# FocalTech Systems Co., Ltd. and Subsidiaries

## Consolidated Financial Statements for the Nine Months Ended September 30, 2016 and 2015

# FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**
**(In Thousands of New Taiwan Dollars, Except Par Value)**

| | September 30, 2016 | | December 31, 2015 | | September 30, 2015 | |
|---|---|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents (Note 6) | $ 1,808,230 | 13 | $ 1,690,441 | 11 | $ 3,022,616 | 19 |
| Financial assets at fair value through profit or loss - current (Notes 7 and 32) | 123,863 | 1 | 129,120 | 1 | - | - |
| Held-to-maturity financial assets - current (Note 9) | - | - | - | - | 32,952 | - |
| Trade receivables, net (Note 10) | 1,430,625 | 11 | 1,587,586 | 10 | 1,670,292 | 10 |
| Inventories (Note 11) | 2,667,194 | 19 | 2,543,876 | 17 | 2,257,297 | 14 |
| Other financial assets (Note 12) | 2,311,664 | 17 | 5,287,856 | 35 | 5,170,284 | 32 |
| Other current assets | 176,313 | 1 | 152,767 | 1 | 192,159 | 1 |
| Total current assets | 8,517,889 | 62 | 11,391,646 | 75 | 12,345,600 | 76 |
| NON-CURRENT ASSETS | | | | | | |
| Available-for-sale financial assets - non-current (Note 8) | 28,292 | - | - | - | - | - |
| Held-to-maturity financial assets - non-current (Note 9) | 15,816 | - | - | - | - | - |
| Financial assets measured at cost (Note 13) | 47,040 | - | 49,238 | - | 49,305 | 1 |
| Property, plant and equipment (Note 15) | 114,785 | 1 | 148,188 | 1 | 150,015 | 1 |
| Goodwill (Notes 16 and 29) | 3,237,268 | 23 | 3,237,268 | 21 | 3,237,268 | 20 |
| Other intangible assets (Note 17) | 210,229 | 2 | 172,819 | 1 | 176,936 | 1 |
| Deferred tax assets (Note 16) | 145,595 | 1 | 154,154 | 1 | 185,170 | 1 |
| Other non-current assets (Notes 15 and 34) | 1,458,892 | 11 | 57,743 | 1 | 27,153 | - |
| Total non-current assets | 5,257,917 | 38 | 3,819,410 | 25 | 3,825,847 | 24 |
| TOTAL | $ 13,775,806 | 100 | $ 15,211,056 | 100 | $ 16,171,447 | 100 |
| **LIABILITIES AND EQUITY** | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Short-term borrowings (Note 18) | $ 313,600 | 3 | $ 269,775 | 2 | $ 230,090 | 2 |
| Financial liabilities at fair value through profit or loss - current (Notes 7 and 32) | 1,408 | - | 47,818 | - | 61,964 | - |
| Trade payables (Note 20) | 954,587 | 7 | 974,714 | 6 | 875,900 | 6 |
| Other payables (Notes 21 and 30) | 952,470 | 7 | 980,385 | 7 | 2,105,896 | 13 |
| Current tax liabilities (Note 4) | 6,238 | - | 3,254 | - | 5,268 | - |
| Current portion of bonds payable (Note 19) | 33,642 | - | 956,772 | 6 | - | - |
| Other current liabilities | 129,421 | 1 | 68,781 | 1 | 67,202 | - |
| Total current liabilities | 2,391,366 | 18 | 3,301,499 | 22 | 3,346,320 | 21 |
| NON-CURRENT LIABILITIES | | | | | | |
| Bonds payable (Note 19) | - | - | - | - | 952,857 | 6 |
| Deferred tax liabilities | 183,005 | 1 | 190,372 | 1 | 199,693 | 1 |
| Net defined benefit liabilities - non-current (Note 4) | 47,889 | - | 48,168 | - | 43,986 | - |
| Guarantee deposits received | 77,722 | 1 | 87,850 | 1 | 68,942 | 1 |
| Other non-current liabilities | 10,400 | - | 10,400 | - | 10,400 | - |
| Total non-current liabilities | 319,016 | 2 | 336,790 | 2 | 1,275,878 | 8 |
| Total liabilities | 2,710,382 | 20 | 3,638,289 | 24 | 4,622,198 | 29 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 23) | | | | | | |
| Share capital | | | | | | |
| Ordinary shares | 2,961,416 | 21 | 2,933,299 | 19 | 2,928,707 | 18 |
| Capital surplus | | | | | | |
| Additional paid-in capital | 6,438,354 | 47 | 6,362,250 | 42 | 6,336,018 | 39 |
| Employee share options | 65,858 | - | 103,350 | - | 100,244 | 1 |
| Treasury shares | 236 | - | 236 | - | 236 | - |
| Employee restricted shares | 94,833 | 1 | 115,999 | 1 | 135,962 | 1 |
| Employee share options - expired | 13,730 | - | 10,806 | - | 10,806 | - |
| Total capital surplus | 6,613,011 | 48 | 6,592,641 | 43 | 6,583,266 | 41 |
| Retained earnings | | | | | | |
| Legal reserve | 165,045 | 1 | 141,463 | 1 | 141,463 | 1 |
| Undistributed earnings | 1,188,092 | 9 | 1,358,815 | 9 | 1,330,938 | 8 |
| Total retained earnings | 1,353,137 | 10 | 1,500,278 | 10 | 1,472,401 | 9 |
| Other equity | | | | | | |
| Exchange differences from translating the financial statements of foreign operations | 315,860 | 2 | 609,523 | 4 | 642,259 | 4 |
| Equity directly associated with non-current assets held for sale | (102) | - | - | - | - | - |
| Unearned employee compensation | (45,291) | - | (62,974) | - | (77,384) | (1) |
| Total other equity | 270,467 | 2 | 546,549 | 4 | 564,875 | 3 |
| Treasury shares | (132,607) | (1) | - | - | - | - |
| Total equity | 11,065,424 | 80 | 11,572,767 | 76 | 11,549,249 | 71 |
| TOTAL | $ 13,775,806 | 100 | $ 15,211,056 | 100 | $ 16,171,447 | 100 |

