

HTC Corporation and Subsidiaries

**Consolidated Financial Statements for the
Six Months Ended June 30, 2020 and 2019 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 June 30, 2020 and 2019, the related consolidated statements of comprehensive income for the three months ended June 30, 2020 and 2019 and for the six months ended June 30, 2020 and 2019, the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2020 and 2019 and the related notes to the consolidated financial statements, 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” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. 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 consolidated financial position of the Company as of June 30, 2020 and 2019, its consolidated financial performance for the three months ended June 30, 2020 and 2019, and its consolidated financial performance and its consolidated cash follows for the six months ended June 30, 2020 and 2019 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.

The engagement partners on the reviews resulting in this independent auditors' review report are Chi-Ming Hsu and Kenny Hong.

Deloitte & Touche
Taipei, Taiwan
Republic of China

August 3, 2020

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in 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 accepted in the Republic of China were not translated into English.

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

	June 30, 2020 (Reviewed)		December 31, 2019 (Audited)		June 30, 2019 (Reviewed)	
ASSETS	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 17,313,929	37	\$ 28,143,761	53	\$ 28,051,098	46
Financial assets at fair value through profit or loss - current (Note 7)	105,706	-	69,055	-	109,519	-
Financial assets at fair value through other comprehensive income - current (Note 8)	2,417,792	5	1,069,433	2	827,135	1
Notes, trade receivables, net (Notes 10 and 30)	584,265	1	422,378	1	1,333,454	2
Other receivables (Note 10)	68,815	-	108,823	-	139,283	-
Current tax assets	254,483	1	231,198	1	232,956	1
Inventories (Note 11)	1,617,370	3	2,359,780	5	3,114,753	5
Prepayments (Note 12)	343,432	1	425,332	1	531,295	1
Other current financial assets (Notes 9 and 31)	8,161,193	17	2,837,350	5	7,984,820	13
Other current assets	<u>1,869</u>	<u>-</u>	<u>1,643</u>	<u>-</u>	<u>2,313</u>	<u>-</u>
Total current assets	<u>30,868,854</u>	<u>65</u>	<u>35,668,753</u>	<u>68</u>	<u>42,326,626</u>	<u>69</u>
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss - non-current (Note 7)	360,329	1	361,307	1	269,891	-
Financial assets at fair value through other comprehensive income - non-current (Notes 8 and 30)	1,634,148	4	1,665,744	3	2,359,600	4
Investments accounted for using the equity method (Note 14)	552,377	1	477,956	1	512,094	1
Property, plant and equipment (Notes 15 and 30)	7,671,823	16	7,888,181	15	8,226,190	13
Right-of-use assets (Note 3, 4 and 16)	277,103	1	311,581	1	451,962	1
Investment properties, net (Note 17)	2,045,400	4	2,068,531	4	2,039,874	3
Intangible assets (Note 18)	108,767	-	108,877	-	603,583	1
Deferred tax assets	3,351,483	7	3,604,075	7	3,967,204	7
Refundable deposits (Note 29)	108,114	-	110,525	-	121,164	-
Net defined benefit asset - non-current	286,709	1	289,464	-	274,871	1
Other non-current financial assets (Notes 9 and 31)	148,245	-	150,505	-	155,343	-
Other non-current assets (Note 12)	<u>28,367</u>	<u>-</u>	<u>29,328</u>	<u>-</u>	<u>44,930</u>	<u>-</u>
Total non-current assets	<u>16,572,865</u>	<u>35</u>	<u>17,066,074</u>	<u>32</u>	<u>19,026,706</u>	<u>31</u>
TOTAL	<u>\$ 47,441,719</u>	<u>100</u>	<u>\$ 52,734,827</u>	<u>100</u>	<u>\$ 61,353,332</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Financial liabilities at fair value through profit or loss - current (Note 7)	\$ 79,236	-	\$ 119,755	-	\$ 168,733	-
Note and trade payables (Notes 19 and 30)	5,937,423	13	6,888,171	13	8,543,447	14
Other payables (Notes 20 and 30)	6,146,800	13	7,215,158	14	7,900,903	13
Current tax liabilities	142,548	-	150,381	-	269,955	-
Provisions - current (Note 21)	1,552,229	3	1,794,236	4	2,037,307	3
Lease liabilities - current (Notes 3, 4, 16 and 30)	115,084	-	102,784	-	143,796	-
Other current liabilities (Note 20)	<u>826,244</u>	<u>2</u>	<u>1,005,586</u>	<u>2</u>	<u>890,751</u>	<u>2</u>
Total current liabilities	<u>14,799,564</u>	<u>31</u>	<u>17,276,071</u>	<u>33</u>	<u>19,954,892</u>	<u>32</u>
NON-CURRENT LIABILITIES						
Deferred tax liabilities	104,322	-	70,674	-	45,969	-
Lease liabilities - non-current (Notes 3, 4, 16 and 30)	187,057	1	225,930	1	326,242	1
Guarantee deposits received (Note 29)	<u>170,797</u>	<u>-</u>	<u>164,869</u>	<u>-</u>	<u>166,967</u>	<u>-</u>
Total non-current liabilities	<u>462,176</u>	<u>1</u>	<u>461,473</u>	<u>1</u>	<u>539,178</u>	<u>1</u>
Total liabilities	<u>15,261,740</u>	<u>32</u>	<u>17,737,544</u>	<u>34</u>	<u>20,494,070</u>	<u>33</u>
EQUITY (Note 22)						
Share capital - ordinary shares	8,188,043	17	8,188,086	15	8,188,119	14
Capital surplus	15,660,649	33	15,594,766	30	15,515,328	25
Retained earnings						
Legal reserve	15,725,509	33	18,895,136	36	18,895,136	31
Special reserve	3,080,480	7	3,080,480	6	3,080,480	5
Accumulated deficits	(7,502,648)	(16)	(7,169,626)	(14)	(2,477,499)	(4)
Other equity	<u>(3,079,542)</u>	<u>(6)</u>	<u>(3,735,072)</u>	<u>(7)</u>	<u>(2,370,366)</u>	<u>(4)</u>
Total equity attributable to owners of the parent	32,072,491	68	34,853,770	66	40,831,198	67
NON-CONTROLLING INTERESTS	<u>107,488</u>	<u>-</u>	<u>143,513</u>	<u>-</u>	<u>28,064</u>	<u>-</u>
Total equity	<u>32,179,979</u>	<u>68</u>	<u>34,997,283</u>	<u>66</u>	<u>40,859,262</u>	<u>67</u>
TOTAL	<u>\$ 47,441,719</u>	<u>100</u>	<u>\$ 52,734,827</u>	<u>100</u>	<u>\$ 61,353,332</u>	<u>100</u>

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

HTC CORPORATION AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Notes 23 and 30)	\$ 1,343,394	100	\$ 2,807,105	100	\$ 2,673,144	100	\$ 5,750,731	100
OPERATING COST (Notes 11, 24 and 30)	<u>987,620</u>	<u>74</u>	<u>2,236,819</u>	<u>80</u>	<u>1,968,340</u>	<u>74</u>	<u>4,749,016</u>	<u>83</u>
GROSS PROFIT	<u>355,774</u>	<u>26</u>	<u>570,286</u>	<u>20</u>	<u>704,804</u>	<u>26</u>	<u>1,001,715</u>	<u>17</u>
OPERATING EXPENSES (Notes 24 and 30)								
Selling and marketing	407,956	30	718,165	26	974,400	36	1,485,960	26
General and administrative	691,991	52	886,565	31	1,355,380	51	1,829,481	32
Research and development	<u>922,153</u>	<u>69</u>	<u>1,450,840</u>	<u>52</u>	<u>1,892,968</u>	<u>71</u>	<u>2,905,770</u>	<u>50</u>
Total operating expenses	<u>2,022,100</u>	<u>151</u>	<u>3,055,570</u>	<u>109</u>	<u>4,222,748</u>	<u>158</u>	<u>6,221,211</u>	<u>108</u>
OPERATING LOSS	<u>(1,666,326)</u>	<u>(125)</u>	<u>(2,485,284)</u>	<u>(89)</u>	<u>(3,517,944)</u>	<u>(132)</u>	<u>(5,219,496)</u>	<u>(91)</u>
NON-OPERATING INCOME AND EXPENSES								
Interest income (Note 24)	66,258	5	119,407	4	144,815	5	234,363	4
Other income (Note 24)	346,828	26	186,877	7	534,124	20	400,270	7
Other gains and losses (Notes 18 and 24)	(571,746)	(42)	(16,322)	-	(675,436)	(25)	(61,164)	(1)
Finance costs (Notes 24 and 30)	(5,684)	-	(8,063)	-	(8,250)	-	(11,783)	-
Share of the loss of associate (Note 14)	<u>(12,368)</u>	<u>(1)</u>	<u>(26,641)</u>	<u>(1)</u>	<u>(17,028)</u>	<u>-</u>	<u>(28,703)</u>	<u>-</u>
Total non-operating income and expenses	<u>(176,712)</u>	<u>(12)</u>	<u>255,258</u>	<u>10</u>	<u>(21,775)</u>	<u>-</u>	<u>532,983</u>	<u>10</u>
LOSS BEFORE INCOME TAX	(1,843,038)	(137)	(2,230,026)	(79)	(3,539,719)	(132)	(4,686,513)	(81)
INCOME TAX BENEFIT (Note 25)	<u>148</u>	<u>-</u>	<u>1,001</u>	<u>-</u>	<u>2,928</u>	<u>-</u>	<u>1,983</u>	<u>-</u>
LOSS FOR THE PERIOD	<u>(1,842,890)</u>	<u>(137)</u>	<u>(2,229,025)</u>	<u>(79)</u>	<u>(3,536,791)</u>	<u>(132)</u>	<u>(4,684,530)</u>	<u>(81)</u>
OTHER COMPREHENSIVE INCOME AND LOSS, NET OF INCOME TAX								
Items that will not be reclassified subsequently to profit or loss:								
Unrealized gain on investments in equity instruments designated as at fair value through other comprehensive income	1,304,120	97	117,442	4	1,290,937	48	391,956	7
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations	<u>(394,103)</u>	<u>(29)</u>	<u>(22,009)</u>	<u>(1)</u>	<u>(637,290)</u>	<u>(24)</u>	<u>318,914</u>	<u>5</u>
Other comprehensive income and loss for the period, net of income tax	<u>910,017</u>	<u>68</u>	<u>95,433</u>	<u>3</u>	<u>653,647</u>	<u>24</u>	<u>710,870</u>	<u>12</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>\$ (932,873)</u>	<u>(69)</u>	<u>\$ (2,133,592)</u>	<u>(76)</u>	<u>\$ (2,883,144)</u>	<u>(108)</u>	<u>\$ (3,973,660)</u>	<u>(69)</u>

