FocalTech Systems Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2016 and 2015

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Par Value)

	2016		2015	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Note 4 and 6)	$ 3,265,779	22	$ 1,690,441	11
Financial assets at fair value through profit or loss - current (Note 4 and 7)	-	-	129,120	1
Trade receivables, net (Note 4 and 9)	1,334,499	9	1,587,586	10
Inventories (Note 4, 5 and 10)	2,537,657	17	2,543,876	17
Other financial assets (Note 4 and 11)	2,304,897	15	5,287,856	35
Other current assets (Note 25)	123,117	1	152,767	1
Total current assets	9,565,949	64	11,391,646	75
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Note 4 and 8)	175,839	1	-	-
Financial assets measured at cost (Note 4 and 12)	80,625	-	49,238	-
Property, plant and equipment (Note 4 and 14))	112,096	1	148,188	1
Goodwill (Notes 4 , 5 , 15 and 28)	3,237,268	22	3,237,268	21
Other intangible assets (Notes 4 , 5 and 16)	202,982	1	172,819	1
Deferred income tax assets (Notes 4 and 25)	136,369	1	154,154	1
Other non-current assets (Note 14 and 34)	1,446,203	10	57,743	1
Total non-current assets	5,391,382	36	3,819,410	25
TOTAL	$ 14,957,331	100	$ 15,211,056	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 4 and 17)	$ 645,000	4	$ 269,775	2
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	-	-	47,818	-
Trade payables (Note 19)	1,540,640	10	974,714	6
Other payables (Note 20)	905,327	6	980,385	7
Current tax liabilities (Notes 4 and 25)	8,858	-	3,254	-
Current portion of bonds payable (Notes 4 and 18)	-	-	956,772	6
Other current liabilities	63,080	1	68,781	1
Total current liabilities	3,162,905	21	3,301,499	22
NON-CURRENT LIABILITIES				
Deferred income tax liabilities (Notes 4 , 5 and 25)	185,983	1	190,372	1
Net defined benefit liabilities - non-current (Notes 4 and 21)	46,386	1	48,168	-
Guarantee deposits received	113,275	1	87,850	1
Other non-current liabilities	10,400	-	10,400	-
Total non-current liabilities	356,044	3	336,790	2
Total liabilities	3,518,949	24	3,638,289	24
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 , 22 and 27)				
Share capital				
Ordinary shares	2,965,344	20	2,933,299	19
Capital surplus				
Additional paid-in capital	6,468,819	43	6,362,250	42
Treasury shares	40,305	-	236	-
Changes in ownership interests in subsidiaries	582	-	-	-
Employee share options	27,578	-	103,350	-
Employee restricted shares	73,797	1	115,999	1
Employee share options - expired	14,765	-	10,806	-
Total capital surplus	6,625,846	44	6,592,641	43
Retained earnings				
Legal reserve	165,045	1	141,463	1
Undistributed earnings	1,335,160	9	1,358,815	9
Total retained earnings	1,500,205	10	1,500,278	10
Other equity				
Exchange differences from translating the financial statements of foreign operations	433,584	3	609,523	4
Equity directly associated with non-current assets held for sale	(1,498)	-	-	-
Unearned employee compensation	(36,040)	-	(62,974)	-
Total other equity	396,046	3	546,549	4
Treasury shares	(62,992)	(1)	-	-
Equity attributable to owners of the company	11,424,449	76	11,572,767	76
NON-CONTROLLING INTERESTS	13,933	-	-	-
Total equity	11,438,382	76	11,572,767	76
TOTAL	$ 14,957,331	100	$ 15,211,056	100

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	**%**	**Amount**	**%**
REVENUE (Note 4 and 23)	$ 11,018,225	100	$ 11,479,739	100
COSTS OF SALES (Notes 10 and 24)	(8,751,788)	(79)	(9,512,645)	(83)
GROSS PROFIT	2,266,437	21	1,967,094	17
OPERATING EXPENSES (Notes 21, 24, 27 and 33)				
Selling and marketing expenses	(469,917)	(4)	(458,293)	(4)
General and administrative expenses	(288,932)	(3)	(343,753)	(3)
Research and development expenses	(1,300,104)	(12)	(1,300,977)	(11)
Total operating expenses	(2,058,953)	(19)	(2,103,023)	(18)
OPERATIONS INCOME (LOSS)	207,484	2	(135,929)	(1)
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Note 24)	(8,564)	-	(17,533)	-
Interest income (Note 4)	56,738	-	94,849	1
Foreign exchange gain (loss), net (Note 4)	(26,723)	-	55,545	-
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4 and 32)	20,886	-	233,196	2
Other gains and losses, net (Note 24)	(7,926)	-	28,687	-
Total non-operating income and expenses	34,411	-	394,744	3
INCOME BEFORE INCOME TAX	241,895	2	258,815	2
INCOME TAX EXPENSE (Notes 4 and 25)	(31,786)	-	(5,875)	-
NET INCOME	210,109	2	252,940	2
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 21)	1,433	-	(4,284)	-
Income tax related to items that will not be reclassified subsequently to profit or loss (Notes 4 and 25)	(386)	-	728	-
	1,047	-	(3,556)	-

(Continued)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences from translating the financial statements of foreign operations (Notes 4)	(175,939)	(2)	177,246	2
Unrealized loss on available-for-sale financial assets (Notes 4)	(1,498)	-	-	-
	(177,437)	(2)	177,246	2
Total other comprehensive loss (net of income tax)	(176,390)	(2)	173,690	2
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 33,719	-	$ 426,630	4
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	$ 211,094	2	$ 252,940	2
Non-controlling interests	(985)	-	-	-
	$ 210,109	2	$ 252,940	2
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	$ 34,704	-	$ 426,230	4
Non-controlling interests	(985)	-	-	-
	$ 33,719	-	$ 426,230	4
EARNINGS PER SHARE (Note 26)				
Basic	$0.73		$0.67	
Diluted	$0.71		$0.07	

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

(Concluded)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company										
			Retained Earnings		Other Equity						
	Share Capital Ordinary Shares	Capital Surplus	Legal Reserve	Undistributed Earnings	Exchange Differences from Translating Financial Statement of Foreign Operations	Equity Directly Associated with Non-current Assets Held for Sale	Unearned Employee Compensation	Treasury Shares	Total	Non-controlling Interests	Total Equity
BALANCE, JANUARY 1, 2015	$ 2,758,575	$ 2,597,049	$ 127,018	$ 1,253,875	$ 432,277	$ -	($ 109,530)	$ -	$ 7,059,264	$ -	$ 7,059,264
Appropriation of 2014 earnings											
Legal reserve	-	-	14,445	(14,445)	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	(130,005)	-	-	-	-	(130,005)	-	(130,005)
Net income for the year ended December 31, 2015	-	-	-	252,940	-	-	-	-	252,940	-	252,940
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	(3,556)	177,246	-	-	-	173,690	-	173,690
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	249,384	177,246	-	-	-	426,630	-	426,630
Capital reduction by cash	(1,249,021)	-	-	-	-	-	-	-	(1,249,021)	-	(1,249,021)
Changes in capital surplus for the reverse merger of the company (Note 22)	1,400,495	3,962,681	-	-	-	-	(13,216)	-	5,349,960	-	5,349,960
Compensation cost of employee share options (Note 22 and 27)	-	19,514	-	-	-	-	-	-	19,514	-	19,514
Issue of ordinary shares under employee share options (Note 22 and 27)	31,746	7,812	-	-	-	-	-	-	39,558	-	39,558
Compensation cost of employee restricted shares (Note 22 and 27)	-	-	-	-	-	-	56,820	-	56,820	-	56,820
Cancellation of employee restricted shares (Note 22)	(8,496)	5,585	-	-	-	-	2,952	-	41	-	41
Dividend return on unvested employee restricted stock	-	-	-	6	-	-	-	-	6	-	6
BALANCE AT DECEMBER 31, 2015	2,933,299	6,592,641	141,463	1,358,815	609,523	-	(62,974)	-	11,572,767	-	11,572,767
Appropriation of 2015 earnings											
Legal reserve	-	-	23,582	(23,582)	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	(212,240)	-	-	-	-	(212,240)	-	(212,240)
Net income for the year ended December 31, 2016	-	-	-	211,094	-	-	-	-	211,094	(985)	210,109
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	1,047	(175,939)	(1,498)	-	-	(176,390)	-	(176,390)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	212,141	(175,939)	(1,498)	-	-	34,704	(985)	33,719
Buy-back of ordinary shares (Note 22)	-	-	-	-	-	-	-	(132,607)	(132,607)	-	(132,607)
Treasury stock transferred to employees (Note 22 and 27)	-	-	-	-	-	-	-	69,615	69,615	-	69,615
Changes in ownership interests in subsidiaries (Note 29)	-	582	-	-	-	-	-	-	582	(582)	-
Compensation cost of employee share options (Note 22 and 27)	-	18,687	-	-	-	-	-	-	18,687	-	18,687
Issue of ordinary shares under employee share options (Note 22 and 27)	33,566	14,981	-	-	-	-	-	-	48,547	-	48,547
Compensation cost of employee restricted shares (Note 22 and 27)	-	-	-	-	-	-	24,460	-	24,460	-	24,460
Cancellation of employee restricted shares (Note 22)	(1,521)	(1,045)	-	-	-	-	2,474	-	(92)	-	(92)
Dividend return on unvested employee restricted stock	-	-	-	26	-	-	-	-	26	-	26
Increase in non-controlling interests (Note 29)	-	-	-	-	-	-	-	-	-	15,500	15,500
BALANCE AT DECEMBER 31, 2016	$ 2,965,344	$ 6,625,846	$ 165,045	$ 1,335,160	$ 433,584	($ 1,498)	($ 36,040)	($ 62,992)	$ 11,424,449	$ 13,933	$ 11,438,382