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

# FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | For the Three Months Ended September 30 | | | | For the Nine Months Ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2016 | | 2015 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| REVENUE (Note 24) | $ 3,056,139 | 100 | $ 2,899,675 | 100 | $ 8,324,695 | 100 | $ 8,531,311 | 100 |
| COSTS OF SALES (Note 11 and 25) | (2,428,595) | (80) | (2,396,141) | (83) | (6,685,176) | (80) | (7,100,087) | (83) |
| GROSS PROFIT | 627,544 | 20 | 503,534 | 17 | 1,639,519 | 20 | 1,431,224 | 17 |
| OPERATING EXPENSES (Note 22, 25, 28 and 33) | | | | | | | | |
| Selling and marketing expenses | (114,728) | (4) | (125,249) | (4) | (335,376) | (4) | (339,015) | (4) |
| General and administrative expenses | (77,764) | (2) | (98,791) | (3) | (224,619) | (3) | (270,188) | (3) |
| Research and development | (332,077) | (11) | (314,265) | (11) | (983,962) | (12) | (973,966) | (11) |
| Total operating expenses | (524,569) | (17) | (538,305) | (18) | (1,543,957) | (19) | (1,583,169) | (18) |
| OPERATIONS INCOME (LOSS) | 102,975 | 3 | (34,771) | (1) | 95,562 | 1 | (151,945) | (1) |
| NON-OPERATING INCOME AND EXPENSES | | | | | | | | |
| Finance costs (Note 25) | (844) | - | (4,138) | - | (8,098) | - | (12,951) | - |
| Gain on disposal of investment | - | - | - | - | - | - | 33 | - |
| Gain on foreign currency exchange | - | - | 103,090 | 3 | - | - | 62,155 | 1 |
| Net gain(loss) of fair value change of financial assets and liabilities at fair value through profit or loss (Note 32) | (24) | - | 112,172 | 4 | 17,858 | - | 221,157 | 2 |
| Other gains and losses - net (Note 19) | 4,355 | - | (632) | - | (24,681) | - | 17,572 | - |
| Loss on disposal of property, plant and equipment | - | - | - | - | (1,986) | - | - | - |
| Loss on foreign currency exchange | (12,573) | - | - | - | (40,655) | (1) | - | - |
| Interest income | 10,797 | - | 24,521 | 1 | 45,402 | 1 | 69,830 | 1 |
| Total non-operating income and expenses | 1,711 | - | 235,013 | 8 | (12,160) | - | 357,796 | 4 |
| INCOME (LOSS) BEFORE INCOME TAX | 104,686 | 3 | 200,242 | 7 | 83,402 | 1 | 205,851 | 3 |
| INCOME TAX (EXPENSE) BENEFIT (Note 4 and 26) | (11,736) | - | 13,800 | - | (18,329) | - | 15,662 | - |
| NET INCOME (LOSS) | 92,950 | 3 | 214,042 | 7 | 65,073 | 1 | 221,513 | 3 |
| OTHER COMPREHENSIVE INCOME | | | | | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | | | | | |

(Continued)

# FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | For the Three Months Ended September 30 | | | | For the Nine Months Ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2016 | | 2015 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Exchange differences from translating financial statement of foreign operations | (178,107) | (6) | 365,205 | 13 | (293,663) | (4) | 209,982 | 2 |
| Unrealized loss on available-for-sale financial assets | (102) | - | - | - | (102) | - | - | - |
| Income tax relating to items that may be reclassified subsequently to profit or loss | - | - | - | - | - | - | - | - |
| Total other comprehensive loss (net of income tax) | (178,209) | (6) | 365,205 | 13 | (293,765) | (4) | 209,982 | 2 |
| TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD | $ (85,259) | (3) | $ 579,247 | 20 | $ (228,692) | (3) | $ 431,495 | 5 |
| NET PROFIT ATTRIBUTABLE TO: | | | | | | | | |
| Owners of the Company | $ 92,950 | 3 | $ 214,042 | 7 | $ 65,073 | 1 | $ 221,513 | 3 |
| TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: | | | | | | | | |
| Owners of the Company | $ (85,259) | (3) | $ 579,247 | 20 | $ (228,692) | (3) | $ 431,495 | 5 |
| EARNINGS (LOSSES) PER SHARE (Note 27) | | | | | | | | |
| Basic | $ 0.32 | | $ 0.53 | | $ 0.22 | | $ 0.54 | |
| Diluted | $ 0.32 | | $ 0.25 | | $ 0.22 | | $ 0.02 | |

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**
**(In Thousands of New Taiwan Dollars)**

| | | Capital Surplus | | | | | | Retained Earnings | | Other Equity | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share Capital Ordinary Shares | Additional Paid-in Capital | Employee Share Options | Treasury Shares | Employee Restricted Shares | Employee Share Options - Expired | Total | 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 Equity |
| BALANCE, JANUARY 1, 2015 | $ 2,758,575 | $ 2,372,113 | $ 110,543 | $ 236 | $ 103,375 | $ 10,782 | $ 2,597,049 | $ 127,018 | $ 1,253,875 | $ 432,277 | $ - | $ (109,530) | $ - | $ 7,059,264 |
| Appropriation of 2014 earnings | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | - | - | 14,445 | (14,445) | - | - | - | - | - |
| Cash dividends distributed by the Company | - | - | - | - | - | - | - | - | (130,005) | - | - | - | - | (130,005) |
| Net income for the nine months ended September 30, 2015 | - | - | - | - | - | - | - | - | 221,513 | - | - | - | - | 221,513 |
| Other comprehensive income (loss) for the nine months ended September 30, 2015, net of income tax | - | - | - | - | - | - | - | - | - | 209,982 | - | - | - | 209,982 |
| Total comprehensive income (loss) for the nine months ended September 30, 2015 | - | - | - | - | - | - | - | - | 221,513 | 209,982 | - | - | - | 431,495 |
| Capital reduction by cash | (1,249,021) | - | - | - | - | - | - | - | - | - | - | - | - | (1,249,021) |
| Changes in capital surplus for the reverse merger of the company | 1,400,495 | 3,891,821 | 16,277 | - | 54,583 | - | 3,962,681 | - | - | - | - | (13,216) | - | 5,349,960 |
| Compensation cost of employee share options (Note 28) | - | - | 10,565 | - | - | - | 10,565 | - | - | - | - | - | - | 10,565 |
| Issue of ordinary shares under employee share options (Note 28) | 27,152 | 44,833 | (37,117) | - | - | - | 7,716 | - | - | - | - | - | - | 34,868 |
| Employee share options expired (Note 28) | - | - | (24) | - | - | 24 | - | - | - | - | - | - | - | - |
| Compensation cost of employee restricted shares (Note 28) | - | - | - | - | - | - | - | - | - | - | - | 42,657 | - | 42,657 |
| Employee restricted shares vested | - | 21,090 | - | - | (21,090) | - | - | - | - | - | - | - | - | - |
| Cancellation of employee restricted shares | (8,494) | 6,161 | - | - | (906) | - | 5,255 | - | - | - | - | 2,705 | - | (534) |
| BALANCE AT SEPTEMBER 30, 2015 | $ 2,928,707 | $ 6,336,018 | $ 100,244 | $ 236 | $ 135,962 | $ 10,806 | $ 6,583,266 | $ 141,463 | $ 1,330,938 | $ 642,259 | $ - | $ (77,384) | $ - | $ 11,549,249 |
| BALANCE, JANUARY 1, 2016 | $ 2,933,299 | $ 6,362,250 | $ 103,350 | $ 236 | $ 115,999 | $ 10,806 | $ 6,592,641 | $ 141,463 | $ 1,358,815 | $ 609,523 | $ - | $ (62,974) | $ - | $ 11,572,767 |
| Appropriation of 2015 earnings | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | - | - | 23,582 | (23,582) | - | - | - | - | - |
| Cash dividends distributed by the Company | - | - | - | - | - | - | - | - | (212,240) | - | - | - | - | (212,240) |
| Net loss for the nine months ended September 30, 2016 | - | - | - | - | - | - | - | - | 65,073 | - | - | - | - | 65,073 |
| Other comprehensive loss for the nine months ended September 30, 2016, net of income tax | - | - | - | - | - | - | - | - | - | (293,663) | (102) | - | - | (293,765) |
| Total comprehensive income (loss) for the nine months ended September 30, 2016 | - | - | - | - | - | - | - | - | 65,073 | (293,663) | (102) | - | - | (228,692) |
| Buy-back of ordinary shares | - | - | - | - | - | - | - | - | - | - | - | - | (132,607) | (132,607) |
| Compensation cost of employee share options (Note 28) | - | - | 9,281 | - | - | - | 9,281 | - | - | - | - | - | - | 9,281 |
| Issue of ordinary shares under employee share options (Note 28) | 29,593 | 56,013 | (43,849) | - | - | - | 12,164 | - | - | - | - | - | - | 41,757 |
| Employee share options expired (Note 28) | - | - | (2,924) | - | - | 2,924 | - | - | - | - | - | - | - | - |
| Compensation cost of employee restricted shares (Note 28) | - | - | - | - | - | - | - | - | - | - | - | 15,209 | - | 15,209 |
| Employee restricted shares vested | - | 18,940 | - | - | (18,940) | - | - | - | - | - | - | - | - | - |
| Cancellation of employee restricted stock | (1,476) | 1,151 | - | - | (2,226) | - | (1,075) | - | - | - | - | 2,474 | - | (77) |
| Dividend return on unvested employee restricted stock | - | - | - | - | - | - | - | - | 26 | - | - | - | - | 26 |
| BALANCE AT SEPTEMBER 30, 2016 | $ 2,961,416 | $ 6,438,354 | $ 65,858 | $ 236 | $ 94,833 | $ 13,730 | $ 6,613,011 | $ 165,045 | $ 1,188,092 | $ 315,860 | $ (102) | $ (45,291) | $ (132,607) | $ 11,065,424 |