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HTC CORPORATION AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
NET LOSS FOR THE PERIOD								
ATTRIBUTABLE TO								
Owners of the parent	\$ (1,824,238)	(136)	\$ (2,217,052)	(79)	\$ (3,502,649)	(131)	\$ (4,661,027)	(81)
Non-controlling interests	<u>(18,652)</u>	<u>(1)</u>	<u>(11,973)</u>	<u>-</u>	<u>(34,142)</u>	<u>(1)</u>	<u>(23,503)</u>	<u>-</u>
	<u>\$ (1,842,890)</u>	<u>(137)</u>	<u>\$ (2,229,025)</u>	<u>(79)</u>	<u>\$ (3,536,791)</u>	<u>(132)</u>	<u>\$ (4,684,530)</u>	<u>(81)</u>
TOTAL COMPREHENSIVE								
LOSS FOR THE PERIOD								
ATTRIBUTABLE TO								
Owners of the parent	\$ (912,301)	(68)	\$ (2,121,984)	(76)	\$ (2,847,119)	(107)	\$ (3,950,694)	(69)
Non-controlling interests	<u>(20,572)</u>	<u>(1)</u>	<u>(11,608)</u>	<u>-</u>	<u>(36,025)</u>	<u>(1)</u>	<u>(22,966)</u>	<u>-</u>
	<u>\$ (932,873)</u>	<u>(69)</u>	<u>\$ (2,133,592)</u>	<u>(76)</u>	<u>\$ (2,883,144)</u>	<u>(108)</u>	<u>\$ (3,973,660)</u>	<u>(69)</u>
LOSS PER SHARE (Note 26)								
Basic	<u>\$ (2.23)</u>		<u>\$ (2.71)</u>		<u>\$ (4.28)</u>		<u>\$ (5.69)</u>	

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

(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						Other Equity	Unearned Employee Benefit	Total	Non-controlling Interests	Total Equity
	Share Capital Ordinary Shares	Capital Surplus	Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income				
			Legal Reserve	Special Reserve	Accumulated Deficits						
BALANCE, JANUARY 1, 2019	\$ 8,188,135	\$ 15,576,268	\$ 18,297,655	\$ -	\$ 6,194,337	\$ (2,052,019)	\$ (1,028,461)	\$ (7,077)	\$ 45,168,838	\$ 51,030	\$ 45,219,868
Appropriation of 2018 earnings											
Legal reserve	-	-	597,481	-	(597,481)	-	-	-	-	-	-
Special reserve	-	-	-	3,080,480	(3,080,480)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(311,148)	-	-	-	(311,148)	-	(311,148)
Net loss for the six months ended June 30, 2019	-	-	-	-	(4,661,027)	-	-	-	(4,661,027)	(23,503)	(4,684,530)
Other comprehensive income and loss for the six months ended June 30, 2019	-	-	-	-	-	318,377	391,956	-	710,333	537	710,870
Changes in capital surplus from investments in associates accounted for using the equity method	-	(60,873)	-	-	(21,700)	-	-	-	(82,573)	-	(82,573)
Share-based payments	(16)	(67)	-	-	-	-	-	6,858	6,775	-	6,775
BALANCE, JUNE 30, 2019	<u>\$ 8,188,119</u>	<u>\$ 15,515,328</u>	<u>\$ 18,895,136</u>	<u>\$ 3,080,480</u>	<u>\$ (2,477,499)</u>	<u>\$ (1,733,642)</u>	<u>\$ (636,505)</u>	<u>\$ (219)</u>	<u>\$ 40,831,198</u>	<u>\$ 28,064</u>	<u>\$ 40,859,262</u>
BALANCE, JANUARY 1, 2020	\$ 8,188,086	\$ 15,594,766	\$ 18,895,136	\$ 3,080,480	\$ (7,169,626)	\$ (2,738,857)	\$ (996,215)	\$ -	\$ 34,853,770	\$ 143,513	\$ 34,997,283
Legal reserve in covering accumulated losses	-	-	(3,169,627)	-	3,169,627	-	-	-	-	-	-
Net loss for the six months ended June 30, 2020	-	-	-	-	(3,502,649)	-	-	-	(3,502,649)	(34,142)	(3,536,791)
Other comprehensive income and loss for the six months ended June 30, 2020	-	-	-	-	-	(635,407)	1,290,937	-	655,530	(1,883)	653,647
Share-based payments	(43)	65,883	-	-	-	-	-	-	65,840	-	65,840
BALANCE, JUNE 30, 2020	<u>\$ 8,188,043</u>	<u>\$ 15,660,649</u>	<u>\$ 15,725,509</u>	<u>\$ 3,080,480</u>	<u>\$ (7,502,648)</u>	<u>\$ (3,374,264)</u>	<u>\$ 294,722</u>	<u>\$ -</u>	<u>\$ 32,072,491</u>	<u>\$ 107,488</u>	<u>\$ 32,179,979</u>

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	\$ (3,539,719)	\$ (4,686,513)
Adjustments for:		
Depreciation expense	316,331	367,041
Amortization expense	4,151	596,908
Expected credit reversed gain recognized on trade receivables	(160,000)	-
Finance costs	8,250	11,783
Interests income	(144,815)	(234,363)
Dividend income	(40)	(33)
Compensation costs of employee share-based payments	65,840	6,775
Share of the loss of associate	17,028	28,703
Net gain on disposal of property, plant and equipment	(3,273)	(83,621)
Impairment loss on non-financial assets	238,631	83,218
Reversals of impairment loss on non-financial assets	(2,713)	(8,958)
Gain from lease modification	(46)	-
Changes in operating assets and liabilities		
(Increase) decrease in financial assets mandatorily classified as at fair value through profit or loss	(77,170)	60,469
(Increase) decrease in trade receivables	(1,887)	349,696
Decrease in other receivables	38,404	26,916
Decrease in inventories	503,779	103,674
Decrease in prepayments	81,900	629,004
(Increase) decrease in other current assets	(226)	10,499
Increase in other non-current assets	(6,778)	(3,947)
Decrease in note and trade payables	(950,748)	(1,269,400)
Decrease in other payables	(828,269)	(1,607,456)
(Decrease) increase in provisions	(242,007)	33,117
Decrease in other current liabilities	(138,228)	(62,696)
Cash used in operating activities	(4,821,605)	(5,649,184)
Interest received	146,419	289,871
Interest paid	(8,250)	(11,783)
Income tax (paid) refunded	(19,988)	14,453
Net cash used in operating activities	(4,703,424)	(5,356,643)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(77,125)	(153,254)
Return of investments accounted for fair value through other comprehensive income	11,283	119,006
Purchase of financial assets at fair value through profit or loss	(4,516)	(30,565)
Acquisition of investments accounted for using the equity method	(100,943)	(171,767)

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2020	2019
Payments for property, plant and equipment	\$ (60,508)	\$ (75,089)
Proceeds from disposal of property, plant and equipment	3,691	87,639
Decrease in refundable deposits	2,411	3,798
Payments for intangible assets	(1,095)	(4,201)
Proceeds from disposal of intangible assets	15	4,732
(Increase) decrease in other financial assets	(5,321,583)	8,929,310
Dividends received	<u>40</u>	<u>33</u>
Net cash (used in) generated from investing activities	<u>(5,548,330)</u>	<u>8,709,642</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from guarantee deposits received	5,928	36,567
Repayment of the principal portion of lease liabilities	<u>(50,226)</u>	<u>(53,334)</u>
Net cash used in financing activities	<u>(44,298)</u>	<u>(16,767)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(533,780)</u>	<u>265,318</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(10,829,832)	3,601,550
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>28,143,761</u>	<u>24,449,548</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 17,313,929</u>	<u>\$ 28,051,098</u>

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

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 designing, manufacturing, assembling, processing, and selling smart mobile and virtual reality devices and after-sales services.

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

The functional currency of HTC is the New Taiwan dollars. The consolidated financial statements are presented in the 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 August 3, 2020.

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), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

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 did not have any material impact on the Company’s accounting policies.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts-Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

(Concluded)

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

Note 2: The amendments to IFRS 9 are applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” are applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” are applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable 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, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

As of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of the 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 consolidated 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 and net defined benefit assets which are measured at the fair value of plan assets less the present value of the defined benefit obligation.

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 the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- c. Level 3 inputs are unobservable inputs for 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 statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

See Note 13 for the detailed information on subsidiaries (including the percentage of ownership and main businesses).

Other Significant accounting policies

Except for the following, refer to the consolidated financial statements for the year ended December 31, 2019.

a. 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.

b. Other long-term employee benefits

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

c. 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.

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 revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Key Sources of Estimation Uncertainty

a. Impairment of tangible and intangible assets other than goodwill

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

Impairment reversed on tangible and intangible assets other than goodwill recognized were NT\$2,713 thousand and NT\$8,958 thousand for the six months ended June 30, 2020 and 2019, respectively.

b. Valuation of inventories

Inventories are measured at the lower of cost or net realizable value. Judgment and estimation are applied in the determination of net realizable value at the end of 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 June 30, 2020, December 31, 2019 and June 30, 2019, the carrying amounts of inventories were NT\$1,617,370 thousand, NT\$2,359,780 thousand and NT\$3,114,753 thousand, respectively.

c. Realization of deferred tax assets

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

As of June 30, 2020, December 31, 2019 and June 30, 2019, the carrying amounts of deferred tax assets were NT\$3,351,483 thousand, NT\$3,604,075 thousand and NT\$3,967,204 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	June 30, 2020	December 31, 2019	June 30, 2019
Cash on hand	\$ 1,147	\$ 1,156	\$ 1,171
Checking accounts and demand deposits	13,258,799	14,362,300	12,803,062
Time deposits (with original maturities of less than three months)	<u>4,053,983</u>	<u>13,780,305</u>	<u>15,246,865</u>
	<u>\$ 17,313,929</u>	<u>\$ 28,143,761</u>	<u>\$ 28,051,098</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Financial assets</u>			
Financial assets held for trading			
Derivatives financial assets (not under hedge accounting)			
Foreign exchange contracts	\$ 105,706	\$ 69,055	\$ 109,519
Financial assets mandatorily classified as at FVTPL			
Derivatives financial assets (not under hedge accounting)			
Convertible bonds	337,203	337,829	245,658
Warrants	<u>23,126</u>	<u>23,478</u>	<u>24,233</u>
	<u>\$ 466,035</u>	<u>\$ 430,362</u>	<u>\$ 379,410</u>
Current	\$ 105,706	\$ 69,055	\$ 109,519
Non-current	<u>360,329</u>	<u>361,307</u>	<u>269,891</u>
	<u>\$ 466,035</u>	<u>\$ 430,362</u>	<u>\$ 379,410</u>

(Continued)

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Financial liabilities - current</u>			
Financial liabilities held for trading			
Derivatives financial liabilities (not under hedge accounting)			
Foreign exchange contracts	\$ 79,236	\$ 119,755	\$ 168,733 (Concluded)