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operation	$ 241,895	$ 258,815
Adjustments for:		
Depreciation expenses	53,022	69,520
Amortization expenses	56,726	41,639
Gain on financial assets and liabilities at fair value through profit or loss	(20,886)	(233,196)
Finance costs	8,564	17,533
Interest income	(56,738)	(94,849)
Compensation cost of employee share options	18,687	19,514
Compensation cost of employee restricted shares	24,460	56,820
Loss on disposal of property, plant and equipment	1,974	-
Gain on disposal of investment	-	(167)
Write-down of inventories	214,038	34,912
Net loss (gain) on foreign currency exchange	21,625	17,649
Loss on buy-back of bonds payable	32,888	-
Changes in operating assets and liabilities		
Trade receivables	252,558	575,745
Inventories	(222,690)	149,341
Other current assets	17,649	25,425
Trade payables	572,039	(396,726)
Other payables	(50,969)	95,350
Other current liabilities	(3,525)	57,017
Net defined benefit liabilities	(349)	(533)
Cash generated from operations	1,160,968	693,809
Interest paid	(2,313)	(2,778)
Income tax paid	(11,149)	(47,063)
Net cash generated from operating activities	1,147,506	643,968
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through profit or loss	-	(130,620)
Proceeds on sale of financial assets at fair value through profit or loss	129,051	-
Purchase of available-for-sale financial assets	(161,207)	(188,000)
Proceeds on sale of available-for-sale financial assets	-	188,033
Purchase of held-to-maturity financial assets	(16,271)	(31,585)
Proceeds on sale of held-to-maturity financial assets	-	32,818
Purchase of financial assets measured at cost	(32,262)	-
Purchase for property, plant and equipment	(22,993)	(47,627)
Proceeds from disposal of property, plant and equipment	532	-
Purchase of intangible assets	(87,390)	(28,251)
Cash inflow on acqusition of the Company (Note 28)	$ -	$ 717,370
Decrease in other financial assets	2,879,609	101,183

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
Increases in other non-current assets	(1,454,527)	(35,298)
Interest received	65,129	81,435
Net cash generated from investing activities	1,299,671	659,458
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	379,415	(54,327)
Repayment of bonds payable	(1,025,216)	-
Increase in guarantee deposits received	25,425	45,274
Cash dividends	(212,240)	(130,005)
Capital reduction by cash	-	(1,248,440)
Proceeds from issuance ordinary shares under employee share options	48,547	39,558
Buy -back of ordinary shares	(132,607)	-
Treasury stock transferred to employees	69,615	-
Increase in non-controlling interests	15,500	-
Payment for cancellation of employee restricted shares	(391)	(1,671)
Proceeds from dividend returned by unvested employee restricted shares	26	6
Net cash used in financing activities	(831,926)	(1,349,605)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(39,913)	11,312
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,575,338	(34,867)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,690,441	1,725,308
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 3,265,779	$ 1,690,441

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

(Concluded)

1. GENERAL INFORMATION

FocalTech Systems Co., Ltd. (the "FocalTech" or the "Company") was incorporated in the Republic of China ("ROC") in January 2006 and moved to Hsinchu Science Park in April of the same year. The Company was formerly known as Orise Technology Co., Ltd. and renamed on January 17, 2015. The Company is mainly engaged in research, development, design, and sale of LCD Drive IC, and also provision of the related hardware and software application design, manufacturing, repairs and consulting service.

The shareholders' meeting of the Company resolved to acquire FocalTech Corporation, Ltd. through a share swap, under which each share of FocalTech Corporation Ltd. was swapped into 4.8 newly issued shares of the Company, with the reference date of the acquisition and share swap on January 2, 2015. According to the acquisition structure, Orise Holding (Cayman) Inc., the 100% owned subsidiary by the Company, was dissolved after the merger with FocalTech Corporation, Ltd. and FocalTech Corporation, Ltd. was the surviving company, and the Company issued new shares to the shareholders of FocalTech Corporation, Ltd. and FocalTech Corporation, Ltd. became a 100% owned subsidiary by the Company. This Acquisition was comprehensively considered as a reverse merger, where FocalTech Corporation, Ltd. was treated as the acquirer and the Company as the acquiree. In addition, the shares of FocalTech Corporation, Ltd. was delisted on January 2, 2015, approved by the Taiwan Stock Exchange.

The Company's shares have been listed on the Taiwan Stock Exchange ("TSE") since July 2007.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on February 24, 2017.

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

a. Regulations Governing the Preparation of Financial Reports by Securities Issuers going to take effect and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) recognized by Financial Supervisory Commission (FSC) and applied from 2017.

   Based on Rule No. 1050050021 and Rule No. 1050026834 issued by FSC, the Group should adopt the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") issued by the IASB and recognized by the FSC from 2017 as below.

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

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

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

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

Except the following items, the initial adoption in 2017 of the IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers above would not result in material impact on the Company’s accounting policies:

1) Amendment to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”

In issuing IFRS 13 “Fair Value Measurement”, the IASB made consequential amendment to the disclosure requirements in IAS 36 “Impairment of Assets”, introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amounts is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Group is required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

2) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards including IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments” were amended in this annual improvement.

The amended IFRS 2 changes the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Group or another entity in the same group or the market price of the equity instruments of the Group or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Group as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Group, but also of other entities outside the Group. The accounting treatments are different among the share-based payment agreements of “market condition,” “non-market condition,” and “non-vesting condition.” The amendment above would affect the accounting treatments of the share-based payment agreements from 2017.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss.

The amended IFRS 8 requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker.

IFRS 13 was amended to clarify that the insurance of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

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

The amendments append several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs recognized by the FSC and applied from 2017. In addition, as a result of the implementation review of IFRSs in Taiwan, the amendments emphasize certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

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

The disclosure is required if there is a significant difference between the following operation result and the expectation set on acquisition date.

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

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of the amended IFRS in 2017 on the Group’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

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

The Group has not applied the following New IFRSs issued by the IASB but not yet endorsed by the FSC. The FSC announced that amendments to IFRS 9 and IFRS 15 will be applicable starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced their effective dates.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2 "Shared-Based Payment"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to the IAS 40 "Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

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

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

The impairment of financial assets

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

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

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9. Under IFRS 9, the classification, measurement and impairment of financial assets are applied retrospectively. The difference between the previous carrying amounts and the carrying amounts at the date of initial application should be recognized in the current period. Restatement of prior periods is not required.

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

IFRS 15 specifies the recognition principle of income generated from the customer contracts; also, the guidelines will replace IAS 18 “Income,” IAS 11 “Construction Contracts,” and related interpretations.

The Consolidated Company after adopting IFRS 15 has income recognized according to the following steps:

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

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

3) IFRS 16 “Leases”

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

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

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

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

4) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The present Consolidated Financial Report has been duly worked out in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and Financial Supervisory Commission approved IFRSs.

b. Basis of preparation

The accompanying consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values, as explained in the accounting policies below.

The evaluation of fair value could be classified into Degree 1 to Degree 3 by the observable intensity and importance of related input value:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) 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

3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Standards in differentiating current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within twelve months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Assets held primarily for the purposes of transactions

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents (excluding those restricted for exchanging or liquidating liabilities over 12 months after the balance sheet date)

Noncurrent assets include:

1) Liabilities held primarily for the purposes of transactions

2) The liabilities to be liquidated upon due within 12 months after the balance sheet date (those with long-term refinancing or payment term rearrangement completed from the balance sheet date to the financial reports approved and published date are also classified as current liabilities), and

3) Liabilities that cannot be with the liquidation date deferred unconditionally for at least 12 months after the balance sheet date

Those not as aforementioned current assets or current liabilities are classified into non- current assets or non-current liabilities.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Applicable adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Total comprehensive income of the subsidiaries is attributed both to the shareholders of the parent and 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 controlling over the subsidiaries are accounted as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their interests in the subsidiaries respectively. The amount adjusted for the non-controlling interests and the

difference between fair value and the consideration paid or received are recognized directly in equity and attributed to shareholders of the parent.

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

e. Business combinations

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

In a reverse merger, the accounting acquirer usually issues no consideration for the acquiree. Instead, the accounting acquiree usually issues its equity shares to the owners of the accounting acquirer. Accordingly, the acquisition- date fair value of the consideration transferred by the accounting acquirer for its interest in the accounting acquiree is based on the number of equity interests the legal subsidiary would have had to issue to give the owners of the legal parent the same percentage equity interest in the consolidated entities that results from the reverse merger. The fair value of the number of equity interests calculated in that way can be used as the fair value of consideration transferred in exchange for the acquiree.

In a reverse merger in which the acquirer and the acquiree exchange only equity interests, if the acquisition-date fair value of the equity interests in the acquiree is more reliably measurable than the acquisition-date fair value of the acquirer’s transferred equity interests, the acquirer should determine the amount of goodwill by using the acquisition-date fair value of the acquiree’s equity interests instead of the acquisition-date fair value of the equity interests transferred.

In the consolidated financial statements prepared for reverse merger, the assets, liabilities and retained earnings of the legal subsidiary are recognized and measured at their pre-acquisition carrying amounts; the assets and liabilities of the legal parent are recognized and measured at their fair value. The amount recognized as total equity interest in the consolidated stockholders’ equity is determined by adding that of the legal subsidiary immediately before the business combination and the fair value of consideration transferred.

The consolidated financial statements prepared following a reverse merger are issued under the name of the legal parent (accounting acquiree) but are described as a continuation of the financial statements of the legal subsidiary (accounting acquirer), with the accounting acquirer’s legal capital adjusted retroactively to reflect the legal capital of the legal parent (the accounting acquiree). The legal capital of comparative information is also retroactively adjusted to reflect the legal capital of the legal parent.

f. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

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

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

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

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the Group entities (including subsidiaries in other countries that use currency different from the currency of the Company) are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

g. Inventories

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

h. Property, plant and equipment

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

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

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

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

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

j. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

2) Intangible assets acquired in a business combination

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

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

k. Impairment of tangible and intangible assets other than goodwill

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

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

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. Financial instruments

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

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

1) Financial assets

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

   a) Measurement category

      Financial assets are classified into financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables.

      i. Financial assets at fair value through profit or loss

         Financial assets at fair value through profit or loss are those designated as at fair value through profit or loss.

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

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

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

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

         Fair value is determined in the manner described in Note 32.

         Financial assets at fair value through profit or loss are stated at fair value. Any gain or loss from remeasurment is recognized in profit or loss. Fair value is determined in the manner described in Note 32.

      ii. Held-to-maturity investments

         The Company bought the bonds with the credit risk at certain level and fixed maturity dates that the Company has the positive intent and capability to hold to maturity. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method less any impairment.

      iii. Available-for-sale financial assets

         Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity financial assets or (c) financial assets at fair value through profit or loss.
         Available-for-sale financial assets are measured at fair value. Foreign exchange gain or loss from available-for-sale financial assets and interest income from the monetary available-for-sale financial assets by effective interest method are recognized in profit or

loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

Available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any identified impairment loss at the end of each reporting period. Such financial instruments are subsequently remeasured at fair value when they can be reliably measured, and the difference between the carrying amount and fair value is recognized in other comprehensive income. When the impairment is confirmed, the cumulative loss previously recognized in other comprehensive income should be reclassified to loss.

iiii. Loans and receivables

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

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

b) Impairment of financial assets

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

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

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

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

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

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

In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively linked to an event occurring after the recognition of the impairment loss.

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

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

c) Derecognition of financial assets

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

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

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

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

<u>Financial liabilities at fair value through profit or loss</u>

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

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividend paid on the financial liability. Fair value is determined in the manner described in Note 32.

b) Derecognition of financial liabilities

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

4) Convertible bonds

The conversion options component of convertible bonds issued by the Group that will be settled other than by exchange of a fixed amount of cash or other financial assets for a fixed number of the Company's equity instruments is classified as derivative financial liabilities.