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

# FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In Thousands of New Taiwan Dollars)**

| | For the Nine Months Ended September 30 | |
|---|---|---|
| | **2016** | **2015** |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax from continuing operation | $ 83,402 | $ 205,851 |
| Adjustments for: | | |
| Depreciation expenses | 40,497 | 50,530 |
| Amortization expenses | 40,477 | 30,973 |
| Gain on financial assets and liabilities at fair value through profit or loss | (17,858) | (221,157) |
| Finance costs | 8,098 | 12,951 |
| Interest income | (45,402) | (69,830) |
| Compensation cost of employee share options | 9,281 | 10,565 |
| Compensation cost of employee restricted shares | 15,209 | 42,657 |
| Loss on disposal of property, plant and equipment | 1,986 | - |
| Gain on disposal of available-for-sale financial assets | - | (33) |
| Write-down of inventories | 141,631 | 78,194 |
| Unrealized loss on foreign currency exchange | 1,932 | 279 |
| Loss on buy-back of bonds payable | 32,021 | - |
| Changes in operating assets and liabilities | | |
| Trade receivables | 145,809 | 494,370 |
| Inventories | (324,308) | 388,010 |
| Other current assets | (50,318) | (30,960) |
| Trade payables | 2,803 | (494,500) |
| Other payables | 14,934 | 8,018 |
| Other current liabilities | 65,991 | 37,685 |
| Net defined benefit liabilities | (279) | 2,597 |
| Cash generated from operations | 165,906 | 546,200 |
| Interest paid | (1,987) | (2,111) |
| Income tax paid | (7,108) | (46,463) |
| Net cash generated from operating activities | 156,811 | 497,626 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of available-for-sale financial assets | (29,359) | (188,000) |
| Proceeds on sale of available-for-sale financial assets | - | 188,033 |
| Purchase of held-to-muturity financial assets | (16,355) | (31,585) |
| Purchases for property, plant and equipment | (12,786) | (29,733) |
| Proceeds from disposal of property, plant and equipment | 500 | - |
| Purchase of intangible assets | (80,877) | (21,557) |
| Cash inflow on acquisition of the Company (Note 29) | - | 717,370 |
| Decrease in other financial assets | 2,831,283 | 230,168 |
| Increase in other non-current assets | (1,474,441) | (4,118) |
| Interest received | 53,844 | 72,514 |
| Net cash generated from investing activities | 1,271,809 | 933,092 |

(Continued)

## FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In Thousands of New Taiwan Dollars)**

| | For the Nine Months Ended September 30 | |
|---|---|---|
| | **2016** | **2015** |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term borrowings | 57,289 | - |
| Repayments of short-term borrowings | - | (96,392) |
| Repayments of bonds payable | (990,617) | - |
| Decrease in guarantee deposits | (10,128) | 106 |
| Increase in other non-current liabilities | - | 1,400 |
| Cash dividends | (212,240) | (130,005) |
| Proceeds form issue on ordinary shares under employee share options | 41,757 | 34,868 |
| Buy-back of ordinary shares | (132,607) | - |
| Payment for cancellation of employee restricted stock | 26 | - |
| Proceeds from dividend returned by unvested employee restricted shares | (376) | (1,591) |
| Net cash used in financing activities | (1,246,896) | (191,614) |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | (63,935) | 58,204 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 117,789 | 1,297,308 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | 1,690,441 | 1,725,308 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | $ 1,808,230 | $ 3,022,616 |

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

(Concluded)

# FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

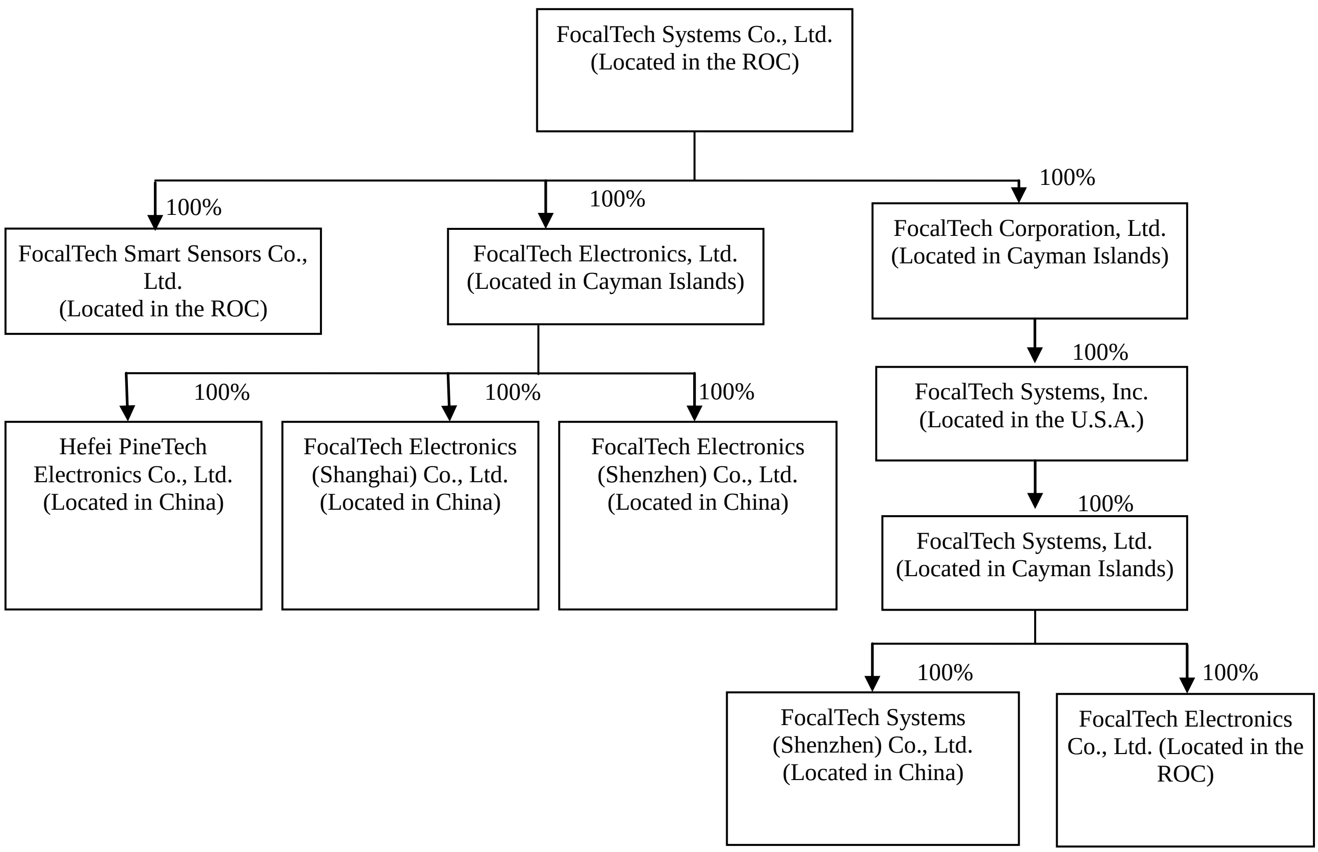
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
## (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

### 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. were delisted on January 2, 2015, approved by the Taiwan Stock Exchange.