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

Forward Exchange Contracts

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
<u>June 30, 2020</u>					
Foreign exchange contracts	Sell	EUR/USD	2020.7.10-2020.8.14	EUR	28,000
Foreign exchange contracts	Sell	JPY/USD	2020.7.17-2020.8.21	JPY	3,406,000
Foreign exchange contracts	Sell	GBP/USD	2020.7.10-2020.8.12	GBP	30,000
Foreign exchange contracts	Sell	CAD/USD	2020.8.7	CAD	6,000
Foreign exchange contracts	Sell	AUD/USD	2020.7.29	AUD	1,000
Foreign exchange contracts	Sell	RMB/USD	2020.7.8-2020.8.12	RMB	598,225
Foreign exchange contracts	Buy	RMB/USD	2020.7.10-2020.8.21	RMB	541,200
Foreign exchange contracts	Buy	USD/NTD	2020.7.10-2020.8.19	USD	240,000
Foreign exchange contracts	Buy	JPY/USD	2020.7.17-2020.8.14	JPY	3,018,335
Foreign exchange contracts	Buy	EUR/USD	2020.7.15-2020.8.19	EUR	48,000
Foreign exchange contracts	Buy	AUD/USD	2020.7.29-2020.8.14	AUD	9,000
Foreign exchange contracts	Buy	GBP/USD	2020.7.10-2020.8.21	GBP	40,000
Foreign exchange contracts	Buy	SGD/USD	2020.7.15-2020.7.17	SGD	180,827
<u>December 31, 2019</u>					
Foreign exchange contracts	Sell	EUR/USD	2020.1.8-2020.3.6	EUR	14,000
Foreign exchange contracts	Sell	JPY/USD	2020.1.10-2020.3.6	JPY	3,300,000
Foreign exchange contracts	Sell	GBP/USD	2020.1.8-2020.2.26	GBP	18,000
Foreign exchange contracts	Sell	CAD/USD	2020.2.26	CAD	6,000
Foreign exchange contracts	Sell	AUD/USD	2020.2.21	AUD	1,000
Foreign exchange contracts	Sell	RMB/USD	2020.1.8-2020.2.26	RMB	384,150
Foreign exchange contracts	Buy	RMB/USD	2020.1.8-2020.3.6	RMB	727,465
Foreign exchange contracts	Buy	JPY/USD	2020.1.8-2020.3.6	JPY	3,918,335
Foreign exchange contracts	Buy	USD/NTD	2020.1.8-2020.3.6	USD	369,500
Foreign exchange contracts	Buy	EUR/USD	2020.1.8-2020.3.6	EUR	30,000
Foreign exchange contracts	Buy	GBP/USD	2020.1.8-2020.2.21	GBP	17,000
Foreign exchange contracts	Buy	AUD/USD	2020.1.10-2020.2.21	AUD	9,000
Foreign exchange contracts	Buy	HKD/USD	2020.1.17	HKD	626,440
(Continued)					

(Continued)

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
<u>June 30, 2019</u>					
Foreign exchange contracts	Sell	USD/NTD	2019.7.5-2019.7.12	USD	200,000
Foreign exchange contracts	Sell	JPY/USD	2019.7.24-2019.8.21	JPY	5,100,000
Foreign exchange contracts	Sell	GBP/USD	2019.7.26-2019.8.16	GBP	6,000
Foreign exchange contracts	Sell	AUD/USD	2019.7.5	AUD	1,000
Foreign exchange contracts	Sell	CAD/USD	2019.7.12	CAD	6,000
Foreign exchange contracts	Sell	EUR/USD	2019.7.10-2019.7.26	EUR	18,000
Foreign exchange contracts	Sell	RMB/USD	2019.7.5-2019.7.26	RMB	163,225
Foreign exchange contracts	Buy	RMB/USD	2019.7.5-2019.8.21	RMB	850,405
Foreign exchange contracts	Buy	USD/NTD	2019.7.5-2019.8.16	USD	544,500
Foreign exchange contracts	Buy	JPY/USD	2019.7.17-2019.8.21	JPY	1,818,335
Foreign exchange contracts	Buy	EUR/USD	2019.7.10-2019.7.26	EUR	34,000
Foreign exchange contracts	Buy	AUD/USD	2019.7.5-2019.7.24	AUD	9,000
Foreign exchange contracts	Buy	GBP/USD	2019.7.10-2019.8.14	GBP	14,000
(Concluded)					

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in Equity Instruments at FVTOCI

	June 30, 2020	December 31, 2019	June 30, 2019
Domestic investments			
Listed shares and emerging market shares	\$ 58,983	\$ 87,473	\$ 84,608
Unlisted shares	<u>51,830</u>	<u>56,573</u>	<u>423,277</u>
	<u>110,813</u>	<u>144,046</u>	<u>507,885</u>
Foreign investments			
Listed shares	2,417,792	1,069,433	827,135
Unlisted shares	823,013	812,020	1,077,605
Unlisted beneficiary certificate	<u>700,322</u>	<u>709,678</u>	<u>774,110</u>
	<u>3,941,127</u>	<u>2,591,131</u>	<u>2,678,850</u>
	<u>\$ 4,051,940</u>	<u>\$ 2,735,177</u>	<u>\$ 3,186,735</u>
Current	\$ 2,417,792	\$ 1,069,433	\$ 827,135
Non-current	<u>1,634,148</u>	<u>1,665,744</u>	<u>2,359,600</u>
	<u>\$ 4,051,940</u>	<u>\$ 2,735,177</u>	<u>\$ 3,186,735</u>

These investments in equity instruments are not held for trading. Instead, they are held for 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.

9. OTHER FINANCIAL ASSETS

	June 30, 2020	December 31, 2019	June 30, 2019
Time deposits with original maturities of more than three months	\$ 8,304,183	\$ 2,986,855	\$ 8,140,163
Restricted demand deposits	<u>5,255</u>	<u>1,000</u>	<u>-</u>
	<u>\$ 8,309,438</u>	<u>\$ 2,987,855</u>	<u>\$ 8,140,163</u>
Current	\$ 8,161,193	\$ 2,837,350	\$ 7,984,820
Non-current	<u>148,245</u>	<u>150,505</u>	<u>155,343</u>
	<u>\$ 8,309,438</u>	<u>\$ 2,987,855</u>	<u>\$ 8,140,163</u>

For details of pledged other financial assets, refer to Note 31.

10. NOTES, TRADE RECEIVABLES AND OTHER RECEIVABLES

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Notes, trade and overdue receivables</u>			
At amortized cost			
Notes receivable	\$ 1	\$ 2	\$ -
Trade receivables	656,610	551,856	1,706,044
Trade receivables - related parties	-	598	32
Overdue receivables	1,711,958	2,053,491	1,840,947
Less: Allowances for impairment loss	(72,346)	(130,078)	(372,622)
Less: Allowances for impairment loss - overdue receivables	<u>(1,711,958)</u>	<u>(2,053,491)</u>	<u>(1,840,947)</u>
	<u>\$ 584,265</u>	<u>\$ 422,378</u>	<u>\$ 1,333,454</u>
Current	\$ 584,265	\$ 422,378	\$ 1,333,454
Non-current	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 584,265</u>	<u>\$ 422,378</u>	<u>\$ 1,333,454</u>
<u>Other receivables</u>			
Interest receivables	\$ 28,625	\$ 243,528	\$ 290,808
VAT refund receivables	13,648	50,876	36,307
Receivables from disposal of investments	-	1,254,698	1,315,474
Others	26,542	27,718	35,799
Less: Allowances for impairment loss	<u>-</u>	<u>(1,467,997)</u>	<u>(1,539,105)</u>
	<u>\$ 68,815</u>	<u>\$ 108,823</u>	<u>\$ 139,283</u>
Current	\$ 68,815	\$ 108,823	\$ 139,283
Non-current	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 68,815</u>	<u>\$ 108,823</u>	<u>\$ 139,283</u>

a. Trade receivables at amortized cost

The average credit period of the sales 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 basically adopted a policy of 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 that are reviewed and approved 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.

June 30, 2020

	Non Past Due	1-90 Days	91-180 Days	Over 181 Days	Total
Expected credit loss rate	0%-4%	4%-40%	10%-100%	100%	
Gross carrying amount	\$ 540,720	\$ 73,471	\$ -	\$ 42,420	\$ 656,611
Loss allowance (Lifetime ECL)	<u>(1,379)</u>	<u>(28,547)</u>	<u>-</u>	<u>(42,420)</u>	<u>(72,346)</u>
Amortized cost	<u>\$ 539,341</u>	<u>\$ 44,924</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 584,265</u>

December 31, 2019

	Non Past Due	1-90 Days	91-180 Days	Over 181 Days	Total
Expected credit loss rate	0%-4%	4%-40%	10%-100%	100%	
Gross carrying amount	\$ 425,851	\$ -	\$ 3,647	\$ 122,958	\$ 552,456
Loss allowance (Lifetime ECL)	<u>(3,473)</u>	<u>-</u>	<u>(3,647)</u>	<u>(122,958)</u>	<u>(130,078)</u>
Amortized cost	<u>\$ 422,378</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 422,378</u>

June 30, 2019

	Non Past Due	1-90 Days	91-180 Days	Over 181 Days	Total
Expected credit loss rate	0%-7%	4%-50%	10%-100%	100%	
Gross carrying amount	\$ 1,405,734	\$ 34,146	\$ -	\$ 266,196	\$ 1,706,076
Loss allowance (Lifetime ECL)	<u>(91,421)</u>	<u>(15,005)</u>	<u>-</u>	<u>(266,196)</u>	<u>(372,622)</u>
Amortized cost	<u>\$ 1,314,313</u>	<u>\$ 19,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,333,454</u>

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

	For the Six Months Ended June 30	
	2020	2019
Balance, beginning of period	\$ 2,183,569	\$ 2,213,569
Less: Loss allowance reversed	(160,000)	-
Less: Amounts written off	<u>(239,265)</u>	<u>-</u>
Balance, end of period	<u>\$ 1,784,304</u>	<u>\$ 2,213,569</u>

b. Other receivables

Receivables from disposal of investments are derived from the sale of shares of Saffron Media Group Ltd. in 2013. In March 2020, the Company wrote off all receivables with reference to cost benefit.

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

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

	For the Six Months Ended June 30	
	2020	2019
Balance, beginning of period	\$ 1,467,997	\$ 1,529,699
Less: Amounts written off	(1,467,997)	-
Foreign exchange gains and losses	<u>-</u>	<u>9,406</u>
Balance, end of period	<u>\$ -</u>	<u>\$ 1,539,105</u>

11. INVENTORIES

	June 30, 2020	December 31, 2019	June 30, 2019
Finished goods	\$ 705,627	\$ 1,005,304	\$ 996,048
Work-in-process	7,586	11,739	24,769
Semi-finished goods	203,524	248,119	578,037
Raw materials	691,304	1,066,867	1,511,681
Inventory in transit	<u>9,329</u>	<u>27,751</u>	<u>4,218</u>
	<u>\$ 1,617,370</u>	<u>\$ 2,359,780</u>	<u>\$ 3,114,753</u>

The cost of inventories write-downs recognized as operating costs for the six months ended June 30, 2020 and 2019 were NT\$238,631 thousand and NT\$83,218 thousand, respectively.