On initial recognition, the derivative financial liabilities component of the convertible bonds is recognized at fair value, and the initial carrying amount of the component of non-derivative financial liabilities is determined by deducting the amount of derivative financial liabilities from the fair value of the hybrid instrument as a whole. In subsequent periods, the non-derivative financial liabilities component of the convertible bonds is measured at amortized cost using the effective interest method. The derivative financial liabilities component is measured at fair value and the changes in fair value are recognized in profit or loss.

Transaction costs that relate to the issue of the convertible notes are allocated to the derivative financial liabilities component and the non-derivative financial liabilities component in proportion to their relative fair values. Transaction costs relating to the derivative financial liabilities component are recognized immediately in profit or loss. Transaction costs relating to the non-derivative financial liabilities component are included in the carrying amount of the liability component.

m. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

n. Revenue recognition

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

1) Sale of goods

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

a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

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

c) The amount of revenue can be measured reliably;

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

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

2) Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

o. Leasing

When the Group is a lessee of an operation lease, the lease payments are recognized as an expense on a straight-line basis over the lease term.

p. Government Grants

Government grants are not recognized until it is assured reasonably that the Company will be able to comply with the conditions attaching to the subsidies and the grants will be received possibly.

Government grants used as the compensation for expenses or losses already incurred are recognized in profit or loss in the period in which they become receivable and are not necessary to return.

q. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost, including current service cost and net interest on the net defined benefit liability (asset,) is recognized as employee benefits expense in the period it occurs. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Company's defined benefit plan.

r. Share-based payment arrangements

1) Equity-settled share-based payment arrangements granted to employee

The fair value at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options.

When the Group issues employee restricted shares, other equity - unearned employee compensation are recognized on the grant date, with a corresponding increase in capital surplus - employee restricted shares. If employee restricted shares are granted for consideration, and should be returned, they are recognized as payables. Dividends paid to employees on the restricted shares that do not need to be returned if employees resign in the vesting period, are recognized as expenses when the dividends are declared with a corresponding adjustment in capital surplus - employee restricted shares.

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

2) Share-based payment arrangements of the acquiree in a business combination

When the share-based payment awards held by the employees of an acquiree (acquiree awards) are replaced by the Group's share-based payment awards (replacement awards), both the acquiree awards and the replacement awards are measured in accordance with the market-based measure at the acquisition date. The portion of the replacement awards that is included in measuring the consideration transferred in a business combination equals the market-based measure of the acquiree awards multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The excess of the market-based measure of the replacement awards over the market-based measure of the acquiree awards included in measuring the consideration transferred is recognized as remuneration cost for post-combination service.

3) Modifications to the acquirer's equity-settled share-based payment arrangements

When the terms and conditions on which equity instruments were granted are modified, the Group recognizes, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition. In addition, the Group recognizes the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employees; if the Group modifies the terms or conditions of the equity instrument in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employees, the Group nevertheless continues to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.

If the modification increases the fair value of the equity instruments granted or increases the number of equity instruments granted, the Group includes the incremental fair value granted or the fair value of the additional equity instruments granted, measured at the date of the modification, in the measurement of the amount recognized for services received.

The incremental fair value granted or the fair value of the additional equity instruments granted is difference between the fair value of the modified equity and that of the original instrument, both estimated as at the date of modification. If the modification occurs during the vesting period, the incremental fair value granted or the fair value of the additional equity instruments granted is included in the measurement of the amount recognized for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period.

s. Taxation

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

1) Current tax

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

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. If the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on taxable temporary difference arising from initial recognition of goodwill.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income, in which case, the deferred tax are recognized in other comprehensive income.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Impairment of Goodwill and Other Intangible Assets

   Determining whether goodwill and other intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and other intangible assets have been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

b. Income taxes

   As of December 31, 2016 and 2015, no deferred tax liabilities has been recognized on earnings of the subsidiaries of $4,328,808 thousand and $4,392,962 thousand, respectively, due to the dividend policy of the subsidiaries was approved by the Company, the reversal of temporary differences of earning of the subsidiaries would be control and it's probable that the temporary differences will not reverse in the foreseeable future.

c. Write-down of inventory

   Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	**2015**
Cash on hand	$ 4,321	$ 3,269
Checking accounts and demand deposits	1,343,883	1,419,835
Cash equivalent (investments with original maturities less than three months)	1,917,575	267,337
	$ 3,265,779	$ 1,690,441

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

	December 31	
	2016	**2015**
Demand deposits	0.001%-0.35%	0.001%-0.35%
Time deposits	0.2%-6%	0.3%-6.5%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31 2016	December 31 2015
Financial assets at FVTPL - current		
Financial assets designated as at FVTPL		
Credit-linked structured note	$ -	$ 129,120
Financial liabilities at FVTPL - current		
Financial liabilities held for trading		
Convertible options attached to the convertible bonds	$ -	$ 47,818

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NON-CURRENT

	December 31 2016	December 31 2015
Foreign investments		
Fixed income bonds	$ 175,839	$ -

In July 2016, the Group bought fixed income bonds, with the yield rates between 1.708 and 2.4869%. The maturity dates were of January 20, 2018 and December 7, 2019, respectively.

Available-for-sale financial assets were not been pledged as a collateral.

9. TRADE RECEIVABLES, NET

	December 31 2016	December 31 2015
Trade receivables	$ 1,444,149	$ 1,699,191
Less: Allowance for doubtful accounts	(109,650)	(111,605)
Trade receivables, net	$ 1,334,499	$ 1,587,586

The average credit period on sales of goods was 60-120 days. No interest was charged on trade receivables. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for impairment loss were recognized based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

For the trade receivables balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss, because there was not a significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

The aging of receivables that were past due but not impaired was as follows:

	December 31	
	2016	2015
Less than 60 days	$ 3,053	$ 20,488
61-180 days	-	711
More than 180 days	19,634	13,534
	$ 22,687	$ 34,733

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

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

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2015	$ -	$ -	$ -
Business combination (USD 3,400 thousand)	107,610	-	107,610
Foreign exchange translation	3,995	-	3,995
Balance at December 31, 2015	$ 111,605	$ -	$ 111,605
Balance at January 1, 2016	$ 111,605	$	$ 111,605
Foreign exchange translation	(1,955)	-	(1,955)
Balance at December 31, 2016	$ 109,650	$	$ 109,650

Wintek Corporation announced the following material information on October 13, 2014. Due to loss of continuous operation, the board of directors of Wintek Corporation approved to apply for court's ratification for reorganization and emergency disposal in accordance with the relevant rules of the Company Act. As of December 31, 2016, the Group recognized allowance of doubtful trade receivables against Wintek Corporation of 109,650 thousand.

10. INVENTORIES

	December 31	
	2016	2015
Finished goods	$ 920,412	$ 791,208
Work in progress	874,762	622,755
Raw materials and supplies	742,483	1,129,913
	$ 2,537,657	$ 2,543,876

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was $8,751,788 thousand and $9,512,645 thousand, included the write-downs of inventories of $214,038 thousand and $34,912 thousand for the years ended December 31, 2016 and 2015, respectively.

11. OTHER FINANCIAL ASSETS

	December 31	
	2016	2015
Time deposits with original maturities more than three months (a)	$ 2,304,897	$ 5,157,869
Repurchase bonds (b)	-	129,987
	$ 2,304,897	$ 5,287,856

a. As of December 31, 2016 and 2015, the market rate intervals of time deposits with original maturities more than three months were 0.40%-2.20% and 0.62%-4.0%, respectively.

b. In 2015, the Group bought USD 4,000 thousands of 183-day repurchase bonds at a discount with a coupon rate of 0% and an effective rate of 0.7428%.

12. FINANCIAL ASSETS MEASURED AT COST- NON-CURRENT

	December 31	
	2016	2015
Foreign unlisted preferred shares	$ 48,375	$ 49,238
Private Funds	32,250	-
	$ 80,625	$ 49,238

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

Financial assets measured at cost were not pledged as collateral.

13. SUBSIDIARIES

Subsidiaries included in the consolidated financial statement were as followa:

			Proportion of Ownership	
			December 31	
Investor	Investee	Nature of Activities	2016	2015
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd.	Investment activity	100%	100%
	FocalTech Electronics, Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%
	FocalTech Smart Sensors Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	69% (a)	-
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	Investment activity	100%	100%
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%
FocalTech Systems, Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	Design and research of integrated circuits	100%	100%
	FocalTech Electronics Co., Ltd.	Import and export of integrated circuits	100%	100%
FocalTech Electronics, Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	Sales support and post-sales service for affiliates' IC products	100%	100%
	FocalTech Electronics (Shenzhen) Co., Ltd.	Design and research of integrated circuits	100%	100%
	Hefei PineTech Electronics Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	(b)	(b)

a. FocalTech Smart Sensors Co., Ltd. was incorporated in July 2016, 100% owned by the Group. The Group's holding diluted to 69% after the capital injection in November 2016.
b. The Group has the power to appoint and remove the majority of the board of directors and has the power to control the activities of Hefei PineTech Electronics Co., Ltd.; therefore, Hefei PineTech Electronics Co., Ltd. is identified as a subsidiary of the Group.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improve-ments	Construction in Progress	Total
Cost							
Balance at January 1, 2015	$ 37,600	$ 137,724	$ 11,416	$ 32,058	$ 28,467	$ -	$ 247,265
Acquisitions through business combinations (Note 28)	-	26,460	304	-	30	2,492	29,286
Reclassification	-	-	-	-	2,492	(2,492)	-
Additions	-	28,244	2,725	6,059	11,734	-	48,762
Effect of foreign currency exchange differences	-	3,379	(187)	(674)	(361)	-	2,157
Balance at December 31, 2015	$ 37,600	$ 195,807	$ 14,258	$ 37,443	$ 42,362	$ -	$ 327,470
Accumulated depreciation							
Balance at January 1, 2015	$ 348	$ 73,238	$ 5,508	$ 13,263	$ 15,518	$ -	$ 107,875
Depreciation	836	49,022	1,833	5,249	12,580	-	69,520
Effect of foreign currency exchange differences	-	2,576	(98)	(307)	(284)	-	1,887
Balance at December 31, 2015	$ 1,184	$ 124,836	$ 7,243	$ 18,205	$ 27,814	$ -	$ 179,282
Carrying amounts at December 31, 2015	$ 36,416	$ 70,971	$ 7,015	$ 19,238	$ 14,548	$ -	$ 148,188
Cost							
Balance at January 1, 2016	$ 37,600	$ 195,807	$ 14,258	$ 37,443	$ 42,362	$ -	$ 327,470
Additions	-	18,047	814	4,132	-	-	22,993
Disposals	-	(49,144)	(71)	(33)	(5,108)	-	(54,356)
Effect of foreign currency exchange differences	-	(4,818)	(821)	(2,812)	(1,298)	-	(9,749)
Balance at December 31, 2016	$ 37,600	$ 159,892	$ 14,180	$ 38,730	$ 35,956	$ -	$ 286,358
Accumulated depreciation							
Balance at January 1, 2016	$ 1,184	$ 124,836	$ 7,243	$ 18,205	$ 27,814	$ -	$ 179,282
Depreciation	836	36,402	2,060	5,420	8,304	-	53,022
Disposals	-	(49,144)	(24)	(12)	(2,670)	-	(51,850)
Effect of foreign currency exchange differences	-	(3,038)	(440)	(1,471)	(1,243)	-	(6,192)
Balance at December 31, 2016	$ 2,020	$ 109,056	$ 8,839	$ 22,142	$ 32,205	$ -	$ 174,262
Carrying amounts at December 31, 2016	$ 35,580	$ 50,836	$ 5,341	$ 16,588	$ 3,751	$ -	$ 112,096

FocalTech Systems (Shenzhen) Co., Ltd. prepaid $1,373,208 thousand in the 3nd quarter of 2016 for an office building, included in other non-current assets.

