29.84	$ 98,192	30.30
RMB	4,885	4.44	1,536	4.58	1,536	4.56
Investments accounted for using the equity method						
USD	15,781	30.54	13,460	29.84	4,556	30.30
RMB	14,054	4.44	2,513	4.58	1,310	4.56
Financial liabilities						
Monetary items						
USD	827,514	30.54	793,530	29.84	1,247,221	30.30
EUR	66,254	35.49	66,494	35.66	46,173	35.73
JPY	3,589,964	0.2693	4,922,152	0.2649	4,948,534	0.2695
RMB	319,850	4.44	179,398	4.58	200,759	4.56

(Concluded)

For the nine months ended September 30, 2018 and 2017, realized and unrealized net foreign exchange gains were NT$298,840 thousand and NT$302,205 thousand, respectively. It is impractical to disclose net foreign exchange gains or losses by each significant foreign currency due to the variety of foreign currency transactions and functional currencies of the Company's entities.

40. SIGNIFICANT CONTRACTS

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

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

(Continued)

Contractor	Term	Description
InterDigital Technology Corporation	December 31, 2003 to the expiry dates of these patents stated in the agreement.	Authorization to use TDMA and CDMA technologies; royalty payment based on agreement.
Koninklijke Philips Electronics N.V.	January 5, 2004 to the expiry dates of these patents stated in the agreement.	GSM/DCS 1800/1900 patent license; royalty payment based on agreement.
MOTOROLA, Inc.	December 23, 2003 to the latest of the following dates: a. Expiry dates of patents stated in the agreement. b. Any time when the Company is not using any of Motorola's intellectual properties.	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA standards patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents stated in the agreement.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
IV International Licensing Netherlands, B.V.	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.

(Concluded)

41. SEGMENT INFORMATION

The Company is organized and managed as a single reportable business segment. The Company's operations are mainly in the research, design, manufacture and sale of smart mobile and virtual reality devices of which the operating revenue is more than 90 percent of the total revenue. The Company is considered a single segment. The basis of information reported to the chief operating decision maker is the same as the consolidated financial statements. Because the basis of segment information reported to the chief operating decision maker is the same as the consolidated financial statements, the segment revenue and results for the nine months ended September 30, 2018 and 2017 can be referred to in the consolidated statements of comprehensive income and the segment assets and liabilities as of September 30, 2018 and 2017 can be referred to in the consolidated balance sheets.