12. PREPAYMENTS

	June 30, 2020	December 31, 2019	June 30, 2019
Prepaid expenses	\$ 262,717	\$ 305,848	\$ 287,664
Net input VAT	54,597	62,367	24,380
Prepaid software	28,980	43,453	155,114
Prepaid equipment	14,828	25,322	18,774
Prepaid royalty	7,107	14,214	21,322
Prepayments to suppliers	<u>3,570</u>	<u>3,456</u>	<u>68,971</u>
	<u>\$ 371,799</u>	<u>\$ 454,660</u>	<u>\$ 576,225</u>
Current	\$ 343,432	\$ 425,332	\$ 531,295
Non-current	<u>28,367</u>	<u>29,328</u>	<u>44,930</u>
	<u>\$ 371,799</u>	<u>\$ 454,660</u>	<u>\$ 576,225</u>

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, refer to Note 36. For the year ended December 31, 2019, the Company determined that the carrying amount of some of the prepayments for software were expected to be unrecoverable, and thus recognized an impairment loss of NT\$84,315 thousand classified as other gains and losses. Refer to the consolidated financial statements for the year ended December 31, 2019.

13. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

The consolidated entities as of June 30, 2020, December 31, 2019 and June 30, 2019 were as follows:

Investor	Investee	Main Businesses	% of Ownership			Remark
			June 30, 2020	December 31, 2019	June 30, 2019	
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company and general investing activities	100.00	100.00	100.00	-
	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 Holding Cooperatief U.A.	International holding company	0.01	0.01	0.01	-
	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)	-	-	100.00	1)

(Continued)

Investor	Investee	Main Businesses	% of Ownership			Remark
			June 30, 2020	December 31, 2019	June 30, 2019	
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 virtual reality 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	-
	S3 Graphics Co., Ltd.	Design, research and development of graphics technology	100.00	100.00	100.00	-
	HTC Communication Technologies (SH)	Design, research and development of application software	100.00	100.00	100.00	-
	HTC HK, Limited	Smart mobile devices examination and after-sale services and technique consultations	100.00	100.00	100.00	-
HTC Holding Cooperatief U.A.	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart mobile devices and virtual reality devices	100.00	100.00	100.00	-
	HTC Myanmar Company Limited	Marketing, repair and after-sales services	1.00	1.00	1.00	-
	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 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 Netherlands B.V.	HTC NIPPON Corporation	Sale of smart mobile devices and virtual reality 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	-
	HTC Italia SRL	"	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	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership			Remark
			June 30, 2020	December 31, 2019	June 30, 2019	
HTC Netherlands B.V.	HTC Servicios DE Operacion Mexico, S.A DE C.V.	Human resources management	99.00	99.00	99.00	-
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 and virtual reality 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 software technology	100.00	100.00	100.00	-
HTC Investment (BVI) Corporation	VRChat, Inc.	Development of virtual reality contents	50.37	50.37	51.26	2)
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 dissolution of High Tech Computer Corp. (Suzhou) was approved by its shareholders' meeting held on November 20, 2017, and the liquidation processes were completed on July 5, 2019.
- 2) The equity interest in VRChat, Inc. decreased after the investee company's capital increase in 2019, for which the Company did not proportionally participate in making the capital contribution.

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

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

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	June 30, 2020	December 31, 2019	June 30, 2019
Investment in associates	<u>\$ 552,377</u>	<u>\$ 477,956</u>	<u>\$ 512,094</u>

Investments in Associate - Associates that Are Not Individually Material

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Unlisted equity investment</u>			
East West Artists, LLC	\$ -	\$ -	\$ 24,277
Steel Wool Games, Inc.	113,593	104,473	87,044
Surgical Theater, LLC	206,297	228,674	246,604
MOR Museum Inc.	42,539	45,353	48,476
VR Education Holdings PLC	100,376	-	-
Gui Zhou Wei Ai Educational Technology Co., Ltd.	<u>89,572</u>	<u>99,456</u>	<u>105,693</u>
	<u>\$ 552,377</u>	<u>\$ 477,956</u>	<u>\$ 512,094</u>

For the year ended December 31, 2019, the Company determined that the carrying amount of some of the investments in associates were expected to be unrecoverable. Thus, it recognized impairment losses of NT\$20,757 thousand classified as other gains and losses. Refer to the consolidated financial statements for the year ended December 31, 2019.

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

Name of Associate	June 30, 2020	December 31, 2019	June 30, 2019
East West Artists, LLC	30.00%	30.00%	30.00%
Steel Wool Games, Inc.	49.00%	49.00%	49.00%
Surgical Theater, LLC	14.73%	16.08%	16.68%
MOR Museum Inc.	25.00%	25.00%	25.00%
VR Education Holdings PLC	20.00%	-	-
Gui Zhou Wei Ai Educational Technology Co., Ltd.	26.05%	26.05%	26.05%

Aggregate information of associates that are not individually material:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
The Company's share of:				
Loss from continuing operations	\$ (12,368)	\$ (26,641)	\$ (17,028)	\$ (28,703)
Other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive loss for the period	<u>\$ (12,368)</u>	<u>\$ (26,641)</u>	<u>\$ (17,028)</u>	<u>\$ (28,703)</u>

Investments accounted for using 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 accounting or the calculation of the share of profit or loss and other comprehensive income, due to the investee entities' financial statements were not been reviewed.

15. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2020	December 31, 2019	June 30, 2019
Carrying amounts			
Land	\$ 4,685,113	\$ 4,674,635	\$ 4,674,086
Buildings	2,579,608	2,717,215	2,870,434
Machinery and equipment	232,425	302,682	399,147
Other equipment	<u>174,677</u>	<u>193,649</u>	<u>282,523</u>
	<u>\$ 7,671,823</u>	<u>\$ 7,888,181</u>	<u>\$ 8,226,190</u>

Movements of property, plant and equipment for the six months ended June 30, 2020 and 2019 were as follows:

	2020				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
<u>Cost</u>					
Balance, beginning of period	\$ 4,674,635	\$ 4,296,868	\$ 3,716,915	\$ 1,173,671	\$ 13,862,089
Additions	20,657	4,170	14,053	26,634	65,514
Disposals	-	(134,330)	(437,253)	(29,684)	(601,267)
Reclassified as investment properties	-	(85,930)	-	-	(85,930)
Reclassification	-	-	(23)	23	-
Effect of foreign currency exchange differences	<u>(10,179)</u>	<u>(37,794)</u>	<u>(11,116)</u>	<u>(14,506)</u>	<u>(73,595)</u>
Balance, end of period	<u>4,685,113</u>	<u>4,042,984</u>	<u>3,282,576</u>	<u>1,156,138</u>	<u>13,166,811</u>
<u>Accumulated depreciation</u>					
Balance, beginning of period	-	1,579,653	3,274,103	974,106	5,827,862
Depreciation expenses	-	82,344	82,683	40,981	206,008
Disposals	-	(134,330)	(398,071)	(27,921)	(560,322)
Reclassified as investment properties	-	(57,456)	-	-	(57,456)
Reclassification	-	-	(21)	21	-
Effect of foreign currency exchange differences	<u>-</u>	<u>(6,835)</u>	<u>(9,494)</u>	<u>(11,555)</u>	<u>(27,884)</u>
Balance, end of period	<u>-</u>	<u>1,463,376</u>	<u>2,949,200</u>	<u>975,632</u>	<u>5,388,208</u>
<u>Accumulated impairment</u>					
Balance, beginning of period	-	-	140,130	5,916	146,046
Impairment losses recognized	-	-	-	1,263	1,263
Disposals	-	-	(39,179)	(1,348)	(40,527)
Effect of foreign currency exchange differences	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>(2)</u>
Balance, end of period	<u>-</u>	<u>-</u>	<u>100,951</u>	<u>5,829</u>	<u>106,780</u>
Net book value, end of period	<u>\$ 4,685,113</u>	<u>\$ 2,579,608</u>	<u>\$ 232,425</u>	<u>\$ 174,677</u>	<u>\$ 7,671,823</u>

	2019				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
<u>Cost</u>					
Balance, beginning of period	\$ 4,673,376	\$ 4,529,692	\$ 5,401,732	\$ 1,802,278	\$ 16,407,078
Additions	-	5,278	13,559	24,284	43,121

(Continued)

	2019				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
Disposals	\$ -	\$ -	\$ (1,656,632)	\$ (293,568)	\$ (1,950,200)
Effect of foreign currency exchange differences	710	2,639	4,892	7,386	15,627
Balance, end of period	<u>4,674,086</u>	<u>4,537,609</u>	<u>3,763,551</u>	<u>1,540,380</u>	<u>14,515,626</u>
<u>Accumulated depreciation</u>					
Balance, beginning of period	-	1,579,782	4,659,017	1,481,157	7,719,956
Depreciation expenses	-	87,064	105,146	52,892	245,102
Disposals	-	-	(1,536,558)	(287,606)	(1,824,164)
Effect of foreign currency exchange differences	-	329	3,496	5,499	9,324
Balance, end of period	<u>-</u>	<u>1,667,175</u>	<u>3,231,101</u>	<u>1,251,942</u>	<u>6,150,218</u>
<u>Accumulated impairment</u>					
Balance, beginning of period	-	-	250,476	10,760	261,236
Disposals	-	-	(117,173)	(4,845)	(122,018)
Balance, end of period	<u>-</u>	<u>-</u>	<u>133,303</u>	<u>5,915</u>	<u>139,218</u>
Net book value, end of period	<u>\$ 4,674,086</u>	<u>\$ 2,870,434</u>	<u>\$ 399,147</u>	<u>\$ 282,523</u>	<u>\$ 8,226,190</u> (Concluded)

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

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

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

The Company leased part of the buildings. The leased assets were reclassified as investment properties because the standards related to investment properties are applied on leased assets. For the details, refer to Note 17.

Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 31.

There were no capitalized interests for the six months ended June 30, 2020 and 2019.

16. LEASE ARRANGEMENTS

a. Right-of-use assets

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Carrying amounts</u>			
Buildings	<u>\$ 277,103</u>	<u>\$ 311,581</u>	<u>\$ 451,962</u>

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Additions to right-of-use assets	\$ <u>32,826</u>	\$ <u>139,038</u>	\$ <u>33,912</u>	\$ <u>140,350</u>
Depreciation charge for right-of-use assets				
Buildings	\$ <u>28,509</u>	\$ <u>36,705</u>	\$ <u>58,718</u>	\$ <u>71,587</u>

b. Lease liabilities

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Carrying amounts</u>			
Current	\$ <u>115,084</u>	\$ <u>102,784</u>	\$ <u>143,796</u>
Non-current	\$ <u>187,057</u>	\$ <u>225,930</u>	\$ <u>326,242</u>

As of June 30, 2020, December 31, 2019 and June 30, 2019, the range of discount rate for lease liabilities was 0.5%-10%.

c. Material lease-in activities and terms

The Company leases certain buildings for the use of plants and offices with original lease terms of 2 to 10 years. The Company does not have bargain purchase options to acquire the buildings at the end of the lease terms. In addition, the Company is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

d. Other lease information

Lease arrangements under operating leases for the leasing out of investment properties are set out in Note 17.