Property, plant and equipment were depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings	45 years
Development equipment	3-5 years
Office equipment	3-5 years
Information equipment	3-5 years
Leasehold improvements	1-5 years

Property, plant and equipment were not been pledged as collateral.

15. GOODWILL

	For the Year Ended December 31	
	2016	**2015**
Cost		
Balance as of January 1	$ 3,237,268	$ -
Acquisition through business combination	-	3,237,268
Balance as of December 31	$ 3,237,268	$ 3,237,268

The impairment test is based on the management forecast of 10 year net cash flow from IDC (Integrated Driver Controller), an independent cash-generating unit, and discounted at 9.57% and 9.19% for the years ended December 31, 2016 and 2015, respectively.

Historical gross margins, growth rates of smartphone and market shares…etc in Display Driver Integrated Circuit and Touch Controller are the references to the projected cash flows. The management believes that the reasonable change in any key assumption would not cause the carrying value of the cash-generating unit to exceed its recoverable amount.

16. OTHER INTANGIBLE ASSETS

	Licenses and Franchises	Software	Patents	Trademark	Total
Cost					
Balance at January 1, 2015	$ 47,569	$ 27,004	$ 272	$ -	$ 74,845
Acquisitions through business combinations(Note1 28)	9,826	6,900	76,478	74,000	167,204
Additions	3,520	24,731	-	-	28,251
Effect of foreign currency exchange differences	1,826	1,732	(6)	-	3,552
Balance at December 31, 2015	$ 62,741	$ 60,367	$ 76,744	$ 74,000	$ 273,852
Accumulated amortization					
Balance at January 1, 2015	$ 35,378	$ 21,125	$ 237	$ -	$ 56,740
Amortization expense	13,673	12,746	7,820	7,400	41,639
Effect of foreign currency exchange differences	1,624	1,036	(6)	-	2,654
Balance at December 31, 2015	$ 50,675	$ 34,907	$ 8,051	$ 7,400	$ 101,033
Carrying amounts at December 31, 2015	$ 12,066	$ 25,460	$ 68,693	$ 66,600	$ 172,819
Cost					
Balance at January 1, 2016	$ 62,741	$ 60,367	$ 76,744	$ 74,000	$ 273,852
Additions	4,823	82,567	-	-	87,390
Effect of foreign currency exchange differences	(896)	(991)	(21)	-	(1,908)
Balance at December 31, 2016	$ 66,668	$ 141,943	$ 76,723	$ 74,000	$ 359,334
Accumulated amortization					
Balance at January 1, 2016	$ 50,675	$ 34,907	$ 8,051	$ 7,400	$ 101,033
Amortization expense	10,193	31,348	7,785	7,400	56,726
Effect of foreign currency exchange differences	(810)	(576)	(21)	-	(1,407)
Balance at December 31, 2016	$ 60,058	$ 65,679	$ 15,815	$ 14,800	$ 156,352
Carrying amounts at December 31, 2016	$ 6,610	$ 76,264	$ 60,908	$ 59,200	$ 202,982

Other intangible assets were amortized on a straight-line basis over the estimated useful lives as follows:

Licenses and franchises	3-5 years
Software	1-5 years
Patents	7-10 years
Trademark	10 years

17. BORROWINGS

	December 31	
	2016	2015
Unsecured bank loans		
Amount	$ 645,000	$ 269,775
Annual interest rate	1.80%-1.85%	1.25%-1.62%

18. BONDS PAYABLE

	December 31	
	2016	2015
Domestic 1st unsecured convertible bonds	$ -	$ 996,200
Less: Discounts on bonds payable	-	(39,428)
Less: Current portion	-	(956,772)
	$ -	$ -

To enhance working capital, the Company issued the 1st unsecured convertible bonds on June 17, 2013, with a five-year maturity and zero coupon rate, aggregate principal amount of $1,000,000 thousand. The bondholder may request for conversion at conversion price (NT$57.03 per share at the time of issuance, adjusted pursuant to the determined formula as regulated in the Bond Issuance and Conversion Plan) during the conversion period from July 18, 2013 to June 7, 2017, except the book closure periods for stock dividends, cash dividends, cash injection, and capital reduction, or request for buy-back at coupon value plus 3.3% premium after June 17, 2016. From July 19, 2013 to May 5, 2018, if the closing price of the Company’s share exceeded 30% of the conversion price for 30 consecutive days on TSE or the outstanding amount was less than the 10 % of the insurance amount, the Company may redeem the remaining bonds in accordance with the agreed formula. The Company shall redeem the remaining bonds in full at the maturity date, June 17, 2018.

The fair value of the convertible bonds was reassessed at the reference date of the acquisition, and the conversion options attached the convertible bonds, was reclassified as a derivative financial liability due to the convertible bonds were to be settled other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of the Company’s own equity instruments. The fair value of the reference day of the acquisition was as follows：

	January 2, 2015
Bonds Payable	$941,210
Options attached to the convertible bonds (including conversion and redemption)	283,121

The Company bought back 2,510 sheets of the bonds in the market from January 1 to November 3, 2016. Besides, the Company was requested to redeem 7,108 sheets at 103.3% of the par value on June 17, 2016. The Company called back 344 sheets from November 21 to December 21, 2016 since the outstanding amount was less than the 10 % of the original issue amount. The convertible bonds were delisted on December 21, 2016.

The total payment out for buy-back from the market and redemption was $1,025,216 thousand and the Company recognized the loss of $32,888 thousand.

19. TRADE PAYABLES

	December 31	
	2016	2015
Trade payables	$1,540,640	$ 974,714

The average credit period on purchases was 30-60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

20. OTHER PAYABLES

	December 31	
	2016	2015
Payable for rebates	$ 367,744	$ 438,250
Payable for salaries and bonus	384,011	388,586
Payable for labor, health and social insurance	14,601	16,164
Reserve for litigations	73,040	94,317
Payable for professional services and others	65,931	43,068
	$ 905,327	$ 980,385

21. RETIREMENT BENEFIT

a. Defined contribution plans

The Company、FocalTech Smart Sensors Co., Ltd. and FocalTech Electronics Co., Ltd. adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Company has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group’s defined benefit plans were as follows:

	December 31	
	2016	2015
Present value of defined benefit obligation	$ 63,114	$ 63,441
Fair value of plan assets	(16,728)	(15,273)
Net defined benefit liability	$ 46,386	$ 48,168

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 2, 2015	$ 57,814	$ (13,397)	$ 44,417
Service cost			
Current service cost	114	-	114
Net interest expense (income)	1,156	(281)	875
Recognized in profit or loss	1,270	(281)	989
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(73)	(73)
Actuarial loss - changes in financial assumptions	2,620	-	2,620
Actuarial loss - experience adjustments	1,737	-	1,737
Recognized in other comprehensive income	4,357	(73)	4,284
Contributions from the employer	-	(1,522)	(1,522)
Balance at December 31, 2015	63,441	(15,273)	48,168
Service cost			
Current service cost	116	-	116
Net interest expense (income)	1,110	(280)	830
Recognized in profit or loss	1,226	(280)	946
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	120	120
Actuarial loss - changes in financial assumptions	1,005	-	1,005
Actuarial loss - experience adjustments	(2,558)	-	(2,558)
Recognized in other comprehensive income	(1,553)	120	(1,433)
Contributions from the employer	-	(1,295)	(1,295)
Balance at December 31, 2016	$ 63,114	$ (16,728)	$ 46,386

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2016	**2015**
Discount rate	1.65%	1.75%
Expected rate of salary increase	4.50%	4.50%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2016	**2015**
Discount rate		
0.25% increase	$ (2,469)	$ (2,606)
0.25% decrease	$ 2,589	$ 2,739
Expected rate of salary increase		
1% increase	$ 10,747	$ 11,423
1% decrease	$ (9,099)	$ (9,598)

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

	December 31	
	2016	**2015**
The expected contributions to the plan for the next year	$ 1,260	$ 1,407
The average duration of the defined benefit obligation	18 years	18 years

22. EQUITY

a. Share capital

Ordinary shares (NT$10 par value per share)

	December 31	
	2016	**2015**
Numbers of shares authorized (in thousands)	500,000	500,000
Shares authorized	$ 5,000,000	$ 5,000,000
Number of shares issued and fully paid (in thousands)	296,534	293,330
Shares issued	$ 2,965,344	$ 2,933,299

The Company acquired FocalTech Corporation, Ltd. through a share swap on January 2, 2015 (the reference date of the acquisition). The Company issued new shares to exchange 100% of the ownership of FocalTech Corporation, Ltd., each share of FocalTech Corporation, Ltd. swapped into 4.8 shares of the Company; the Company issued 275,858 thousand shares with a par value $10, amounting to $2,758,575 thousand. Since the acquisition was identified as a reverse merger, the share capital was retroactively adjusted as the original capital of the Company $1,400,495 thousand in addition to newly issued shares of $2,758,575 thousand, resulting in $4,159,070 thousand.