The Company's investment structure was as follow:



FocalTech Corporation, Ltd., the parent company of FocalTech Systems, Inc., was incorporated in the British Cayman Islands in July 2012. FocalTech Systems, Inc. was incorporated in the U.S.A. in October 2005. FocalTech Systems, Ltd., the 100% owned subsidiary by FocalTech Systems, Inc., was incorporated in the British Cayman Islands in October 2005. Both of FocalTech Electronics Co., Ltd. (incorporated in the ROC in June 2006) and FocalTech Systems (Shenzhen) Co., Ltd. (incorporated in China in April 2006) were the 100% owned subsidiaries by FocalTech Systems, Ltd.

The Company incorporated Focal Electronics, Ltd. in August 2014, and invested FocalTech Electronics (Shanghai) Co., Ltd and FocalTech Electronics (Shenzhen) Co., Ltd. in China through FocalTech Electronics, Ltd.. FocalTech Electronics (Shanghai) Co., Ltd and FocalTech Electronics (Shenzhen) Co., Ltd. were approved by Investment Commission, MOEA and completed incorporation in September 2014 and October 2014.

Hefei PineTech Electronics Co., Ltd. was treated as a subsidiary by control in substance, since its main operation decision should be approved by the Company.

FocalTech Smart Sensors Co., Ltd., the 100% owned subsidiary by FocalTech Systems Co., Ltd., was incorporated in the Republic of China (“ROC”) in July 2016.

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 October 28, 2016.

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

a. International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017

   Rule No. 1050026834 issued by the FSC endorsed the following IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) for application starting January 1, 2017.

| 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 |
| 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 | July 1, 2014 |

| | |
|---|---|
| Contributions” | |
| 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.

The initial application of the above 2016 IFRSs, whenever applied, would not have any material impact on the Group’s accounting policies, except for the following:

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.

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.

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. 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)** |
|---|---|
| Amendments to IFRS 2 "Shared-Based Payment" | January 1, 2018 |
| Amendments to IFRS 4 "Appling IFRS 9 "Financial Instruments" and IFRS4 "Insurance Contracts" " | January 1, 2018 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures" | January 1, 2018 |
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" | To be determined by IASB |
| IFRS 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| 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 |

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

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.

2) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2017.

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

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

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

3) IFRS 16 "Leases"

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

Under IFRS 16, if the Group 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 Group 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 Group 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.

When IFRS 16 becomes effective, the Group 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.

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 other standards and interpretations will have on the Group'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 consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations") and IAS 34 "Interim Financial Reporting" as endorsed by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

b. Basis of consolidation

About the detail information, holding percentages, and main business of the subsidiaries, please refer to Note 12.

c. Other significant accounting policies

Except for the following, the accounting policies applied in the consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2015.

1) Held-to-maturity investments

Corporate bonds, which are above specific credit ratings and the Group has positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

2) Available-for-sale financial assets

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

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

3) Retirement benefit costs

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

4) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the 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. Income taxes

As of September 30, 2016, December 31, 2015, and September 30, 2015, no deferred tax liabilities has been recognized on earnings of the subsidiaries of $4,252,246 thousand, $4,392,962 thousand and $4,427,863 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. It's probable that the temporary differences will not reverse in the foreseeable future.

b. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has 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.

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

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Cash on hand | $ 2,147 | $ 3,269 | $ 1,930 |
| Checking accounts and demand deposits | 1,339,209 | 1,419,835 | 1,426,855 |
| Cash equivalent (fixed deposit with original maturities less than three months) | 466,874 | 267,337 | 1,593,831 |
| | $ 1,808,230 | $ 1,690,441 | $ 3,022,616 |

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

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Demand deposits | 0.001%-0.35% | 0.001%-0.35% | 0.001%-0.35% |
| Fixed deposits | 0.6%-4.5% | 0.3%-6.5% | 0.26%-4.42% |

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

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Financial assets at FVTPL - current | | | |
| Financial assets designated as at FVTPL | | | |
| Credit-linked structured note | $ 123,863 | $ 129,120 | $ - |
| Financial liabilities at FVTPL - current | | | |
| Financial liabilities held for trading | | | |
| Convertible option attached to the convertible bonds | $ 1,408 | $ 47,818 | $ 61,964 |

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

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Foreign investments | | | |
| Fixed income bonds | $ 28,292 | $ - | $ - |

During 3nd quarter in 2016, the Group bought fixed income bonds issued by ICBCIL Finance Co. Limited and Industrial and Commercial Bank of China Limited, with the yield rates between 1.873 and 2.231%. The maturity dates were of November 13, 2018 and September 29, 2019, respectively.

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

## 9. HELD-TO-MATURITY FINANCIAL ASSETS

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Current | | | |
| Foreign investments | | | |
| Money market fund | $ - | $ - | $ 32,952 |
| Non-current | | | |
| Foreign investments | | | |
| Fixed income bonds | $ 15,816 | $ - | $ - |

In August 2015, the Group bought 3-month money market fund issued by E Fund, the Group of Union Bank of Switzerland, with the yield rate at 1.6%.

In July 2016, the Group bought fixed income bonds issued by China Shenhua Overseas Capital Co Ltd with the yield rate at 1.9%, and matured on January 20, 2018.

Hold-to-maturity financial assets were not been pledged as a collateral.

## 10. TRADE RECEIVABLES, NET

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Trade receivables | $ 1,537,249 | $ 1,699,191 | $ 1,782,050 |
| Less: Allowance for doubtful accounts | (106,624) | (111,605) | (111,758) |
| Trade receivables, net | $ 1,430,625 | $ 1,587,586 | $ 1,670,292 |

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:

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Less than 60 days | $ 33,101 | $ 20,488 | $ 8402 |
| 61-180 days | 15,427 | 711 | - |
| More than 180 days | 12,929 | 13,534 | 13,552 |

| | | | |
|---|---|---|---|
| | $ 61,457 | $ 34,733 | $ 21,954 |

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 | 4,148 | - | 4,148 |
| Balance at September 30, 2015 | $ 111,758 | $ - | $ 111,758 |
| Balance at January 1, 2016 | $ 111,605 | $ - | $ 111,605 |
| Foreign exchange translation | (4,981) | - | (4,981) |
| Balance at September 30, 2016 | $ 106,624 | $ - | $ 106,624 |

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 September 30, 2016, the Group recognized allowance of doubtful trade receivables against Wintek Corporation of $106,624 thousand.