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Expenses relating to short-term leases	\$ <u>4,684</u>	\$ <u>8,195</u>	\$ <u>13,071</u>	\$ <u>19,788</u>
Total cash outflow for leases	\$ <u>(28,394)</u>	\$ <u>(38,332)</u>	\$ <u>(68,471)</u>	\$ <u>(79,891)</u>

The Company leases certain office equipment and other equipment which qualify as short-term leases and low-value asset leases. The Company has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

17. INVESTMENT PROPERTIES, NET

	June 30, 2020	December 31, 2019	June 30, 2019
Carrying amounts			
Buildings	\$ <u>2,045,400</u>	\$ <u>2,068,531</u>	\$ <u>2,039,874</u>

Movements of investment properties, net for the six months ended June 30, 2020 and 2019 were as follows:

	2020	2019
<u>Cost</u>		
Balance, beginning of period	\$ 3,123,895	\$ 2,872,143
Disposals	(71,943)	-
Reclassification	85,930	-
Balance, end of period	<u>3,137,882</u>	<u>2,872,143</u>
<u>Accumulated depreciation</u>		
Balance, beginning of period	1,055,364	781,917
Depreciation expenses	51,605	50,352
Disposals	(71,943)	-
Reclassification	57,456	-
Balance, end of period	<u>1,092,482</u>	<u>832,269</u>
Net book value, end of period	<u>\$ 2,045,400</u>	<u>\$ 2,039,874</u>

The abovementioned investment properties were leased out for 3 to 5 years. The lease contracts contain market review clauses in the event that the lessees exercise their options to extend. The lessees do not have bargain purchase options to acquire the investment properties at the expiry of the lease periods.

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

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

The determination of fair value for the investment properties leased on December 31, 2019 and 2018 was performed by independent qualified professional appraisers, and the fair values were measured using Level 3 inputs. There was no significant change in the fair value as of June 30, 2020 and 2019 compared to December 31, 2019 and 2018. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The fair values as of December 31, 2019 and 2018 were NT\$3,005,890 thousand and NT\$2,743,226 thousand, respectively.

The investment properties pledged as collateral for bank borrowings are set out in Note 31.

18. INTANGIBLE ASSETS

	June 30, 2020	December 31, 2019	June 30, 2019
Carrying amounts			
Patents	\$ -	\$ -	\$ 486,424
Goodwill	66,599	67,614	69,787
Other intangible assets	<u>42,168</u>	<u>41,263</u>	<u>47,372</u>
	<u>\$ 108,767</u>	<u>\$ 108,877</u>	<u>\$ 603,583</u>

Movements of intangible assets for the six months ended June 30, 2020 and 2019 were as follows:

	2020			
	Patents	Goodwill	Other Intangible Assets	Total
<u>Cost</u>				
Balance, beginning of period	\$ 11,546,590	\$ 717,982	\$ 1,476,878	\$ 13,741,450
Additions	-	-	1,095	1,095
Disposals	-	-	(15)	(15)
Eliminations	(2,229,400)	(174,253)	(884,403)	(3,288,056)
Effect of foreign currency exchange differences	<u>(135,600)</u>	<u>(8,165)</u>	<u>(8,767)</u>	<u>(152,532)</u>
Balance, end of period	<u>9,181,590</u>	<u>535,564</u>	<u>584,788</u>	<u>10,301,942</u>
<u>Accumulated amortization</u>				
Balance, beginning of period	11,435,505	-	1,244,285	12,679,790
Amortization expenses	-	-	4,151	4,151
Eliminations	(2,229,400)	-	(884,403)	(3,113,803)
Effect of foreign currency exchange differences	<u>(135,600)</u>	<u>-</u>	<u>(5,608)</u>	<u>(141,208)</u>
Balance, end of period	<u>9,070,505</u>	<u>-</u>	<u>358,425</u>	<u>9,428,930</u>
<u>Accumulated impairment</u>				
Balance, beginning of period	111,085	650,368	191,330	952,783
Reversed	-	-	(3,976)	(3,976)
Eliminations	-	(174,253)	-	(174,253)
Effect of foreign currency exchange differences	<u>-</u>	<u>(7,150)</u>	<u>(3,159)</u>	<u>(10,309)</u>
Balance, end of period	<u>111,085</u>	<u>468,965</u>	<u>184,195</u>	<u>764,245</u>
Net book value, end of period	<u>\$ -</u>	<u>\$ 66,599</u>	<u>\$ 42,168</u>	<u>\$ 108,767</u>
	2019			
	Patents	Goodwill	Other Intangible Assets	Total
<u>Cost</u>				
Balance, beginning of period	\$ 11,734,540	\$ 729,299	\$ 1,819,813	\$ 14,283,652
Additions	-	-	4,201	4,201
Disposals	-	-	(4,732)	(4,732)
Effect of foreign currency exchange differences	<u>102,300</u>	<u>6,160</u>	<u>6,744</u>	<u>115,204</u>
Balance, end of period	<u>11,836,840</u>	<u>735,459</u>	<u>1,826,026</u>	<u>14,398,325</u>

(Continued)

	2019			
	Patents	Goodwill	Other Intangible Assets	Total
<u>Accumulated amortization</u>				
Balance, beginning of period	\$ 10,563,272	\$ -	\$ 1,567,249	\$ 12,130,521
Amortization expenses	583,801	-	13,107	596,908
Effect of foreign currency exchange differences	<u>92,258</u>	<u>-</u>	<u>4,588</u>	<u>96,846</u>
Balance, end of period	<u>11,239,331</u>	<u>-</u>	<u>1,584,944</u>	<u>12,824,275</u>
<u>Accumulated impairment</u>				
Balance, beginning of period	111,085	660,278	200,512	971,875
Reversed	-	-	(8,958)	(8,958)
Effect of foreign currency exchange differences	<u>-</u>	<u>5,394</u>	<u>2,156</u>	<u>7,550</u>
Balance, end of period	<u>111,085</u>	<u>665,672</u>	<u>193,710</u>	<u>970,467</u>
Net book value, end of period	<u>\$ 486,424</u>	<u>\$ 69,787</u>	<u>\$ 47,372</u>	<u>\$ 603,583</u> (Concluded)

The Company owns patents of graphics technologies. As of June 30, 2019, the carrying amount of such patents was NT\$485,445 thousand. The patents was fully amortized over their remaining economic lives on November 30, 2019.

19. NOTE AND TRADE PAYABLES

	June 30, 2020	December 31, 2019	June 30, 2019
Notes payable	\$ 41	\$ -	\$ 552
Trade payables	5,935,916	6,885,875	8,539,828
Trade payables - related parties	<u>1,466</u>	<u>2,296</u>	<u>3,067</u>
	<u>\$ 5,937,423</u>	<u>\$ 6,888,171</u>	<u>\$ 8,543,447</u>

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

20. OTHER LIABILITIES

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Other payables</u>			
Accrued expenses	\$ 6,138,365	\$ 7,201,235	\$ 7,582,502
Cash dividend payable	-	-	311,148
Payables for purchase of equipment	<u>8,435</u>	<u>13,923</u>	<u>7,253</u>
	<u>\$ 6,146,800</u>	<u>\$ 7,215,158</u>	<u>\$ 7,900,903</u>
<u>Other liabilities</u>			
Advance receipts	\$ 546,750	\$ 531,274	\$ 642,928
Agency receipts	61,198	87,419	77,448
Others	<u>218,296</u>	<u>386,893</u>	<u>170,375</u>
	<u>\$ 826,244</u>	<u>\$ 1,005,586</u>	<u>\$ 890,751</u>

Accrued Expenses

	June 30, 2020	December 31, 2019	June 30, 2019
Marketing	\$ 1,898,366	\$ 2,335,102	\$ 2,999,820
Salaries, bonuses and compensation	1,768,136	1,851,294	1,727,695
Services	999,139	1,104,638	1,099,318
Materials and molding expenses	581,084	787,176	1,051,786
Import, export and freight	76,845	67,789	96,994
Insurance	49,418	54,162	70,369
Repairs, maintenance and sundry purchase	35,201	52,451	50,699
Others	<u>730,176</u>	<u>948,623</u>	<u>485,821</u>
	<u>\$ 6,138,365</u>	<u>\$ 7,201,235</u>	<u>\$ 7,582,502</u>

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

21. PROVISIONS

	June 30, 2020	December 31, 2019	June 30, 2019
Warranties	\$ 1,381,455	\$ 1,477,671	\$ 1,696,462
Others	<u>170,774</u>	<u>316,565</u>	<u>340,845</u>
	<u>\$ 1,552,229</u>	<u>\$ 1,794,236</u>	<u>\$ 2,037,307</u>

Movements of provisions for the six months ended June 30, 2020 and 2019 are as follows:

	2020		
	Warranty Provision	Others	Total
Balance, beginning of period	\$ 1,477,671	\$ 316,565	\$ 1,794,236
Provisions recognized (reversed)	66,676	(6,441)	60,235
Usage	(159,533)	(137,130)	(296,663)
Effect of foreign currency exchange differences	<u>(3,359)</u>	<u>(2,220)</u>	<u>(5,579)</u>
Balance, end of period	<u>\$ 1,381,455</u>	<u>\$ 170,774</u>	<u>\$ 1,552,229</u>

	2019		
	Warranty Provision	Others	Total
Balance, beginning of period	\$ 1,943,976	\$ 60,214	\$ 2,004,190
Provisions recognized	105,385	320,074	425,459
Usage	(355,627)	(39,304)	(394,931)
Effect of foreign currency exchange differences	<u>2,728</u>	<u>(139)</u>	<u>2,589</u>
Balance, end of period	<u>\$ 1,696,462</u>	<u>\$ 340,845</u>	<u>\$ 2,037,307</u>

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

Onerous contracts are those in which the Company's unavoidable costs of meeting the contractual obligations exceed the economic benefits expected to be received from the contract. The present obligations arising under onerous contracts are recognized and measured as provisions.

22. EQUITY

Share Capital

a. Ordinary shares

	June 30, 2020	December 31, 2019	June 30, 2019
Numbers of shares authorized (in thousands of shares)	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Shares authorized	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>
Number of shares issued and fully paid (in thousands of shares)	<u>818,804</u>	<u>818,809</u>	<u>818,812</u>
Shares issued	<u>\$ 8,188,043</u>	<u>\$ 8,188,086</u>	<u>\$ 8,188,119</u>

In January 2019, HTC retired 2 thousand restricted shares for employees, totaling NT\$16 thousand. As a result, the amount of HTC's issued and outstanding ordinary shares as of June 30, 2019 decreased to NT\$8,188,119 thousand, divided into 818,812 thousand ordinary shares at a par value of NT\$10. Every ordinary share carries one vote per share and the rights to dividends.

In February 2020, HTC retired 5 thousand restricted shares for employees, totaling NT\$43 thousand. As a result, the amount of HTC's issued and outstanding ordinary shares as of June 30, 2020 decreased to NT\$8,188,043 thousand, divided into 818,804 thousand ordinary shares at a par value of NT\$10. Every ordinary share carries one vote per share and the rights 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 acquire HTC's ordinary shares. As of June 30, 2020, there were 8,510.3 thousand units of GDRs redeemed, representing 34,041 thousand ordinary shares, and the outstanding GDRs represented 2,019.5 thousand ordinary shares or 0.24% of HTC's outstanding ordinary shares.