On March 5, 2015, the board of directors of the Company resolved to reduce 124,902 thousand of shares in cash, amounting to $1,249,021 thousand of capital. Based on the capital of $4,179,262 thousand before capital reduction, the capital was reduced approximately at 30%. The capital reduction was resolved by the shareholder's meeting on June 10, 2015 and approved by the Financial Supervisory Commission on August 26, 2015; the reference date of the capital reduction at September 23, 2015 was resolved by the board of director on September 2, 2015 and the registration was completed on October 8, 2015.

b. Capital surplus

	Additional Paid-in Capital (1)	Treasury Shares (1)	Changes in ownership interests in subsidiaries (2)	Employee Share Options (3)	Employee Restricted Shares (3)	Employee Share Options -Expired (2)	Total
BALANCE, JANUARY 1, 2015	$ 2,372,113	$ 236	$ -	$ 110,543	$ 103,375	$ 10,782	$ 2,597,049
Changes in capital surplus for the reverse merger of the company	3,891,821	-	-	16,277	54,583	-	3,962,681
Compensation cost of employee share options	-	-	-	19,514	-	-	19,514
Issue of ordinary shares under employee share options	50,772	-	-	(42,960)	-	-	7,812
Employee Share Options -Expired	-	-	-	(24)	-	24	-
Employee restricted shares vested	40,914	-	-	-	(40,914)	-	-
Cancellation of employee restricted stock	6,630	-	-	-	(1,045)	-	5,585
BALANCE AT DECEMBER 31, 2015	6,362,250	236	-	103,350	115,999	10,806	6,592,641
Changes in ownership interests in subsidiaries	-	-	582	-	-	-	582
Treasury Stock transferred to Employees	-	40,069	-	(40,069)	-	-	-
Compensation cost of employee share options	-	-	-	18,687	-	-	18,687
Issue of ordinary shares under employee share options	65,412	-	-	(50,431)	-	-	14,981
Employee share options expired	-	-	-	(3,959)	-	3,959	-
Employee restricted shares vested	39,956	-	-	-	(39,956)	-	-
Cancellation of employee restricted stock	1,201	-	-	-	(2,246)	-	(1,045)
BALANCE AT DECEMBER 31, 2016	$ 6,468,819	$ 40,305	$ 582	$ 27,578	$ 73,797	$ 14,765	$ 6,625,846

1) This type of capital surplus 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 converted to share capital (at a certain percentage of the Company's capital surplus annually).

2) This type of capital surplus may be used to offset a deficit.

3) This type of capital surplus cannot be used for any purposes.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends are limited to shareholders and do not include employees. The consequential amendments to the Company's Articles of Incorporation had been resolved by the shareholders' meeting on June 22, 2016.

Under the Company's Articles of Incorporation, in the allocation of the net profits for each fiscal year, the Company should first offset its deficits in previous years and then set aside a legal reserve at 10% of the remaining profits until the accumulated legal capital reserve equals total capital. After deducting the legal reserve and any special reserve as required by laws or related regulations.
Any balance, the distribution of earnings is proposed by the board of directors for approval at the stockholders' meeting. For the comparison of the original and amended of the "Articles of Incorporation" about the accrual basis of the employees' compensation and remuneration to directors, please refer to Note 24(d).

Considering current and future development plans, investment conditions, capital requirements, and market competition situations, and shareholder benefits, The Company would appropriate the dividends to the shareholders not less than 10% of the current year's earnings. The dividends could be paid in cash or shares. The cash portion should be equal or more than 10% of the total dividends. It is allowed not to distribute any cash dividend if the cash amount per share is less than NT 0.5.
Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2015 and 2014 having been approved in the shareholders' meetings on June 22, 2016, and June 10, 2015, respectively, were as follows:

	Appropriation of Earnings For the Year Ended December 31		**Dividends Per Share For the Year Ended December 31**	
	2015	**2014**	**2015**	**2014**
Legal reserve	$ 23,582	$ 14,445		
Cash dividends	212,240	130,005	$ 0.7222	$ 0.3123

The appropriations of earnings for 2016 had been proposed by the Company's board of directors on February 24, 2017. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 21,109	
Cash dividends	189,985	$0.64

The appropriations of earnings for 2016 are subject to the resolution of the shareholders' meeting to be held on June 14, 2017.

d. Treasury stock

	Shares Transferred to Employees (In Thousands)
Number of shares at January 1, 2016	-
Increase during the period	5,000
Decrease during the period	(2,624)
Number of shares at December 31, 2016	2,376

On April 28, 2016, the board of directors approved to buy back 5,000,000 common shares from the market for transferring to employees. The execution period was from April 29 .2016 to June 28, 2016. The total expenditure of the 5,000,000 shares was $132,607 thousand. Please refer to Note 27 (f) for the detailed information in The 2nd Shares Buy Back Program.

The treasury shares held by the company cannot be pledged and no dividend and voting right is attached in accordance with the Regulations of Securities and Exchange Act.

23. REVENUE

	For the Year Ended December 31	
	2016	2015
IC for portable devices	$ 11,000,406	$ 11,464,209
Others	17,819	15,530
	$ 11,018,225	$ 11,479,739

24. NET INCOME

a. Other gains and losses-net

	For the Year Ended December 31	
	2016	2015
Gain on disposal of available-for-sale and held-to-maturity financial assets	$ -	$ 167
Loss on disposal of property, plant and equipment	(1,974)	-
Compensation income	-	28,139
Loss on buy back of the bonds	(32,888)	-
Others	26,936	381
	$ (7,926)	$ 28,687

b. Finance costs

	For the Year Ended December 31	
	2016	2015
Interest on convertible bonds	$ 6,482	$ 15,562
Interest on bank loans	2,007	1,861
Interest on deposits	75	110
	$ 8,564	$ 17,533

c. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
Property, plant and equipment	$ 53,022	$ 69,520
Intangible assets	56,726	41,639
	$ 109,748	$ 111,159
An analysis of deprecation and amortization by function		
Operating expenses	$ 86,504	$ 80,130
Operating costs	23,244	31,029
	$ 109,748	$ 111,159

d. Employee benefits expense

	For the Year Ended December 31	
	2016	**2015**
Post-employment benefits		
Defined contribution plans	$ 26,440	$ 26,824
Defined benefit plans (see Note 21)	946	989
Share-based payments	43,147	76,334
Other employee benefits	1,309,604	1,319,835
Total employee benefits expense	$ 1,380,137	$ 1,423,982
An analysis of employee benefits expense by function		
Operating expenses	$ 1,291,611	$ 1,341,571
Operating costs	88,526	82,411
	$ 1,380,137	$ 1,423,982

1) The bonuses to employees and remuneration to directors for 2016 and 2015

To be in compliance with the Company Act as amended in May 2015, the proposed amended Articles of Incorporation of the Company stipulate to distribute employees' compensation and remuneration to directors at the rates no less than 1% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors. The bonuses to employees and remuneration to directors for 2016 and 2015 were resolved by the board of directors on February 24, 2017 and February 26, 2016, respectively as follows:

	For the Year Ended December 31	
	2016	2015
	Cash	Cash
Bonus to employees	$ 60,075	$ 51,049
Remuneration of directors	645	635

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.

There was no difference between the amounts of the employees' compensation and the remuneration to directors paid and recognized in the consolidated financial statements for the year ended December 31, 2015.

Information on the employees' compensation and remuneration to directors resolved by the Company's board of directors in 2017 and 2016 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

2) The bonuses to employees and remuneration to directors for 2014

The bonuses to employees and remuneration to directors for 2014 which have been approved in the shareholders' meetings on June 10, 2015, which was distributed by the FocalTech Systems, co., Ltd. (formerly Orise Technology Co., Ltd.)

There was no difference between the amounts of the bonus to employees and the remuneration to directors approved in the shareholders' meetings on June 10, 2015 and the amounts recognized in the consolidated financial statements for the years ended December 31, 2014.

Information on the employees' compensation and remuneration to directors approved by the shareholders' meetings in 2015are available on the Market Observation Post System website of the Taiwan Stock Exchange.

25. INCOME TAXES

a. Income tax recognized in profit or loss

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current year	$ 14,494	$ 12,389
Adjustments for prior years	2,512	(3,788)
	17,006	8,601
Deferred tax		
In respect of the current year	14,780	(2,726)
Income tax expense (income) recognized in profit or loss	$ 31,786	$ 5,875

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2016	2015
Profit before tax from continuing operations	$ 241,895	$ 258,815
Income tax expense calculated at the statutory rate	$ 6,845	$ 25,998
Nondeductible expenses in determining taxable income	9,283	11,009
Tax-exempt income	(3,186)	(40,007)
Tax effect of earnings to be distributed by subsidiaries	1,175	14,856
Unrecognized temporary differences	59	(7,999)
Unrecognized loss carryforwards	15,020	5,906
Adjustments for prior years' tax	2,512	(3,788)
Others	78	(100)
Income tax expense recognized in profit or loss	$ 31,786	$ 5,875

FocalTech Systems Ltd. and FocalTech Electronics, Ltd. are exempted from taxation under local tax regulation.

For other group entities, the applicable tax rate were as follow:

1) FocalTech Corporation, Ltd and FocalTech System, Inc.: 35%
2) The Company and FocalTech Electronics Co., Ltd.: 17%
3) FocalTech Electronics (Shenzhen) Co., Ltd., FocalTech Electronics (Shanghai) Co., Ltd., FocalTech Systems (Shenzhen) Co., Ltd., and Hefei PineTech Electronics Co., Ltd: 25%

As the status of 2017 appropriations of earnings is uncertain, the potential income tax consequences of 2016 unappropriated earnings are not reliably determinable.

b. Current tax assets and liabilities

	For the Year Ended December 31	
	2016	2015
Current tax assets		
Tax refund receivable	$ 2,428	$ 2,163

	For the Year Ended December 31	
	2016	2015
Current tax liabilities		
Income tax payable	$ 8,858	$ 3,254

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Obsolete of inventory	$ 102,560	$ (35,340)	$ -	$ -	$ 67,220
Allowance for receivables	10,531	659	-	-	11,190
Property, plant and equipment	9,130	(4,342)	-	-	4,788
Employee share option	7,094	(3,947)	-	-	3,147
Others	5,785	(3,940)	(386)	-	1,459
	135,100	(46,910)	(386)	-	87,804
Tax losses	19,054	30,721	-	(1,210)	48,565
	$ 154,154	$ (16,189)	$ (386)	$ (1,210)	$ 136,369
Deferred tax liabilities					
Temporary differences					
Investment income recognized from foreign investees	$ 170,148	$ 1,175	$ -	$ (2,980)	$ 168,343
Intangible assets	17,640	-	-	-	17,640
Unrealized foreign exchange gains	2,584	(2,584)	-	-	-
	$ 190,372	$ (1,409)	$ -	$ (2,980)	$ 185,983

For the year ended December 31, 2015

	Opening Balance	Acquisitions through Business Combina- tions	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Exchange Differences	Closing Balance
Deferred tax assets						
Temporary differences						
Obsolete of inventory	$ -	$ 117,104	$ (14,544)	$ -	$ -	$ 102,560
Allowance for receivables	-	4,872	5,659	-	-	10,531
Property, plant and equipment	-	12,630	(3,500)	-	-	9,130
Employee share option	8,954	-	(1,860)	-	-	7,094
Others	967	(5,264)	9,354	728	-	5,785
	9,921	129,342	(4,891)	728	-	135,100
Tax losses	-	-	19,177	-	(123)	19,054
	$ 9,921	$ 129,342	$ 14,286	$ 728	$ (123)	$ 154,154
Deferred tax liabilities						
Temporary differences						
Investment income recognized from foreign investees	$ 149,243	$ -	$ 14,856	$ -	$ 6,049	$ 170,148
Intangible assets	-	23,520	(5,880)	-	-	17,640
Unrealized foreign exchange gains	-	-	2,584	-	-	2,584
	$ 149,243	$ 23,520	$ 11,560	$ -	$ 6,049	$ 190,372

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

Loss carryforwards as of December 31, 2016 comprised of:

Unused Amount	Expiry Year
$ 51,345	2020
30,688	2021
40,433	2025
247,054	2026
739	2027
2,514	2028
1,929	2029
5,629	2030
8,886	2031
16,446	2033
23,266	2034
18,316	2035
21,617	2036
$ 468,862	

e. The aggregate amount of temporary difference associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2016 and 2015, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were $4,328,808 thousand and $4,392,962 thousand, respectively.

f. The Company's integrated income tax

	December 31	
	2016	2015
Imputation credit accounts	$ 51,706	$ 62,742

	December 31	
	2016(estimate)	**2015**
Creditable ratio for distribution of earnings	3.87%	4.68%

g. Income tax assessments

The Company and FocalTech Electronics Co., Ltd.'s tax returns until 2014 have been assessed by the tax authorities.

26. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2016	2015
Basic earnings per share	$ 0.73	$ 0.67
Diluted earnings per share	$ 0.71	$ 0.07

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

Net Income for the Year

	For the Year Ended December 31	
	2016	2015
Earnings used in the computation of basic earnings per share	$ 211,094	$ 252,940
Effect of potentially dilutive ordinary shares:		
Convertible bonds	-	(222,386)
Earnings used in the computation of diluted earnings per share	$ 211,094	$ 30,554

Weighted Average Number of Ordinary Shares Outstanding (In Thousand Shares):

	For the Year Ended December 31	
	2016	2015
Weighted average number of ordinary shares in computation of basic earnings per share	290,687	379,400
Effect of potentially dilutive ordinary shares:		
Convertible bonds	-	20,141
Employee share option	2,924	6,651
Employees' compensation or bonus issue to employees	2,001	1,495
Employee restricted shares	869	203
Weighted average number of ordinary shares used in the computation of diluted earnings per share	296,481	407,890

Note: As upon table showed, the computation of diluted earnings per share did not include the shares from convertible bonds for December 31, 2016 due to anti-dilution.

If the Group is able to select the settlement of the compensation or bonus paid to employees in cash or shares, the weighted average number of outstanding shares used in the computation of diluted earnings per share should include the diluting effect assuming the entire amount of the compensation or bonus settled in shares until the final number of shares distributed to employees is resolved in the following year.

27. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee share option plan in 2015

As approved by the FSC on July 6, 2015, the Company granted 2,800,000 options to qualified employees of the Company and its subsidiaries. Each option entitles the holder to subscribe for one ordinary shares of the Company at $10 per share, and 2,800,000 shares of ordinary shares ($10 par value) were required for this plan. The options granted are valid for 10 years and exercisable at 50% after the second anniversary from the grant date and at 25% each year thereafter. For any subsequent changes in the Company's capital surplus, such as issuance of shares in cash, earnings and capital surplus, consolidation, spin-off, share split, and issuance of global depositary receipts, the exercise price is adjusted accordingly.

Information on employee share options was as follows:

	For the Year Ended December 31, 2016		**For the Year Ended December 31, 2015**	
	Number of Options (In Thousands)	**Weighted-average Exercise Price (NT$)**	**Number of Options (In Thousands)**	**Weighted-average Exercise Price (NT$)**
Balance at January 1	2,688,000	$ 12.7	-	$ -
Option granted	-	$ -	2,800,000	$ 10
Options forfeited	(182,000)	12.4	(112,000)	-
Balance at December 31	2,506,000	12.4	2,688,000	12.7
Weighted-average fair value of options granted ($)			$ 16.60	

Information about outstanding options was as follows:

December 31,2016		**December 31,2015**	
Range of exercise price (NT$)	Weighted-average remaining contractual life (years)	Range of exercise price (NT$)	Weighted-average remaining contractual life (years)
$ 12.4	8.67	$ 12.7	9.67

Options granted in 2015 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	September 2, 2015
Grant-date share price ($)	$24.40
Exercise price ($)	$10
Expected volatility	43.71%
Expected life (years)	10 years
Expected dividend yield	-
Risk-free interest rate	0.84%-0.92%

b. Employee share option plan in 2013

As approved by the FSC on July 11, 2013, the Company issued 2,000,000 options at a price lower the market price to qualified employees of the Company and its subsidiaries, amounting to $20,000 thousand in total. Each option entitles the holder to subscribe for one ordinary shares of the Company at $10 per share and to exercise at a price not lower than 50% of the closing price at the issue date of the options, and 2,000,000 shares of ordinary shares ($10 par value) were required for this plan. The options granted are valid for 6 years and exercisable at 50% after the second anniversary from the grant date and at 25% each year thereafter. For any subsequent changes in the Company's capital surplus, such as issuance of shares in cash, earnings and capital surplus, consolidation, spin-off, share split, and issuance of global depositary receipts, the exercise price is adjusted accordingly.

Information on employee share options was as follows:

	For the Year Ended December 31, 2016		**For the Year Ended December 31, 2015**	
	Number of Options (In Thousands)	**Weighted-average Exercise Price (NT$)**	**Number of Options (In Thousands)**	**Weighted-average Exercise Price (NT$)**
Balance at January 1	1,578,500	$ 39.4	1,744,000	$ 27.6
Options forfeited	(119,750)	38.5	(154,500)	29.3
Options exercised	-	-	(9,500)	27.6
Options expired	(238,250)	38.5	(1,500)	27.6
Balance at December 31	1,220,500	38.5	1,578,500	39.4
Options exercisable, end of year	918,250	38.5	$ 823,000	39.4

Information about outstanding options was as follows:

December 31,2016		**December 31,2015**	
Range of exercise price (NT$)	Weighted-average remaining contractual life (years)	Range of exercise price (NT$)	Weighted-average remaining contractual life (years)
$ 38.5	2.5	$ 39.4	3.5

Options granted in 2013 were priced using the Black-Scholes pricing model and the inputs to the model, which were re-priced at January 2, 2015, the reference date of the acquisition, and the inputs to the model for re-pricing were as follows:

	January 2, 2015
Grant-date share price ($)	$38.6
Exercise price ($)	$27.6
Expected volatility	45.97%
Expected life (years)	6 years
Expected dividend yield	-
Risk-free interest rate	0.72%-0.89%

c. Employee share option plan in 2006

The board of directors of FocalTech System, Inc. resolved to grant 3,950,600 options in February 2006, and resolved additional 1,000,000 options (only for buy-back of treasury socks and re-issuance for share options), 2,500,000 options, 2,300,000 options and 600,000 options in March 2007, July 2010, February 2012 and October 2012, respectively. As of December 31, 2013, 10,350,000 options were available for grant, including 1,000,000 options for reissuance options for treasury stocks, and each option entitled the holder to subscribe for one ordinary share of FocalTech System, Inc. and could be granted to employees and directors of the Company and subsidiaries and engaged consultants.

Due to reconstruction of the Group, FocalTech Systems, Inc. transferred all the rights and obligations of the share options to FocalTech Corporation, Ltd. on December 21, 2012.

For attracting and retaining talented personnel as well as enhancing attachment and belongingness of employees, the board of directors resolved additional 1,000,000 options, 650,000 options, and 600,000 options to be granted in January 2013, March 2013 and April, 2013, respectively.

Exercise price of the share options was confirmed according to the resolution of the board of directors, and the exercise price and the number of options granted were adjusted by the subsequent changes in ordinary shares defined in the share option plan.

Due to FocalTech Corporation, Ltd. planned initial public offering, the employee share option plan in 1996 was terminated by the resolution of the board of directors on June 24, 2013. The options granted before the termination were still effective.

The options granted are valid for 10 years; except certain active employees may exercise the options earlier and leave employees extend the exercisable period of the options, the vesting conditions were as follows:

1) 25% of the options granted are exercisable after the secondary anniversary frorm the grant date, and 12.5% of the options granted become exercisable each half year thereafter, the vesting period amounting to 4 years in total; or
2) the options granted reach exercisable according to the condition of performance achievement.

Information on employee share options was as follows:

	For the Year Ended December 31			
	2016		2015	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (US$)
Balance at January 1	6,738,924	$ 18.61	2,434,079	$ 70.19
Options granted	-	-	11,683,576	14.37
Options forfeited	(720,000)	25.96	(1,779,600)	17.37
Options exercised	(3,356,565)	14.46	(3,165,052)	12.42
Balance at December 31	2,662,359	21.01	6,738,924	18.61
Options exercisable, end of year	2,226,789	19.83	3,423,929	16.01

Information about outstanding options was as follows:

December 31,2016		December 31,2015	
Range of exercise price (NT$)	Weighted-average remaining contractual life (years)	Range of exercise price (NT$)	Weighted-average remaining contractual life (years)
$ -	-	$ 1.82	4.32
-	-	2.07	5.05
2.17	4.32	2.22	5.32
-	-	2.39	5.57
-	-	3.14	5.81
4.27	5.11	4.37	6.11
5.4	5.33	5.53	6.34
6.92	5.57	7.09	6.57
13.91	5.11	14.25	6.11
17.53	5.82	17.95	6.82
24.92	6.13	25.52	7.13
28.77	6.27	29.47	7.27
32.63	6.48	33.42	7.48
-	-	38.29	7.08

As FocalTech Corporation, Ltd. acquired the Company in a reverse merger, the rights and obligations of the option plan were transferred to the Company. According to the requirements of the agreement of the acquisition and share swap, the adjusted number of shares for which each option entitles the holder to subscribe the Company's ordinary shares was 4.8 times the original number of the shares of FocalTech Corporation, Ltd. for which each option entitled the holder to subscribe, and the adjusted exercise price was the original exercise price divided by the share swap rate. No incremental compensation cost was recognized at the acquisition date.

d. Employee restricted shares plan in 2013

On June 18, 2013, the meeting of the Company's shareholders approved an employee restricted shares plan with a total amount of $10,000 thousand, consisting of 1,000 thousand shares, $10 par per share and issue price at $0 (free of payments). It was applied to the FSC and effective on August 15, 2013.