## 11. INVENTORIES

| | **September 30, 2016** | **December 31, 2015** | **September 30, 2015** |
|---|---|---|---|
| Finished goods | $ 960,544 | $ 791,208 | $ 1,014,866 |
| Work in progress | 773,740 | 622,755 | 707,540 |
| Raw materials and supplies | 932,910 | 1,129,913 | 534,891 |
| | $ 2,667,194 | $ 2,543,876 | $ 2,257,297 |

The cost of inventories recognized as cost of goods sold included inventory write-downs for the three months ended September 30, 2016 and 2015, and for the nine months ended September 30, 2016 and 2015 was $46,729 thousand, $19,274 thousand, $141,631 thousand and $78,194 thousand, respectively.

## 12. OTHER FINANCIAL ASSETS

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Time deposits with original maturities more than three months (a) | $ 2,311,664 | $ 5,157,869 | $ 5,170,284 |
| Repurchase bonds (b) | - | 129,987 | - |
| | $ 2,311,664 | $ 5,287,856 | $ 5,170,284 |

a. As of September 30, 2016, December 31, 2015 and September 30, 2015, the market rate intervals of time deposits with original maturities more than three months were 0.37%-2.7%, 0.62%-4.0% and 0.68%-3.9%, respectively.

b. The Group bought US$4,000 thousands of 183-day repurchase bonds at a discount with a coupon rate of 0% and an effective rate of 0.7428%.

## 13. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Foreign unlisted preferred shares | $ 47,040 | $ 49,238 | $ 49,305 |

Management believed that the above unlisted equity 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.

## 14. SUBSIDIARIES

Details of the Group's subsidiaries included in the consolidated financial statements were as follows:

| | | | Proportion of Ownership | | |
|---|---|---|---|---|---|
| **Investor** | **Investee** | **Main Businesses** | **September 30, 2016** | **December 31, 2015** | **September 30, 2015** |
| FocalTech Systems Co., Ltd. | FocalTech Corporation, Ltd. | Investment activity | 100% | 100% | 100% |
| | FocalTech Electronics, Ltd. | Research, development, manufacturing and sale of integrated circuits | 100% | 100% | 100% |
| | FocalTech Smart Sensors Co., Ltd. | Research, development, manufacturing and sale of integrated circuits | 100% | | |
| FocalTech Corporation, Ltd. | FocalTech Systems, Inc. | Investment activity | 100% | 100% | 100% |
| FocalTech Systems, Inc. | FocalTech Systems, Ltd. | Research, development, manufacturing and sale of integrated circuits | 100% | 100% | 100% |
| FocalTech Systems, Ltd. | FocalTech Systems (Shenzhen) Co., Ltd. | Design and research of integrated circuits | 100% | 100% | 100% |
| | FocalTech Electronics Co., Ltd. | Import and export of integrated circuits | 100% | 100% | 100% |
| FocalTech Electronics, Ltd. | FocalTech Electronics (Shanghai) Co., Ltd. | Sales support and post-sales service for affiliates' IC products | 100% | 100% | 100% |

| | | | | |
|---|---|---|---|---|
| FocalTech Electronics (Shenzhen) Co., Ltd. | Design and research of integrated circuits | 100% | 100% | 100% |
| Hefei PineTech Electronics Co., Ltd. | Research, development, manufacturing and sale of integrated circuits | a | a | - |

a. The Group has the power to appoint and remove the majority of the board of directors that has the power to direct its relevant activities of Hefei PineTech Electronics Co., Ltd.; therefore, Hefei PineTech Electronics Co., Ltd. is identified as a subsidiary of the Group.

b. FocalTech Smart Sensors Co., Ltd. was incorporated in July 2016. ◦

As of September 30, 2016, the immaterial subsidiaries of the Group included FocalTech Electronics Co., Ltd., FocalTech Systems (Shenzhen) Co., Ltd., FocalTech Electronics (Shenzhen) Co., Ltd., FocalTech Electronics (Shanghai) Co., Ltd. and Hefei PineTech Electronics Co., Ltd. Moreover, as of September 30, 2015, except those mentioned above, FocalTech Electronics., Ltd was not a material subsidiary either. The financial statements of the immaterial subsidiaries had not been reviewed by the auditors.

As of September 30, 2016 and 2015, the total amounts of assets of the immaterial subsidiaries were \$1,968,072 thousand and \$1,134,166 thousand, 14.42% and 7.01% of total consolidated assets, respectively. The total amounts of liabilities were \$584,263 thousand and \$426,776 thousand, 21.56% and 9.23% of total consolidated liabilities, respectively. For the three months ended September 30, 2016 and 2015, and for the nine months ended September 30, 2016 and 2015, the total immaterial subsidiaries comprehensive loss has been recognized \$52,828 thousand, \$340,454 thousand, \$94,240 thousand, and \$532,249 thousand, that held 61.96%, (58.78%), 41.21%, and (123.35%) in the consolidated statements of comprehensive (income) loss, respectively.

## 15. 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 29) | - | 26,460 | 304 | - | 30 | 2,492 | 29,286 |
| Reclassification | - | - | - | - | 2,492 | (2,492 ) | - |
| Additions | - | 12,988 | 1,961 | 4,183 | 11,733 | - | 30,865 |
| Effect of foreign currency exchange differences | - | 4,064 | 22 | 32 | (2 ) | - | 4,116 |
| Balance at September 30, 2015 | $ 37,600 | $ 181,236 | $ 13,703 | $ 36,273 | $ 42,720 | $ - | $ 311,532 |
| Accumulated depreciation | | | | | | | |
| Balance at January 1, 2015 | $ 348 | $ 73,238 | $ 5,508 | $ 13,263 | $ 15,518 | $ - | $ 107,875 |
| Depreciation | 627 | 35,634 | 1,316 | 3,561 | 9,662 | - | 50,530 |
| Effect of foreign currency exchange differences | - | 3,026 | 5 | 29 | 52 | - | 3,112 |
| Balance at September 30, 2015 | $ 975 | $ 111,628 | $ 6,829 | $ 16,853 | $ 25,232 | $ - | $ 161,517 |
| Carrying amounts at September 30, 2015 | $ 36,625 | $ 69,608 | $ 6,874 | $ 19,420 | $ 17,488 | $ - | $ 150,015 |
| Cost | | | | | | | |
| Balance at January 1, 2016 | $ 37,600 | $ 195,807 | $ 14,258 | $ 37,443 | $ 42,362 | $ - | $ 327,470 |
| Additions | - | 8,552 | 634 | 3,600 | - | - | 12,786 |
| Disposals | - | (7,992 ) | (71 ) | - | (5,109 ) | - | (13,172 ) |
| Effect of foreign currency exchange differences | - | (6,987 ) | (725 ) | (2,502 ) | (1,145 ) | - | (11,359 ) |
| Balance at September 30, 2016 | $ 37,600 | $ 189,380 | $ 14,096 | $ 38,541 | $ 36,108 | $ - | $ 315,725 |
| Accumulated depreciation | | | | | | | |
| Balance at January 1, 2016 | $ 1,184 | $ 124,836 | $ 7,243 | $ 18,205 | $ 27,814 | $ - | $ 179,282 |
| Depreciation | 627 | 27,915 | 1,543 | 4,047 | 6,365 | - | 40,497 |
| Disposals | - | (7,992 ) | (24 ) | - | (2,670 ) | - | (10,686 ) |
| Effect of foreign currency exchange differences | - | (5,379 ) | (385 ) | (1,290 ) | (1,099 ) | - | (8,153 ) |
| Balance at September 30, 2016 | $ 1,811 | $ 13,9380 | $ 8,377 | $ 20,962 | $ 30,410 | $ - | $ 200,940 |
| Carrying amounts at December 31, 2015 and January 1, 2016 | $ 36,416 | $ 70,971 | $ 7,015 | $ 19,238 | $ 14,548 | $ - | $ 148,188 |
| Carrying amounts at September 30, 2016 | $ 35,789 | $ 50,000 | $ 5,719 | $ 17,579 | $ 5,698 | $ - | $ 114,785 |

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.