Capital Surplus

	June 30, 2020	December 31, 2019	June 30, 2019
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>			
Arising from the issuance of ordinary shares	\$ 14,726,499	\$ 14,726,491	\$ 14,714,126
Arising from consolidation excess	23,288	23,288	23,288
<u>May be used to offset a deficit only</u>			
Changes in equity-method associates capital surplus	26,752	26,752	-
Arising from expired share options	540,766	527,421	517,953
<u>May not be used for any purpose</u>			
Arising from employee share options	342,753	290,258	248,271
Arising from employee restricted shares	<u>591</u>	<u>556</u>	<u>11,690</u>
	<u>\$ 15,660,649</u>	<u>\$ 15,594,766</u>	<u>\$ 15,515,328</u>

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

For details of capital surplus - employee share options and employee restricted shares, refer to Note 27.

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.

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 ordinary shares, the excess may be transferred to ordinary shares or distributed in cash.

Items referred to under Rule No. 1010012865 issued by the FSC should be appropriated to or reversed from a special reserve account by the Company.

The loss off-setting for 2019 and the appropriation of earnings for 2018 had been approved in the shareholders' meeting on June 19, 2020 and June 21, 2019, respectively. The appropriations and dividends per share were as follows:

	(The Loss Off-setting)		Dividends Per Share	
	Appropriation of Earnings		(NT\$)	
	For 2019	For 2018	For 2019	For 2018
Legal reserve	\$ -	\$ 597,481	\$ -	\$ -
Special reserve	-	3,080,480	-	-
Cash dividends	-	311,148	-	0.38
Legal reserve in covering accumulated losses	3,169,627	-	-	-

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

Other Equity 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 operation.

b. Unrealized gains or losses on financial assets at FVTOCI

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.

c. 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 27 or the information of restricted shares issued.

	For the Six Months Ended June 30	
	2020	2019
Balance, beginning of period	\$ -	\$ (7,077)
Share-based payment expenses recognized	<u>-</u>	<u>6,858</u>
Balance, end of period	<u>\$ -</u>	<u>\$ (219)</u>

23. OPERATING REVENUE

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Sale of goods	\$ 1,249,368	\$ 2,587,239	\$ 2,479,044	\$ 5,271,701
Other operating income	<u>94,026</u>	<u>219,866</u>	<u>194,100</u>	<u>479,030</u>
	<u>\$ 1,343,394</u>	<u>\$ 2,807,105</u>	<u>\$ 2,673,144</u>	<u>\$ 5,750,731</u>

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

a. Interest income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Bank deposits	<u>\$ 66,258</u>	<u>\$ 119,407</u>	<u>\$ 144,815</u>	<u>\$ 234,363</u>

b. Other income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Rental income	\$ 181,748	\$ 152,450	\$ 360,837	\$ 297,891
Dividends	40	-	40	33
Others	<u>165,040</u>	<u>34,427</u>	<u>173,247</u>	<u>102,346</u>
	<u>\$ 346,828</u>	<u>\$ 186,877</u>	<u>\$ 534,124</u>	<u>\$ 400,270</u>

c. Other gains and losses

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Net (loss) gain on the disposal of property, plant and equipment	\$ (106)	82,738	\$ 3,273	83,621
Net foreign exchange (loss) gain	(116,663)	151,930	(57,089)	290,430
Net gain (loss) on valuation of financial instruments at fair value through profit or loss	134,982	(68,077)	26,470	(59,214)
Impairment reversed on non-financial assets (Notes 15 and 18)	3,812	6,408	2,713	8,958
Other loss	<u>(593,771)</u>	<u>(189,321)</u>	<u>(650,803)</u>	<u>(384,959)</u>
	<u>\$ (571,746)</u>	<u>\$ (16,322)</u>	<u>\$ (675,436)</u>	<u>\$ (61,164)</u>

d. Financial costs

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Interest on lease liabilities	\$ 2,608	\$ 3,470	\$ 5,174	\$ 6,769
Others	<u>3,076</u>	<u>4,593</u>	<u>3,076</u>	<u>5,014</u>
	<u>\$ 5,684</u>	<u>\$ 8,063</u>	<u>\$ 8,250</u>	<u>\$ 11,783</u>

e. Impairment reversal gain on financial assets

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Trade receivables (included in operating expense)	<u>\$ 75,000</u>	<u>\$ -</u>	<u>\$ 160,000</u>	<u>\$ -</u>

f. Depreciation and amortization

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Property, plant and equipment	\$ 102,040	\$ 120,622	\$ 206,008	\$ 245,102
Investment properties	25,798	25,149	51,605	50,352
Intangible assets	2,075	295,465	4,151	596,908
Right-of-use assets	<u>28,509</u>	<u>36,705</u>	<u>58,718</u>	<u>71,587</u>
	<u>\$ 158,422</u>	<u>\$ 477,941</u>	<u>\$ 320,482</u>	<u>\$ 963,949</u>
An analysis of depreciation - by function				
Operating costs	\$ 14,307	\$ 13,712	\$ 25,008	\$ 27,168
Operating expenses	116,242	143,615	239,718	289,521
Other expenses	<u>25,798</u>	<u>25,149</u>	<u>51,605</u>	<u>50,352</u>
	<u>\$ 156,347</u>	<u>\$ 182,476</u>	<u>\$ 316,331</u>	<u>\$ 367,041</u>
An analysis of amortization - by function				
Operating costs	\$ -	\$ -	\$ -	\$ -
Operating expenses	<u>2,075</u>	<u>295,465</u>	<u>4,151</u>	<u>596,908</u>
	<u>\$ 2,075</u>	<u>\$ 295,465</u>	<u>\$ 4,151</u>	<u>\$ 596,908</u>

g. Employee benefits expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Short-term benefits	<u>\$ 1,215,878</u>	<u>\$ 1,503,673</u>	<u>\$ 2,466,389</u>	<u>\$ 3,063,835</u>
Post-employment benefits				
Defined contribution plans	41,237	61,998	91,176	126,337
Defined benefit plans	<u>1,378</u>	<u>480</u>	<u>2,755</u>	<u>959</u>
	<u>42,615</u>	<u>62,478</u>	<u>93,931</u>	<u>127,296</u>

(Continued)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Share-based payments (Note 27)				
Equity-settled share-based payments	\$ 32,920	\$ 12,838	\$ 65,840	\$ 6,775
Separation benefits	<u>540,000</u>	<u>20,710</u>	<u>540,000</u>	<u>71,311</u>
Total employee benefits expense	<u>\$ 1,831,413</u>	<u>\$ 1,599,699</u>	<u>\$ 3,166,160</u>	<u>\$ 3,269,217</u>
An analysis of employee benefits expense - by function				
Operating costs	\$ 106,872	\$ 219,516	\$ 210,554	\$ 500,950
Operating expenses	1,184,541	1,380,183	2,415,606	2,768,267
Other losses	<u>540,000</u>	<u>-</u>	<u>540,000</u>	<u>-</u>
	<u>\$ 1,831,413</u>	<u>\$ 1,599,699</u>	<u>\$ 3,166,160</u>	<u>\$ 3,269,217</u>
				(Concluded)

h. 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. No employee's compensation and remuneration to directors and supervisors were estimated as the Company reported net losses for the six months ended June 30, 2020 and 2019, respectively. 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 any further information on the employees' compensation and remuneration to directors and supervisors approved in the meeting of the board of directors in 2020 and 2019, see disclosures in the Market Observation Post System.

i. Impairment loss (reversed) on non-financial assets

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Inventories (included in operating costs)	\$ 44,029	\$ 28,382	\$ 238,631	\$ 83,218
Intangible asset (included in other gains and losses)	(5,075)	(6,408)	(3,976)	(8,958)
Property, plant and equipment (included in other gains and losses)	<u>1,263</u>	<u>-</u>	<u>1,263</u>	<u>-</u>
	<u>\$ 40,217</u>	<u>\$ 21,974</u>	<u>\$ 235,918</u>	<u>\$ 74,260</u>

j. Gain or loss on foreign currency exchange

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Foreign exchange gains	\$ 259,235	\$ 417,666	\$ 509,183	\$ 744,839
Foreign exchange losses	(375,898)	(265,736)	(566,272)	(454,409)
Valuation gain (loss) arising from financial instruments at fair value through profit or loss	<u>134,982</u>	<u>(68,077)</u>	<u>26,470</u>	<u>(59,214)</u>
	<u>\$ 18,319</u>	<u>\$ 83,853</u>	<u>\$ (30,619)</u>	<u>\$ 231,216</u>

25. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax benefit recognized in profit or loss

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
In respect of the current year				
Current tax	\$ (3,652)	\$ 3,769	\$ (11,130)	\$ 3,766
Deferred tax	<u>3,504</u>	<u>(4,770)</u>	<u>8,202</u>	<u>(5,749)</u>
	<u>(148)</u>	<u>(1,001)</u>	<u>(2,928)</u>	<u>(1,983)</u>
Adjustments for previous years				
Current tax	-	-	(275,715)	-
Deferred tax	<u>-</u>	<u>-</u>	<u>275,715</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income tax benefit recognized in profit or loss	<u>\$ (148)</u>	<u>\$ (1,001)</u>	<u>\$ (2,928)</u>	<u>\$ (1,983)</u>

b. Income tax assessments

HTC's tax returns through 2017 had been assessed by the tax authorities.

The income tax returns of HTC Investment Corporation, Uomo Vitruviano Corp., DeepQ Technology Corp. and HTC VIVE TECH Corp. for the years through 2018 have been examined and approved by the tax authorities.

26. LOSS PER SHARE

	Unit: NT\$ Per Share			
	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Basic loss per share	<u>\$ (2.23)</u>	<u>\$ (2.71)</u>	<u>\$ (4.28)</u>	<u>\$ (5.69)</u>

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

Net Loss for the Period

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Loss for the period attributable to owners of the parent	<u>\$ (1,824,238)</u>	<u>\$ (2,217,052)</u>	<u>\$ (3,502,649)</u>	<u>\$ (4,661,027)</u>

Shares

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Weighted average number of ordinary shares used in the computation of basic loss per share	<u>818,804</u>	<u>818,812</u>	<u>818,805</u>	<u>818,812</u>

Unit: In Thousands of Shares

The exercise price of the outstanding options issued by the Company exceeded the average market price of the shares for the six months ended June 30, 2020 and 2019 which is excluded in the computation of diluted earnings per share.

27. 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.