The grant date and issue date was October 3, 2013 as approved by the board of directors on the same day to issue employee restricted shares with a total amount of $9,820 thousand. The fair value of each share at the grant date was $46.6. The employee restricted shares plan was remeasured at January 2 2015, the reverse merger date at $38 per share, the closest opening price.

Provided that the employees who acquired restricted shares keep active until the end of the vesting period, obey the service principles, and never violate the labor contracts, working principles or employee management rules, the vesting conditions were as follows:

1) the second anniversary from the grant date, 20% of acquired shares.
2) the third anniversary from the grant date, 30% of acquired shares.
3) the fourth anniversary from the grant date, 50% of acquired shares.

The restrictions on the rights of the employees who acquired the restricted shares but have not meet the vesting conditions were as follows:

1) The employees cannot sell, pledge, transfer, donate, or in any way dispose of these shares.
2) The Company enters into a trust agreement with a trust and custodian institution on behalf of the employees, and the institution exercises the rights in shareholders' meeting, in accordance with the agreement, such as attendance, proposing, speaking and voting.
3) The employees holding these shares are still entitled to receive cash and dividends in share and participating in capital increase in cash.
4) For the employees who meet vesting conditions in the periods, including the book closure periods for stock dividends, cash dividends, or cash injection, required by Article 165 item 3 of the Company Act, or due to other circumstances, the removal of restrictions and the delivery of the shares are ceased.

If an employee fails to meet the vesting conditions, the Company will recall and cancel his/her restricted shares.

e. Employee restricted shares plan in 2014

On February 24, 2014, the board of directors of FocalTech Corporation, Ltd. approved an employee restricted shares plan with a total amount of $8,000 thousand, consisting of 800,000 shares, $10 par per share, to apply for issuance at one times or several times for one year since the resolution date.

The Chairman decided August 20, 2014 as the record date of issuance, authorized by the board of directors of FocalTech Corporation, Ltd. on August 1, 2014. The restricted shares issued amounted to $3,854 thousand, consisting of 385,350 shares and issue price at $10 per share. August 1, 2014 and August 20, 2014 were the grant date and the issue date, respectively, and the fair value of each share at the grant date was $247.5.

The Chairman decided November 7, 2014 as the record date of issuance, authorized by the board of directors of FocalTech Corporation, Ltd. on October 31, 2014. The restricted shares issued amounted to $4,057 thousand, consisting of 405,650 shares and issue price at $10 per share. October 31, 2014 and November 7, 2014 were the grant date and the issue date, respectively, and the fair value of each share at the grant date was $173.

According to the employee restricted shares plan, one third of the restricted are vested when the employees who acquired the restricted shares continue working in FocalTech Corporation, Ltd. every anniversary since the grant date.

The restrictions on the rights of the employees who acquired the restricted shares but have not meet the vesting conditions were as follows;

1) The employees cannot sell, pledge, transfer, donate, or in any way dispose of these shares.
2) The Company enters into a trust agreement with a trust and custodian institution on behalf of the

employees, and the institution exercises the rights in the shareholders' meeting, in accordance with the agreement, such as attendance, proposing, speaking and voting.

3) The same restrictions were applied to the cash dividends and stock dividends (appropriated from earnings or capital surplus) derived from the restricted shares not vested and related dividends.

If an employee fail to meeting the vesting conditions, FocalTech Corporation, Ltd. will buy back at the original issue price and cancel his/her restricted shares.

As FocalTech Corporation, Ltd. acquired the Company in a reverse merger, the rights and obligations of the restricted shares plan were also transferred to the Company. No incremental compensation cost was recognized at the reference date of the acquisition.

f. The 2nd Shares Buy Back Program.

On April 28, 2016, the board of directors approved The 2nd Shares Buy Back Program for transferring to employees up to 5,000 thousand shares. The transferred price to employees would be the average purchase price. The eligible employees purchased 2,624 thousand shares with the total proceeds of $69,615 thousand on the grant date, October 28, 2016, at $26.53 per share. The fair value of each share purchase right was $11.26 on the grant date.

According to The 2nd Shares Buy Back Program, all the shares would be vested in 2 years, half vested after the first anniversary, if employees are still at work and entitled.

The rules on the unvested shares were as follows;

1) The employees cannot sell, pledge, transfer, donate, or dispose these shares.
2) The Company and the employees should enter into a trust agreement with a trust and custodian institution and authorize the institution to exercise the shareholders' rights including but not limited to attendance, proposing, speaking and voting in the shareholder meetings.
3) The unvested shares are entitled to receive cash and/or share dividends and the derivatives.

If an employee fails to meet the vesting conditions, the trust institution would dispose the unvested shares and return proceeds to the employee no more than the original purchase price.
Compensation cost recognized was $43,147 thousand and $76,334 thousand for the years ended December 31, 2016 and 2015, respectively and affected capital surplus - employee share options by 18,687 thousand and 19,514 thousand and other equity - unearned employee compensation by $ 24,460 thousand and $ 56,820 thousand, respectively.

28. BUSINESS COMBINATIONS

a. The Company as acquiree

	Principal Activity	**Date of Acquisition**	**Proportion of Voting Equity Interests Acquired (%)**
FocalTech Systems Co., Ltd. (the Company)	Development, manufacture and sale of wafer for consumer electronic	January 2, 2015	100

The acquisition was for long-term development strategy, integration of resources and enhancement of competitiveness, in order to increase sales and profit and create more values.

b. Considerations transferred

	The Company
Acquired 100% ownership interest in FocalTech Corporation, Ltd. by issuing equity instruments	$ 5,321,880
Non-controlling interests (the options and restricted shares granted by the Company)	28,080
	$ 5,349,960

c. Fair value of assets acquired and liabilities assumed at the date of acquisition

	The Company
Current assets	
Cash and cash equivalents	$ 717,370
Trade and other receivables	2,177,210
Inventories	1,871,832
Others	53,948
Non-current assets	
Fixed assets	$ 29,286
Intangible assets	167,204
Deferred tax assets	129,342
Others	3,339
Current liabilities	
Short-term borrowings	(316,500)
Trade and other payables	(1,344,710)
Others	(5,524)
Non-current liabilities	
Financial liabilities at fair value through profit and loss	(283,121)
Bonds payable	(941,210)
Deferred tax liabilities	(23,520)
Others	(122,254)
	$ 2,112,692

d. Non-controlling interests

For the outstanding share options and employee restricted shares granted by FocalTech Systems Co., Ltd. to its employees, replacement awards were measured based on market prices at the reference date of the acquisition. The significant assumptions used in determining the market-based measure at the acquisition were set out in Note 27.

1) Replacement award that is part of consideration transferred

	January 2,2015
Share options	$ 16,277
Employee restricted shares	11,803
	$ 28,080

2) Replacement award attributable to post-combination services

	January 2,2015
Share options	$ 13,062
Employee restricted shares (recognized in the capital surplus-employee restricted shares at the acquisition date)	13,216
	$ 26,278

e. Goodwill arising on acquisition

	The Company
Consideration transferred	$ 5,321,880
Plus: Non-controlling interests (share options and employee restricted shares granted by the Company)	28,080
Less: Fair value of identifiable net assets acquired	(2,112, 692)
Goodwill arising on acquisition	$ 3,237,268

Goodwill from the acquisition of the Company arose from the control premium and other intangible assets. In addition, the consideration paid for the acquisition included the benefits of expected synergies, revenue growth, future market development and the assembled workforce of the Company. These benefits were not recognized separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

29. Equity transactions with non - controlling interests

In November 2016, the Group ownership interest over FocalTech Smart Sensors Co., Ltd. diluted to 69% after the capital injection.

The transactions did not change the controlling status. FocalTech Smart Sensors Co., Ltd. was treated as a subsidiary under equity method.

	FocalTech Smart Sensors Co., Ltd.
Proceeds received in cash from non-controlling interests	$ 15,500
The book value in equity accounted for non-controlling interests	(14,918)
Equity transaction gap	$ 582

	FocalTech Smart Sensors Co., Ltd.
Item to adjust for equity transaction gap	
Capital surplus - Changes in ownership interests in subsidiaries	$ 582

30. OPERATING LEASE ARRANGEMENTS

The Company is Lessee

The Company and its subsidiaries have lease contracts relate to office, plant and part of office equipment, above contracts would be expired after November 2018.

The lease payments recognized in profit or loss for the current period were as follows:

	For the Year Ended December 31	
	2016	2015
lease payment	$ 65,563	$ 65,764

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

	December 31	
	2016	2015
Not later than 1 year	$ 31,731	$ 44,645
Later than 1 year and not later than 5 years	3,992	9,959
	$ 35,723	$ 54,604

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31. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stockholders through the optimization of the debt and equity balance.

As the strategy of the Group's capital structure management, the Group sets its target market share according to the industry scale, the growth of the industry and the product development. The Group estimates the required capacity and plant and equipment and the responding capital expenditure to reach such capacity. Furthermore, the Group calculates working capitals and cash demands on the basis of the industry characteristics to make a comprehensive plan for long-term development. Finally, the Group evaluates not only the possible contribution margin, operating profit ratio and cash flows according to the product competitiveness but also risk factors such as the fluctuation of the business circle and the life circle of the product to decide the suitable capital structure. The management reviews capital structures periodically and considers the possible costs and risks of different capital structures. Generally, the Group adopted prudent capital management strategy.

The capital structure of the Group consists of net debt (loans net of cash and cash equivalent) and equity (comprising issued capital, capital surplus, retained earnings and other equity).

The Group was not restricted to other external capital requirements.

32. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The management believes the carrying amounts of financial assets and financial liabilities not measured of fair value approximate their fair values or cannot be reliably measured.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2016

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Fixed income bonds	$ -	$ 175,839	$ -	$ 175,839

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Structured note	$ -	$ -	$ 129,120	$ 129,120
Financial liabilities at FVTPL				
Options attached to the convertible bonds	$ -	$ -	$ 47,818	$ 47,818

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2016

	Derivatives
Financial assets at FVTPL	
Structured note	
Balance at January 1, 2016	$ 129,120
Recognized in profit or loss (included in gain on financial assets at FVTPL) - unrealized	2,142
Proceeds	(129,051)
Effect of foreign currency exchange differences	(2,211)
Balance at December 31, 2016	$ -

	Derivatives
Financial liabilities at FVTPL	
Conversion option of the convertible bonds	
Balance at January 1, 2016	$ 47,818
Recognized in profit or loss (included in gain on financial liabilities at FVTPL)	
Realized	(18,744)
Repayments	(29,074)
Balance at December 31, 2016	$ -

Year ended December 31, 2015

	Derivatives
Financial assets at FVTPL	
Structured note	
Balance at January 1, 2015	$ -
Purchases	130,620
Recognized in profit or loss (included in gain on financial assets at FVTPL) - unrealized	(2,107)
Effect of foreign currency exchange differences	(607)
Balance at December 31, 2015	$ 129,120

	Derivatives
Financial liabilities at FVTPL	
Conversion option of the convertible bonds	
Balance at January 1, 2015	$ -
Acquisitions through business combinations at January 2, 2015	283,121
Recognized in profit or loss (included in gain on financial liabilities at FVTPL) - unrealized	(235,303)
Balance at December 31, 2015	$ 47,818

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

a) Structured Note

Financial Instruments	Valuation Techniques and Inputs
Credit-Linked Note	The fair value provided by the Bank in accordance with the pricing model and / or assumptions of the current and future market conditions, the size and liquidity of the investment and the actual and potential hedging transactions after a reasonable review.

b) Options attached to the convertible bonds

The convertible bond was valuation by the binomial pricing model to Convertible Bonds, the fair value was measured based on the valuation date, duration, the price of the Company's stock, conversion price, volatility, risk-free interest, risk discount and liquidity risk. The Company obtained the external financial instrument valuation report, the estimation and assumptions used in the valuation report are consistent the information that the market participants used to estimate and assume in the pricing of financial instrument.