## 16. GOODWILL

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Cost | | | |
| Balance as of January 1 | $ 3,237,268 | $ - | $ - |
| Acquisitions through business combinations | - | 3,237,268 | 3,237,268 |
| Balance as of September 30 | $ 3,237,268 | $ 3,237,268 | $ 3,237,268 |

Note: Restated during measurement period.

The Group restated the recognized deferred tax asset and liabilities by the effective tax rate during measurement period of a year after acquisition. The original accounting standards and provisional sums in the acquiree had been adjusted and restated the compared information.

Items on consolidated balance sheet were increased (decreased) by the following amounts:

| | September 30, 2015 |
|---|---|
| Goodwill | $ 31,278 |
| Deferred tax assets | $ (31,278) |

## 15. 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 | 9,826 | 6,900 | 76,478 | 74,000 | 167,204 |
| Additions | - | 21,557 | - | - | 21,557 |
| Effect of foreign currency exchange differences | 1,834 | 1,937 | - | - | 3,771 |
| Balance at September 30, 2015 | $ 59,229 | $ 57,398 | $ 76,750 | $ 74,000 | $ 267,377 |

(Continued)

| | Licenses and Franchises | Software | Patents | Trademark | Total |
|---|---|---|---|---|---|
| Accumulated amortization | | | | | |
| Balance at January 1, 2015 | $ 35,378 | $ 21,125 | $ 237 | $ - | $ 56,740 |
| Amortization expense | 10,648 | 8,907 | 5,868 | 5,550 | 30,973 |
| Effect of foreign currency exchange differences | 1,692 | 1,036 | - | - | 2,728 |
| Balance at September 30, 2015 | $ 47,718 | $ 31,068 | $ 6,105 | $ 5,550 | $ 90,441 |
| Carrying amounts at September 30, 2015 | $ 11,511 | $ 26,330 | $ 70,645 | $ 68,450 | $ 176,936 |
| Cost | | | | | |
| Balance at January 1, 2016 | $ 62,741 | $ 60,367 | $ 76,744 | $ 74,000 | $ 273,852 |
| Additions | 4,047 | 76,830 | - | - | 80,877 |
| Effect of foreign currency exchange differences | (2,368) | (4,841) | (19) | - | (7,228) |
| Balance at September 30, 2016 | $ 64,420 | $ 132,356 | $ 76,725 | $ 74,000 | $ 347,501 |
| Accumulated amortization | | | | | |
| Balance at January 1, 2016 | $ 50,675 | $ 34,907 | $ 8,051 | $ 7,400 | $ 101,033 |
| Amortization expense | 8,462 | 20,626 | 5,839 | 5,550 | 40,477 |
| Effect of foreign currency exchange differences | (2,241) | (1,978) | (19) | - | (4238) |
| Balance at September 30, 2016 | $ 56,896 | $ 53,555 | $ 13,871 | $ 12,950 | $ 137,272 |
| Carrying amounts at December 31, 2015 and January 1, 2016 | $ 12,066 | $ 25,460 | $ 68,693 | $ 66,600 | $ 172,819 |
| Carrying amounts at September 30, 2016 | $ 7,524 | $ 78,801 | $ 62,854 | $ 61,050 | $ 210,229 |

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 |

## 18. BORROWINGS

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Unsecured bank loans | | | |
| Amount | $ 313,600 | $ 269,775 | $ 230,090 |
| Annual interest rate | 1.25% | 1.25%-1.62% | 1.12% |

## 19. BONDS PAYABLE

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Domestic 1st unsecured convertible bonds | $ 34,600 | $ 996,200 | $ 996,200 |
| Less: Discounts on bonds payable | (958) | (39,428) | (43,343) |
| Less: Current portion | (33,642) | (956,772) | - |
| | $ - | $ - | $ 952,857 |

Except for the following, please refer to Note 18 of the consolidated financial statements of the year ended December 31, 2015 for the detailed information in the Bond Issuance and Conversion Plan.

The Company bought back 2,508 sheets of the bonds from the market during 3nd quarter in 2016. Besides, the Company was requested to buy back 7,108 sheets by the bondholder at 103.3% of the par value on June 17, 2016. The total payment for buy-back from the market and put option exercised by the bondholders was $990,617 thousand and the Company recognized the loss of $32,021 thousand.

## 20. TRADE PAYABLES

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Trade payables | $ 954,587 | $ 974,714 | $ 875,900 |

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.

## 21. OTHER PAYABLES

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Payable for cash deduction (Note 30) | $ - | $ - | $1,249,021 |
| Payable for rebates | 410,512 | 438,250 | 350,196 |
| Payable for salaries and bonus | 407,837 | 388,586 | 328,917 |
| Payable for labor, health and social insurance | 16,244 | 16,164 | 26,001 |
| Reserve for litigations | 77,948 | 94,317 | 102,267 |
| Payable for professional services and others | 39,929 | 43,068 | 49,494 |
| | $ 952,470 | $ 980,385 | $2,105,896 |

## 22. RETIREMENT BENEFIT

Employee benefit expenses in respect of the Group's defined benefit retirement plans were $237 thousand and $247 thousand, $710 thousand and $742 thousand for the three months ended September 30, 2016 and 2015,and nine months ended September 30, 2016 and 2015, respectively, and were calculated using the actuarially determined pension cost discount rate as of December 31, 2015 and 2014.

## 23. EQUITY

a. Share capital

Ordinary shares (NT$10 par value per share)

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Numbers of shares authorized (in thousands) | 500,000 | 500,000 | 500,000 |
| Shares authorized | $ 5,000,000 | $ 5,000,000 | $ 5,000,000 |
| Number of shares issued and fully paid (in thousands) | 296,142 | 293,330 | 292,871 |
| Shares issued | $ 2,961,416 | $ 2,933,299 | $ 2,928,707 |

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

1) The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of ordinary shares, conversion of bonds and treasury stock transaction) may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

2) The capital surplus from employee share options may not be used for any purposes, while those from the expiration or the redemption of convertible bonds may be used to offset a deficit.

3) The capital surplus from investment accounted for using equity method and employee restricted shares may not 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 25(c).

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.
Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. 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 |

d. Treasury

| | **Shares Transferred to Employees (In Thousands of Shares)** |
|---|---|
| Number of shares at January 1, 2016 | - |
| Increase during the period | 5,000 |
| Number of shares at September 30, 2016 | 5,000 |

The treasury shares held by the company cannot be pledged in accordance with the Regulations of Securities and Exchange Act and the company cannot have the rights to claim dividends and vote. The accounting treatment for treasury shares is the same no matter held by the company or its subsidiary. The subsidiary, holding the treasury shares, has the same rights as other shareholders expect participating in the capital increases and voting.