Qualified employees of HTC and its subsidiaries were granted 20 thousand options in May 2019. Each option entitles the holder to subscribe for one thousand ordinary shares 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 10,000 thousand options in November 2019. 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 HTC's ordinary shares, the exercise price is adjusted accordingly. Information on employee share options are as follows:

	For the Six Months Ended June 30			
	2020		2019	
	Number of Shares (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Shares (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance, beginning of period	35,961	\$53.41	6,909	\$138.19
Options granted	-		20,000	35.50
Options forfeited	<u>(1,146)</u>		<u>(324)</u>	
Balance, end of period	<u>34,815</u>	52.91	<u>26,585</u>	61.00
Options exercisable, end of period	<u>5,951</u>		<u>6,565</u>	
Weighted-average fair value of option granted (NT\$)	<u>\$ -</u>		<u>\$ 15.45</u>	

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

	June 30, 2020	December 31, 2019	June 30, 2019
Range of exercise prices (NT\$)	\$35.05-\$149	\$35.05-\$149	\$35.5-\$149
Weighted-average remaining contractual life (years)	7.97 years	8.43 years	8.36 years

Options granted in November and May 2019 were priced using the Black-Scholes option pricing model. Options granted in August 2015, October 2014 and November 2013 were priced using the trinomial option pricing model. The inputs to the model are as follows:

	November 2019	May 2019	August 2015	October 2014	November 2013
Grant-date share price (NT\$)	\$35.05	\$35.50	\$54.50	\$134.50	\$149.00
Exercise price (NT\$)	\$35.05	\$35.50	\$54.50	\$134.50	\$149.00
Expected volatility	43.64%-44.09%	44.94%-45.01%	39.26%	33.46%	45.83%
Duration (years)	10 years	10 years	10 years	10 years	7 years
Expected dividend yield	-	-	4.04%	4.40%	5.00%
Risk-free interest rate	0.6125%-0.6348%	0.6082%-0.6224%	1.3965%	1.7021%	1.63%

Expected volatility was based on the historical share price volatility over the past 1-7 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. In 2019 and for the six months ended June 30, 2020, HTC retired 5 thousand and 5 thousand restricted shares for employees amounting to NT\$49 thousand and NT\$43 thousand, respectively. As a result, the number of HTC's issued and outstanding employee restricted shares as of June 30, 2020 was 159 thousand shares. The related information is as follows:

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

Compensation Cost of Share-based Payment Arrangements

Compensation costs of share-based payment arrangements recognized were NT\$65,840 thousand and NT\$6,775 thousand for the six months ended June 30, 2020 and 2019, respectively.

28. CAPITAL RISK MANAGEMENT

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

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

29. 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 not measured at fair value approximate their fair values or 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

June 30, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	\$ -	\$ 105,706	\$ -	\$ 105,706
Convertible bonds	-	-	337,203	337,203
Warrants	-	-	23,126	23,126
	<u>\$ -</u>	<u>\$ 105,706</u>	<u>\$ 360,329</u>	<u>\$ 466,035</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic listed shares and emerging market shares	\$ 58,983	\$ -	\$ -	\$ 58,983
Domestic unlisted shares	-	-	51,830	51,830
Overseas listed shares	2,417,792	-	-	2,417,792
Overseas unlisted shares	-	-	823,013	823,013
Overseas unlisted beneficiary certificates	-	-	700,322	700,322
	<u>\$ 2,476,775</u>	<u>\$ -</u>	<u>\$ 1,575,165</u>	<u>\$ 4,051,940</u>
Financial liabilities at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	<u>\$ -</u>	<u>\$ 79,236</u>	<u>\$ -</u>	<u>\$ 79,236</u>

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	\$ -	\$ 69,055	\$ -	\$ 69,055
Convertible bonds	-	-	337,829	337,829
Warrants	-	-	23,478	23,478
	<u>\$ -</u>	<u>\$ 69,055</u>	<u>\$ 361,307</u>	<u>\$ 430,362</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic listed shares and emerging market shares	\$ 87,473	\$ -	\$ -	\$ 87,473
Domestic unlisted shares	-	-	56,573	56,573
Overseas listed shares	1,069,433	-	-	1,069,433
Overseas unlisted shares	-	-	812,020	812,020
Overseas unlisted beneficiary certificates	-	-	709,678	709,678
	<u>\$ 1,156,906</u>	<u>\$ -</u>	<u>\$ 1,578,271</u>	<u>\$ 2,735,177</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	\$ -	\$ 119,755	\$ -	\$ 119,755 (Concluded)

June 30, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	\$ -	\$ 109,519	\$ -	\$ 109,519
Convertible bonds	-	-	245,658	245,658
Warrants	-	-	24,233	24,233
	<u>\$ -</u>	<u>\$ 109,519</u>	<u>\$ 269,891</u>	<u>\$ 379,410</u>

Financial assets at FVTOCI				
Investments in equity instruments				
Domestic listed shares and emerging market shares	\$ 84,608	\$ -	\$ -	\$ 84,608
Domestic unlisted shares	-	-	423,277	423,277
Overseas listed shares	827,135	-	-	827,135
Overseas unlisted shares	-	-	1,077,605	1,077,605
Overseas unlisted beneficiary certificates	-	-	774,110	774,110
	<u>\$ 911,743</u>	<u>\$ -</u>	<u>\$ 2,274,992</u>	<u>\$ 3,186,735</u>

Financial liabilities at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	\$ -	\$ 168,733	\$ -	\$ 168,733

There were no transfers between Levels 1 and 2 for the six months ended June 30, 2020 and 2019.

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

For the six months ended June 30, 2020

Financial Assets	Financial Assets at FVTPL Derivatives	Financial Assets at FVTOCI Equity Instruments	Total
Balance at January 1, 2020	\$ 361,307	\$ 1,578,271	\$ 1,939,578
Recognized in other comprehensive income	-	(44,990)	(44,990)
Purchases	4,516	77,125	81,641
Return of investments	-	(11,283)	(11,283)
Effect of foreign currency exchange differences	<u>(5,494)</u>	<u>(23,958)</u>	<u>(29,452)</u>
Balance at June 30, 2020	<u>\$ 360,329</u>	<u>\$ 1,575,165</u>	<u>\$ 1,935,494</u>

For the six months ended June 30, 2019

Financial Assets	Financial Assets	Financial Assets	Total
	at FVTPL Derivatives	at FVTOCI Equity Instruments	
Balance at January 1, 2019	\$ 236,464	\$ 2,241,637	\$ 2,478,101
Recognized in other comprehensive income	-	(22,449)	(22,449)
Purchases	30,565	153,254	183,819
Effect of foreign currency exchange differences	<u>2,862</u>	<u>(97,450)</u>	<u>(94,588)</u>
Balance at June 30, 2019	<u>\$ 269,891</u>	<u>\$ 2,274,992</u>	<u>\$ 2,544,883</u>

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

- e. Valuation process for the fair value measurement within Level 3

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 sensitive analysis of replacement assumptions need to be implemented for the valuation of financial instruments as fair value measurement within Level 3 since the valuation model used by the Company is reasonable without adopting a self-estimated model.

Categories of Financial Instruments

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Financial assets</u>			
Financial assets at FVTPL			
Held for trading	\$ 105,706	\$ 69,055	\$ 109,519
Mandatorily at FVTPL	360,329	361,307	269,891
<u>Financial assets</u>			
Amortized cost (Note 1)	26,384,561	31,773,342	37,785,162
Financial assets at FVTOCI			
Equity instruments	4,051,940	2,735,177	3,186,735
<u>Financial liabilities</u>			
Financial liabilities at FVTPL			
Held for trading	79,236	119,755	168,733
Amortized cost (Note 2)	12,316,218	14,355,617	16,688,765

Note 1: The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, other financial assets, notes receivable, trade receivables, other receivables and refundable deposits.

Note 2: The balances included financial liabilities measured at amortized cost, which comprise notes and trade payables, other payables, agency receipts and guarantee deposits received.

Financial Risk Management Objectives and Policies

The Company's major financial instruments include equity and debt investments, trade receivables, other receivables, trade payables and other payables. The Company's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze the exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

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

The Corporate Treasury function reports quarterly to the Company's audit committee 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.

Foreign currency risk

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

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities and of the derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 34.

Sensitivity analysis

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

	Profit or Loss	Equity
<u>For the six months ended June 30, 2020</u>		
USD	\$ 3,327	\$ (140,157)
EUR	3,703	(3,422)
RMB	(3,127)	(60,036)
JPY	(1,374)	(1,471)
<u>For the six months ended June 30, 2019</u>		
USD	(3,711)	(130,752)
EUR	(2,164)	(3,684)
RMB	(21,207)	(104,710)
JPY	3,478	(1,527)

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 the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure of counterparty to discharge an obligation and financial guarantees provided by the Company could arise from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets. The Company does not issue any financial guarantee involving credit risk.

The Company basically 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 10.

c. Liquidity risk

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

1) Liquidity risk tables for non-derivative financial liabilities

The following table details the Company's remaining contractual 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.

June 30, 2020

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Note and trade payables	\$ 492,293	\$ 5,445,130	\$ -
Other payables	3,523,901	2,622,899	-
Lease liabilities	30,314	94,210	193,265
Agency receipts	61,198	-	-
Guarantee deposits received	<u>-</u>	<u>-</u>	<u>170,797</u>
	<u>\$ 4,107,706</u>	<u>\$ 8,162,239</u>	<u>\$ 364,062</u>

December 31, 2019

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Note and trade payables	\$ 425,184	\$ 6,462,987	\$ -
Other payables	4,503,157	2,712,001	-
Lease liabilities	32,598	78,450	238,130
Agency receipts	87,419	-	-
Guarantee deposits received	<u>-</u>	<u>-</u>	<u>164,869</u>
	<u>\$ 5,048,358</u>	<u>\$ 9,253,438</u>	<u>\$ 402,999</u>

June 30, 2019

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Note and trade payables	\$ 1,671,355	\$ 6,872,092	\$ -
Other payables	4,531,674	3,369,229	-
Lease liabilities	44,274	125,896	342,802
Agency receipts	77,448	-	-
Guarantee deposits received	<u>-</u>	<u>-</u>	<u>166,967</u>
	<u>\$ 6,324,751</u>	<u>\$ 10,367,217</u>	<u>\$ 509,769</u>

2) Liquidity risk tables for derivative financial instruments

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

June 30, 2020

	Less Than 3Months	3 Months to 1 Year	Over1Year
<u>Net settled</u>			
Foreign exchange contracts	\$ <u>1,326</u>	\$ <u>-</u>	\$ <u>-</u>
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 21,574,078	\$ -	\$ -
Outflows	<u>(21,548,018)</u>	<u>-</u>	<u>-</u>
	\$ <u>26,060</u>	\$ <u>-</u>	\$ <u>-</u>

December 31, 2019

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Net settled</u>			
Foreign exchange contracts	\$ <u>2,098</u>	\$ <u>-</u>	\$ <u>-</u>
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 22,493,831	\$ -	\$ -
Outflows	<u>(22,528,214)</u>	<u>-</u>	<u>-</u>
	\$ <u>(34,383)</u>	\$ <u>-</u>	\$ <u>-</u>

June 30, 2019

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Net settled</u>			
Foreign exchange contracts	\$ <u>55,772</u>	\$ <u>-</u>	\$ <u>-</u>
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	24,139,256	-	-
Outflows	<u>(24,235,164)</u>	<u>-</u>	<u>-</u>
	\$ <u>(95,908)</u>	\$ <u>-</u>	\$ <u>-</u>

3) Bank credit limit

	June 30, 2020	December 31, 2019	June 30, 2019
Unsecured bank general credit limit			
Amount used	\$ 299,047	\$ 283,455	\$ 186,867
Amount unused	<u>14,877,038</u>	<u>16,574,220</u>	<u>18,042,286</u>
	<u>\$ 15,176,085</u>	<u>\$ 16,857,675</u>	<u>\$ 18,229,153</u>
Secured bank general credit limit			
Amount unused	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ -</u>

Amount used included guarantees for customs duties and patent litigation.