The valuation inputs applied as follow:

	December 31, 2015
Volatility	47.56%
Risk-free interest	0.4569%
Risk discount rate	1.2490%
Liquidity risk	5.74%

4) Sensitivity analysis of the options attached to the convertible bonds.

a) Foreign currency risk

The convertible bond was denominated at NT dollar, recognized the fair value through profit or loss which would not subject to exchange rate fluctuation.

b) Interest rate risk

If interest rates had been 10 or 20 basis points higher/lower and all other variables were held constant, the gain(loss) per NT 100 thousand bond sheet on each face value of $100,000 of the financial liabilities at FVTPL for the years ended December 31, 2015 would decrease/increase by $(110), $(250), $130 and $250 , respectively.

c) Share price risk

If price had been 7% or 10% higher/lower and all other variables were held constant, the gain(loss) per sheet on each face value of $100,000 of the financial liabilities at FVTPL for the years ended December 31, 2015 would decrease/increase by $(1,350), $(1,850), $1,260 and $1,710, respectively.

d) Volatility

If volatility had been 1% or 5% higher/lower and all other variables were held constant, the gain(loss) per sheet on each face value of $100,000 of the financial liabilities at FVTPL for the years ended December 31, 2015 would decrease/increase by $(130), $(770), $150 and $1,210, respectively.

c. Categories of financial instruments

	December 31	
	2016	**2015**
Financial assets		
Fair value through profit or loss (FVTPL)		
Designated as at FVTPL	$ -	$ 129,120
Available-for-sale financial assets (Note 1)	256,464	49,238
Loans and receivables (Note 2)	6,943,655	8,606,718
Financial liabilities		
Fair value through profit or loss (FVTPL)		
Held for trading	-	47,818
Amortized cost (Note 3)	3,204,242	3,269,496

1) The balances included the carrying amount of available-for-sale and financial assets measured at cost.

2) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, trade receivables, other financial assets and guarantee deposits(included in other non-current assets).

3) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, trade and other payables, bonds payable and deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include cash and cash equivalents, trade receivable, other financial assets, available-for-sale financial assets, financial assets measured at cost, borrowings, trade and other payables, bonds payable. The Group'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 Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The board of directors is solely responsible for established and monitored the framework of risk management of the Group, the board of directors authorized the chairman develop and monitored the risk management policy of the Company with the operation center of the Group, and regularly reported the situation to the board of directors.

The Group's financial risk management policies are developed for identifying and analyzing the financial risks to the Group, evaluating the impacts of the financial risks, and executing the financial-risk aversion policies. The financial risk management are periodically reviewed to reflect changes to the market and the operations. Through the internal controls, such as training and setting up managing requirements and procedures, the Group is engaged in developing a disciplined and constructive control environment, in order to have all employees understand own responsibilities.

The Group's board of directors monitors the management on managing the compliance to the financial risk management policies and procedures and reviews the appropriateness of risk management structure. To assist the board of directors, the internal auditors perform period and exceptional reviews on the controls and procedures of financial risk management and report the result of reviews to the board of directors.

The risk exposure, the targets, policies and procedures of evaluating and managing risks were disclosed as follow.

1) Market risk

The Group did not have financial instruments which involve material market risk due to price variations; thus, the market risk was immaterial.

a) Foreign currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities which were not in the same functional currency with the Group entity at the end of the reporting period are shown in Note 35.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar and RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an decrease in pre-tax profit and other equity associated with New Taiwan dollars strengthen 5% against the relevant currency. For a 5% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

	USD Impact		RMB Impact	
	For the Year Ended December 31		For the Year Ended December 31	
	2016	2015	2016	2015
Profit or loss/ equity	$ 17,690 (i)	$ 43,694 (i)	$ 2,416 (ii)	$ 23,084 (ii)

i. This was mainly attributable to the exposure outstanding on USD time deposits, trade receivables, trade, other payables, other current assets and other current liability.

ii. This was mainly attributable to the exposure to outstanding RMB time deposits.

b) Interest rate risk

The Group was exposed to interest risk arising from fixed rate time deposits, financial assets designated at FVTPL and other financial assets, and floating-rate demand deposits. The time deposits and financial assets designated at FVTPL were at fixed interest rates, and other financial assets were mainly at fixed rates or at guaranteed minimal interest rates and carried at amortized costs, and, therefore, the variations to interest rates did not affect future cash flows.

The carrying amount of the Group's financial assets with exposure to interest rates at the end of the reporting period were as follows.

	December 31	
	2016	2015
Fair value interest rate risk		
Financial assets	$ 4,398,311	$ 5,684,313
Cash flow interest rate risk		
Financial assets	$ 1,343,883	$ 1,419,835
Fair value interest rate risk		
Financial liabilities	$ 645,000	$ 1,296,443

The sensitivity analyses below were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate assets, the analysis was prepared assuming the amount of the assets outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended December 31, 2016 and 2015 would decrease/increase by $2,789 thousand and $2,946 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation from the carrying amounts of the financial assets as recognized in the balance sheets.

In order to minimize credit risk, management of the Group 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 debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The credit risk on liquid funds and derivatives was limited because the counterparties are banks and entities with high credit ratings.

The Group's concentration of credit risk was related to the five largest client of trade receivables. Ongoing credit evaluation is performed on the financial condition of trade receivables.

As of December 31,2016, the Group's five largest customers took 54% of total trade receivables, the remaining transactions with a large number of unrelated customers, thus, no significant concentration of credit risk was observed.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, bank loans are a significant resource of liquidtiy for the Group.

As of December 31, 2016 and 2015, the Group had available unutilized short-term bank loan facilities of $2,145,000 thousand and $3,171,475 thousand, respectively.

a) Liquidity and interest risk rate tables for non-derivative financial liabilities

The Group's remaining contractual maturity for its non-derivative financial liabilities was based on the undiscounted cash flows, including interest and principal cash flow, of financial liabilities from the earliest date on which the Group can be required to pay.

December 31, 2016

	On Demand or Less than 1 Year	**1-5 Years**
Non-derivative financial liabilities		
Fixed interest rate liabilities	$ 645,000	$ -
Non-interest bearing	2,445,967	113,275
	$ 3,090,967	$ 113,275

December 31, 2015

	On Demand or Less than 1 Year	**1-5 Years**
Non-derivative financial liabilities		
Fixed interest rate liabilities	$ 270,058	$ 1,026,385
Non-interest bearing	1,955,099	87,850
	$ 2,225,157	$ 1,114,235

b) Financing facilities

	December 31, 2016	December 31, 2015
Unsecured bank overdraft facility, reviewed annually:		
Amount used	$ 645,000	$ 269,775
Amount unused	2,145,000	3,171,475
	$ 2,790,000	$ 3,441,250

33. TRANSACTIONS WITH RELATED PARTIES

a. Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

b. Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Long-term employee benefits	$ 22,031	$ 18,403
Short-term employee benefits	55,812	42,142
Post-employment benefits	606	762
Share-based payments	7,404	9,429
	$ 85,853	$ 70,736

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

34. ASSETS PLEDGED AS COLLATERAL

The following assets were provided as collateral for legal proceedings and import customs duties:

	December 31	
	2016	2015
Pledge deposits (classified as other non-current assets)	$ 36,543	$ 4,000

35. 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:

December 31, 2016

	Foreign Currencies	Exchange Rate (to its relevant functional currency)	New Taiwan Dollars
Financial assets			
Monetary items			
USD	$ 46,040	32.25 (USD:NTD)	$ 1,484,800
USD	1,561	6.9370 (USD:RMB)	50,350
RMB	10,395	0.1442 (RMB:USD)	48,326
Financial liabilities			
Monetary items			
USD	26,937	32.25 (USD:NTD)	868,732
USD	9,693	6.9370 (USD:RMB)	312,609

December 31, 2015

	Foreign Currencies	Exchange Rate (to its relevant functional currency)	New Taiwan Dollars
Financial assets			
Monetary items			
USD	$ 64,896	32.8250 (USD:NTD)	$ 2,130,162
USD	1,041	6.4936 (USD:RMB)	34,218
RMB	91,688	0.1540 (RMB:USD)	461,679
Financial liabilities			
Monetary items			
USD	25,355	32.8250 (USD:NTD)	831,778
USD	13,974	6.4936 (USD:RMB)	458,710

36. SEGMENT INFORMATION

a. Operating segments

Segment information is provided to those who allocate resources and assesse segment performance separately. The Company’s operation focuses on the selling and developing portable device related IC under a single operation unit. Thus, the information of operating segment should not be disclosed individually.

b. Revenue from major products and services

The following is an analysis of the Group's revenue from continuing operations from its major products and services.

	For the Year Ended December 31	
	2016	2015
IC for portable devices	$ 11,000,406	$ 11,464,209
Others	17,819	15,530
	$ 11,018,225	$ 11,479,739

c. Geographical information

The Group operates in two principal geographical areas -China and Taiwan.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2016	2015	2016	2015
China	$ 9,667,749	$ 9,517,266	$ 150,332	$ 117,371
Taiwan	801,034	1,025,506	203,226	244,470
Others	549,442	936,967	-	-
	$ 11,018,225	$ 11,479,739	$ 353,558	$ 361,841

The Group's revenue was classified by location of receivable. Non-current assets which comprise property, plant and equipment, other intangible assets and guarantee deposits, exclude available-for-sale financial assets, financial asset measured at cost, goodwill, deferred tax assets and other non-current assets.

d. Information about major customers

Single customers contributed 10% or more to the Group's revenue were as follows:

	For the Year Ended December 31	
	2016	2015
Custom A	$ 1,848,328	$ 1,400,079
Custom B and subsidiaries	1,398,673	1,175,199
Custom C and subsidiaries	1,289,186	1,122,452