## 24. REVENUE

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| IC for portable devices | $3,056,139 | $2,899,675 | $8,306,876 | $8,528,839 |
| Others | - | - | 17,819 | 2,472 |
| | $3,056,139 | $2,899,675 | $8,324,695 | $8,531,311 |

## 25. NET INCOME

a. Finance costs

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Interest on convertible bonds | $ 138 | $ 3,898 | $ 6,391 | $ 11,647 |
| Interest on bank loans | 706 | 240 | 1,633 | 1,304 |
| Interest on deposits | - | - | 74 | - |
| | $ 844 | $ 4,138 | $ 8,098 | $ 12,951 |

b. Depreciation and amortization

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Property, plant and equipment | $ 12,631 | $ 18,641 | $ 40,497 | $ 50,530 |
| Intangible assets | 16,428 | 8,705 | 40,477 | 30,973 |
| | $ 29,059 | $ 27,346 | $ 80,974 | $ 81,503 |
| An analysis of depreciation and amortization by function | | | | |
| Operating expenses | $ 23,706 | $ 19,522 | $ 63,178 | $ 57,782 |
| Operating costs | 5,353 | 7,824 | 17,796 | 23,721 |
| | $ 29,059 | $ 27,346 | $ 80,974 | $ 81,503 |

c. Employee benefits expense

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Post-employment benefits | | | | |
| Defined contribution plans | $ 6,569 | $ 6,826 | $ 19,908 | $ 20,018 |
| Defined benefit plans | 237 | 247 | 710 | 742 |
| Share-based payments | 10,908 | 18,298 | 24,490 | 53,222 |
| Other employee benefits | 326,497 | 336,299 | 986,066 | 1,027,386 |

| | | | | |
|---|---|---|---|---|
| Total employee benefits expense | $ 344,211 | $ 361,670 | $1,031,174 | $1,101,368 |
| An analysis of employee benefits expense by function | | | | |
| Operating costs | $ 22,098 | $ 24,753 | $ 62,103 | $ 77,456 |
| Operating expenses | 322,113 | 336,917 | 969,071 | 1,023,912 |
| | $ 344,211 | $ 361,670 | $1,031,174 | $1,101,368 |

To be in compliance with the Company Act as amended in May 2015, the resolved 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 original Articles of Incorporation of the Company stipulate to distribute employees' compensation and remuneration to directors at the rates no less than 1% and 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors.

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.

The appropriations of employees' compensation and remuneration to directors for 2015 were resolved by the board of directors on February 26, 2016, and the appropriations of bonus to employees and remuneration to directors for 2014 were approved in the shareholders' meeting on June 10, 2015. The amounts of the employees' compensation/ bonus and remuneration to directors are disclosed on the table below. After the amendments to the Articles had been resolved in the shareholders' meeting held on June 22, 2016, the appropriations of the employees' compensation and remuneration to directors for 2015 were reported in the shareholders' meeting.

| | **For the Year Ended December 31** | | | |
|---|---|---|---|---|
| | **2015** | | **2014 (Note)** | |
| | **Cash** | **Share** | **Cash Bonus** | **Share Bonus** |
| Employees' compensation/ bonus to employees | $ 51,049 | $ - | $ - | $ - |
| Remuneration of directors | 635 | - | - | - |

Note: 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 employees' compensation and the remuneration to directors resolved by the board of directors on February 26, 2016 and the amounts of the bonus to employees and the remuneration to directors approved in the shareholders' meetings on June 10, 2015, and the respective amounts recognized in the consolidated financial statements for the years ended December 31, 2015 and 2014.

Information on the employees' compensation and remuneration to directors resolved by the Company's board of directors in 2016 and bonus to employees, directors resolved by the shareholders' meeting in 2015 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

## 26. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense (income) were as follows:

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Current tax | | | | |
| In respect of the current period | $ 5,129 | $ 1,694 | $ 11,838 | $ 10,721 |
| Adjustments for prior periods | - | 3 | - | 704 |
| | 5,129 | 1,697 | 11,838 | 11,425 |
| Deferred tax | | | | |
| In respect of the current period | 6,607 | (15,497) | 6,491 | (27,087) |
| Income tax expense (income) recognized in profit or loss | $ 11,736 | $ (13,800) | $ 18,329 | $ (15,662) |

b. The Company's integrated income tax

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Imputation credit accounts | $ 51,708 | $ 62,742 | $ 91,443 |

| | For the Year Ended December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Creditable ratio for distribution of earnings | 4.68% | 20.02% |

c. Income tax assessments

The Company's tax returns through 2013, and subsidiary "FocalTech Electronics Co., Ltd."s' through 2014 have been assessed by the tax authorities.

## 27. EARNINGS PER SHARE

**Unit: NT$ Per Share**

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Basic earnings per share | $ 0.32 | $ 0.53 | $ 0.22 | $ 0.54 |
| Diluted earnings per share | $ 0.32 | $ 0.25 | $ 0.22 | $ 0.02 |

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

**Net Income for the Period**

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Earnings used in the computation of basic earnings per share | $ 92,950 | $214,042 | $ 65,073 | $221,513 |
| Effect of potentially dilutive ordinary shares after tax: | | | | |
| Convertible bonds | - | (108,937) | - | (211,490) |
| Earnings (loss) used in the computation of diluted earnings per share | $ 92,950 | $105,105 | $ 65,073 | $ (10,023) |

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

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Weighted average number of ordinary shares in computation of basic earnings per share | 288,612 | 403,447 | 290,733 | 409,108 |
| Effect of potentially dilutive ordinary shares: | | | | |
| Convertible bonds | - | 20,146 | - | 20,146 |
| Employee share option | 2,503 | 4,161 | 2,838 | 7,152 |
| Employee restricted shares | 816 | 154 | 852 | 544 |
| Employees' compensation or bonus issue to employees | - | - | 344 | - |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | 291,931 | 427,908 | 294,767 | 436,950 |

Note: As upon table showed, the computation of diluted earnings per share did not include the shares from convertible bonds for three months and nine months ended September 30, 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.

## 28. SHARE-BASED PAYMENT ARRANGEMENTS

The Company did not have new share option plan or restricted stock plan issued for employees for the nine months ended September 30, 2016. Except for employee share option plan stated below, the detailed information of the Employee share option plans and Employee restricted shares plans could be found in Note 27 of the consolidated financial statements of the year ended December 31, 2015 for

Information on employee share options and employee restricted stocks were as follows:

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 thousand 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 Nine Months Ended September 30, 2015 | | For the Nine Months Ended September 30, 2016 | |
|---|---|---|---|---|
| | 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) | 12.6 | - | - |
| Balance at September 30 | 2,506,000 | 12.4 | 2,800,000 | 10 |
| Weighted-average fair value of options granted ($) | | | $ 16.60 | |

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

| | For the Nine Months Ended September 30, 2015 | | For the Nine Months Ended September 30, 2016 | |
|---|---|---|---|---|
| | 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 | (93,750) | 39.3 | (89,500) | 27.6 |
| Options expired | - | - | (9,500) | 27.6 |
| Options exercised | (176,000) | 39.2 | (1,500) | 27.6 |
| Balance at September 30 | 1,308,750 | 38.5 | 1,643,500 | 27.6 |
| Options exercisable, end of period | 980,500 | 38.5 | 823,000 | 27.6 |

c. Employee share option plan in 2006

| | For the Nine Months Ended September 30 | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Number of Options (In Thousands) | Weighted-average Exercise Price (NT$) | Number of Options (In Thousands) | Weighted-average Exercise Price (NT$) |
| Balance at January 1 | 6,738,924 | $ 18.61 | 2,434,079 | $ 70.19 |
| Stock conversion at acquisition date | - | - | 11,683,576 | 14.37 |
| Options forfeited | (699,600) | 26.43 | (1,585200) | 17.33 |
| Options expired | (2,959,265) | 14.11 | (2,705,659) | 12.79 |
| Balance at September 30 | 3,080,059 | 20.55 | 7,392,717 | 14.32 |
| Options exercisable, end of period | 2,306,680 | 18.87 | 3,126,727 | 11.73 |

Compensation cost recognized was $9,281 thousand and $10,565 thousand for the nine months ended September 30, 2016 and 2015.

d. Employee restricted shares plan in 2014 and 2013

Compensation cost recognized was $15,209 thousand and $42,657 thousand for the nine months ended September 30, 2016 and 2015.