30. 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 as 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
Xander International Corp.	Its chairman is HTC's director
VIA Labs, Inc.	Its chairman is HTC's director
Way Chih Investment Co., Ltd.	Its director is HTC's chairwoman (Note)
HTC Education Foundation	Its chairman is HTC's director
Hung-Mao Investment Co., Ltd.	Its significant shareholder is HTC's chairwoman
Nan Ya Plastics Corporation	Its director and HTC's chairwoman are relatives
Employees' Welfare Committee	Employees' Welfare Committee of HTC
VIA Technologies (China) Co., Ltd.	The chairman of its parent company is HTC's director
Premier Investment & Consultant (Shanghai) Co., Ltd.	Its chairwoman is HTC's chairwoman
PROOF OF CAPITAL, L.P.	It's co-founder is HTC's key management
Chengdu Weiai New Economic Technology Institute	Subsidiary of associates
Weishang Electronics (Shanghai) Co., Ltd.	Related party in substance
Kun Chang Investment Co., Ltd.	Its director is HTC's chairwoman
Gui Zhou Wei Ai Educational Technology Co., Ltd.	Associates
HTC Social Welfare and Charity Foundation	Its chairman is HTC's director
Shanghai Property Management (Shanghai) Co., Ltd.	Related party in substance
Shanghai Property Management (Shenzhen) Co., Ltd.	Subsidiary of related party in substance
TVBS Media Inc.	Its director is HTC's chairwoman

Note: Way Chih Investment Co., Ltd. was previously the supervisor of HTC. On June 21, 2019, an audit committee was set up to replace supervisors and was approved by the shareholders' meeting. The function of supervisors will be automatically discharged after expiration of the term of office.

Operating Sales

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Other related parties	\$ <u>642</u>	\$ <u>1,135</u>	\$ <u>2,683</u>	\$ <u>3,696</u>

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

	June 30, 2020	December 31, 2019	June 30, 2019
Other related parties	\$ <u>-</u>	\$ <u>598</u>	\$ <u>32</u>

Some related parties whose received products sold at prices which were no different from sales to third parties. No guarantees have 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 has been recognized for the six months ended June 30, 2019.

Purchase

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Other related parties	\$ <u>1,198</u>	\$ <u>2,277</u>	\$ <u>2,099</u>	\$ <u>5,430</u>

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

	June 30, 2020	December 31, 2019	June 30, 2019
Other related parties	\$ <u>1,466</u>	\$ <u>2,296</u>	\$ <u>3,067</u>

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

Compensation of Key Management Personnel

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Short-term benefits	\$ 33,329	\$ 23,263	\$ 99,272	\$ 58,328
Post-employment benefits	272	175	522	350
Share-based payments	<u>2,232</u>	<u>1,777</u>	<u>4,465</u>	<u>(1,584)</u>
	\$ <u>35,833</u>	\$ <u>25,215</u>	\$ <u>104,259</u>	\$ <u>57,094</u>

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

Lease Liabilities

	June 30, 2020	December 31, 2019	June 30, 2019
VIA Technologies (China) Co., Ltd.	\$ 32,998	\$ 6,052	\$ 25,707
Premier Investment & Consultant (Shanghai) Co., Ltd	63,988	74,607	85,169
Weishang Electronics (Shanghai) Co., Ltd.	<u>44,574</u>	<u>52,671</u>	<u>62,108</u>
	<u>\$ 141,560</u>	<u>\$ 133,330</u>	<u>\$ 172,984</u>

Interest Expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
VIA Technologies (China) Co., Ltd.	\$ 346	\$ 188	\$ 389	\$ 531
Premier Investment & Consultant (Shanghai) Co., Ltd.	609	855	1,289	1,755
Weishang Electronics (Shanghai) Co., Ltd.	<u>504</u>	<u>706</u>	<u>1,064</u>	<u>1,450</u>
	<u>\$ 1,459</u>	<u>\$ 1,749</u>	<u>\$ 2,742</u>	<u>\$ 3,736</u>

Lease Expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
VIA Technologies (China) Co., Ltd.	\$ 160	\$ -	\$ 1,481	\$ 232
Other related parties	<u>291</u>	<u>1,054</u>	<u>1,459</u>	<u>1,852</u>
	<u>\$ 451</u>	<u>\$ 1,054</u>	<u>\$ 2,940</u>	<u>\$ 2,084</u>

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

Acquisitions of Financial Assets

The Company committed to inject US\$8,000 thousand to become a limited partner of PROOF OF CAPITAL, L.P. As of June 30, 2020, US\$4,000 thousand was invested and was classified as financial assets at FVTOCI according to its nature.

Acquisitions of Property, Plant and Equipment

	Price	
	For the Six Months Ended	
	June 30	
	2020	2019
Other related parties	\$ <u>84</u>	\$ <u>-</u>

Other Related-party Transactions

Other related parties provide property management, digital photography and consultancy service fee to the Company. The service fee was NT\$6,712 thousand and NT\$5,333 thousand for the six months ended June 30, 2020 and 2019, respectively.

As of June 30, 2020, December 31, 2019 and June 30, 2019, the outstanding balances of other payables to related parties were NT\$621 thousand, NT\$7,321 thousand and NT\$870 thousand, respectively.

The Company collects property management fees and utility fees from other related companies. The other income was NT\$4,503 thousand and NT\$4,189 thousand for the six months ended June 30, 2020 and 2019, respectively.

31. PLEDGED ASSETS

As of June 30, 2020, December 31, 2019 and June 30, 2019, the time deposits and demand deposits amounting to NT\$263,394 thousand, NT\$267,394 thousand and NT\$326,219 thousand which were classified as other financial assets were provided respectively as collateral for rental deposits, litigation, customs duties, patent, vendors cooperation and performance bond.

The following assets were pledged as collateral for bank borrowings:

	June 30, 2020
Property, plant and equipment	
Land	\$ 3,337,100
Buildings	1,218,203
Investment properties	<u>882,816</u>
	<u>\$ 5,438,119</u>

32. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

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

In October 2010, IPCom filed a new complaint against the Company alleging Patent infringement of patent owned by IPCom in District Court of Dusseldorf, Germany. In June 2011, IPCom filed a new complaint against the Company alleging patent infringement of patent owned by IPCom with the High Court in London, the United Kingdom. In September 2011, the Company filed declaratory judgment action for non-infringement and invalidity in Milan, Italy. Legal proceedings in above-mentioned courts in Germany and Italy are still ongoing. The Company implemented the alternative solution since 2012. The Company evaluated the lawsuits and considered the risk of patents-in-suits are low. Also, preliminary injunction and summary judgment against the alternative solution of the Company are very unlikely.

In February 2017, the court of appeal of the United Kingdom found the alternative solution of the Company did not infringe and only some old products without the alternative solution infringed the United Kingdom part of European Patent No. 1 841 268 (EP '268 patent). In July 2017, the EP '268 patent was held to be valid by European Patent Office. In December 2019, the High Court of the United Kingdom issued an injunction order against the old products without the alternative solution and such injunction was expired on February 15, 2020 because EP'268 was expired on the same day. The next hearing has not been scheduled by the courts yet.

In regard to the Company's motion for summary judgment in Washington Court and invalidity proceedings in the United States Patent and Trademark Office ("USPTO"), Washington Court granted on the Company's summary judgment motion in March 2012 and ruled on non-infringement of two of patents-in-suit. As for the third patent-in-suit, the Washington Court had granted a stay on case pending the decision of IPCom's appeal. In January 2014, the Court of Appeal for the Federal Circuit affirmed the Washington Court's decision. In June 2019, the Federal Circuit issued an order that affirmed the USPTO's decision of invalidating the third patent-in-suit. In October 2019, the Washington Court dismissed the US case according to a joint stipulation of dismissal filed by both parties.

As of the date that the board of directors approved and authorized for issuing consolidated financial statements, the courts have not issued a ruling with respect to the above-mentioned patents-in-suit.

- b. 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.

33. OTHER ITEMS

Due to the impact of the COVID-19 pandemic, some of the Company's subsidiaries, customers and suppliers were forced to implement quarantine measures. After an overall assessment by the management, there was no significant impact on the Company's operation, financial statements and as well as going concern assumption.

34. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

Unit: In Thousands of each Foreign Currency

	June 30, 2020		December 31, 2019		June 30, 2019	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>						
Monetary items						
USD	\$ 972,309	29.65	\$ 1,243,650	30.10	\$ 1,240,719	31.07
EUR	53,127	33.27	65,531	33.74	65,388	35.38
JPY	4,389,613	0.2752	2,712,542	0.2771	4,302,008	0.2886
RMB	1,552,940	4.19	1,648,264	4.32	1,415,275	4.52
Non-monetary items						
USD	143,257	29.65	97,096	30.10	93,909	31.07
RMB	12,885	4.19	6,885	4.32	6,885	4.52
Investments accounted for using the equity method						
USD	15,221	29.65	12,574	30.10	13,081	31.07
RMB	21,357	4.19	14,587	4.32	23,366	4.52
<u>Financial liabilities</u>						
Monetary items						
USD	604,660	29.65	733,187	30.10	773,762	31.07
EUR	56,521	33.27	46,392	33.74	51,983	35.38
JPY	3,389,548	0.2752	3,154,076	0.2771	5,010,695	0.2886
RMB	504,013	4.19	158,108	4.32	169,679	4.52

For the six months ended June 30, 2020 and 2019, realized and unrealized net foreign exchange (loss) gain were NT\$(30,619) thousand and NT\$231,216 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.

35. SIGNIFICANT CONTRACTS

The Company specializes in the research, design, manufacture and sale of smart mobile devices and virtual reality 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.	Authorization to use CDMA technology to manufacture and sell units, royalty payment based on agreement.
Qualcomm Incorporated.	b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	
InterDigital Technology Corporation	December 31, 2003 to the expiry dates of these patents stated in the agreement.	Authorization to use TDMA and CDMA technologies; royalty payment based on agreement.
IV International Licensing Netherlands, B.V.	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.
KONINKLIJKE PHILIPS N.V.	December 23, 2019 - December 30, 2024	Authorization to use UMTS/LTE patents and portable feature patents; royalty payment based on agreement.

36. 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, sale of smart mobile and virtual reality devices which the operating revenue is more than 90 percent of the total revenue. The Company is considered single segment. The basis of information reported to the chief operating decision maker is the same as the financial statements. Because the basis of segment information reported to the chief operating decision maker is the same as the financial statements, the segment revenue and results for the six months ended June 30, 2020 and 2019 can be referred to in the consolidated statements of comprehensive income and the segment assets and liabilities as of June 30, 2020 and 2019 can be referred to in the consolidated balance sheets.