## 29. 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 | 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 stock 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 of the consolidated financial statements for the year ended December 31, 2015.

1) Replacement award that is part of consideration transferred

| | The Company |
|---|---|
| Share options | $ 16,277 |
| Employee restricted shares | 11,803 |
| | $ 28,080 |

2) Replacement award attributable to post-combination services

| | The Company |
|---|---|
| Share options | $ 13,062 |
| Employee restricted shares | 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.

## 30. NON-CASH TRANSACTIONS

The amount of capital reduction resolved by the shareholder's meeting on June 10, 2015 was $1,249,021 thousand and the fund was not paid on September 30, 2015.

## 31. 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 December 2017.

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

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Not later than 1 year | $ 39,999 | $ 44,645 | $ 45,366 |
| Later than 1 year and not later than 5 years | 12,343 | 9,959 | 10,465 |
| | $ 41,233 | $ 54,604 | $ 55,831 |

## 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

1) Fair value hierarchy

September 30, 2016

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Structured note | $ - | $ - | $ 123,863 | $ 123,863 |
| Available-for-sale financial assets-Non current | | | | |
| Fixed income bonds | $ - | $ 28,292 | $ - | $ 28,292 |
| Financial liabilities at FVTPL | | | | |
| Conversion option of the convertible bonds | $ - | $ - | $ 1,408 | $ 1,408 |

December 31, 2015

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Structured note | $ - | $ - | $ 129,120 | $ 129,120 |
| Financial liabilities at FVTPL | | | | |
| Conversion option of the convertible bonds | $ - | $ - | $ 47,818 | $ 47,818 |

September 30, 2015

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial liabilities at FVTPL | | | | |
| Conversion option of the convertible bonds | $ - | $ - | $ 61,964 | $ 61,964 |

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

For the nine months ended September 30, 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 | 523 |
| Effect of foreign currency exchange differences | (5,780) |
| Balance at September 30, 2016 | $ 123,863 |

| | 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 | (17,082) |
| Unrealized | (253) |
| Repayments | (29,075) |
| Balance at September 30, 2016 | $ 1,408 |

For the nine months ended September 30, 2015

| | 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 | (221,157) |
| Balance at September 30, 2016 | $ 61,964 |

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

a) Derivative instrument- Structured Note was a Credit-Linked Note, and it's fair value provided by the Counterparty (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) Derivative instrument- The convertible bond was valuation by the model of Binary Tree Pricing 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.

c. Categories of financial instruments

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Financial assets | | | |
| Fair value through profit or loss (FVTPL) | | | |
| Designated as at FVTPL | $ 123,863 | $ 129,120 | $ - |
| Loans and receivables (Note 1) | 5,589,026 | 8,606,718 | 9,875,229 |
| Available-for-sale financial assets (Note 2) | 75,332 | 49,238 | 49,305 |
| Held-to-maturity financial assets | 15,816 | - | 32,952 |

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Financial liabilities | | | |
| Fair value through profit or loss (FVTPL) | | | |
| Held for trading | 1,408 | 47,818 | 61,964 |
| Amortized cost (3) | 2,332,021 | 3,269,496 | 4,233,685 |

1) 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).

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

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, Financial assets and liabilities at FVTPL, trade receivable, other financial assets, available-for-sale financial assets, Held-to-maturity 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 major financial risks from the Company's operation were foreign currency exchange risk (refer to below a) and interest rate risk (refer to below b).

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 For the Nine Months Ended September 30 | | RMB Impact For the Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Profit or loss/ equity | $ 13,554 (i) | $ 80,438 (i) | $ 2,429 (ii) | $ 75,707 (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.

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Fair value interest rate risk | | | |
| Financial assets | $ 2,946,509 | $ 5,684,313 | $ 6,797,067 |
| Financial liabilities | $ 347,242 | $ 1,296,443 | $ 1,256,475 |
| Cash flow interest rate risk | | | |
| Financial assets | $ 1,339,209 | $ 1,419,835 | $ 1,426,855 |

Sensitivity analysis

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 nine months ended September 30, 2016 and 2015 would decrease/increase by $2,511 thousand and $2,675 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.

The Group's concentration of credit risk of 53% in total trade receivables as of September 30, 2016, was related to the Group's five largest customer, the remaining transactions with a large number of unrelated customers, thus, no other 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 liquidity for the Group.

As of September 30, 2016 and 2015 the Group had available unutilized short-term bank loan facilities of $1,813,600 thousand and $3,279,150 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.

September 30, 2016

| | On Demand or Less than 1 Year | 1-5 Years |
|---|---|---|
| Non-derivative financial liabilities | | |
| Fixed interest rate liabilities | | |
| Borrowing | $ 314,588 | $ - |
| Bonds payable | 34,600 | - |
| | 349,188 | - |
| Non-interest bearing | | |
| Trade payables | 954,587 | - |
| Other payables | 952,470 | - |
| Deposits received | - | 77,722 |
| | 1,907,057 | 77,722 |
| | $ 2,256,245 | $ 77,722 |

b) Financing facilities

| | September 30, 2016 |
|---|---|
| Unsecured bank overdraft facility, reviewed annually: | |
| Amount used | $ 313,600 |
| Amount unused | 1,813,600 |
| | $ 2,127,200 |

## 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 Nine Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Long-term employee benefits | $ - | $ - | $ 4,664 | $ 3,203 |
| Short-term employee benefits | 11,966 | 9,419 | 38,742 | 39,532 |
| Post-employment benefits | 151 | 170 | 454 | 611 |
| Share-based payments | 2,005 | 2,456 | 4,866 | 6,870 |
| | $ 14,122 | $ 12,045 | $ 48,726 | $ 50,216 |

## 34. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Pledge deposits (classified as other non-current assets) | $ 36,873 | $ 4,000 | $ 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:

September 30, 2016

| | Foreign Currencies | Exchange Rate (to its relevant functional currency) | New Taiwan Dollars |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 49,803 | 31.360 (USD:NTD) | $ 1,561,825 |
| USD | 1,241 | 6.6778 (USD:RMB) | 38,908 |
| RMB | 10,344 | 0.1497 (RMB:USD) | 48,579 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 31,002 | 31.360 (USD:NTD) | 972,228 |
| USD | 11,398 | 6.6778 (USD:RMB) | 357,433 |

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 | 24,555 | 32.8250 (USD:NTD) | 831,778 |
| USD | 13,974 | 6.4936 (USD:RMB) | 458,710 |

September 30, 2015

| | Foreign Currencies | Exchange Rate (to its relevant functional currency) | New Taiwan Dollars |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 71,323 | 32.8700 (USD:NTD) | $ 2,344,395 |
| USD | 1,531 | 6.3613 (USD:RMB) | 50,325 |
| RMB | 293,010 | 0.1572 (RMB:USD) | 1,514,148 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 21,761 | 32.8700 (USD:NTD) | 715,283 |
| USD | 2,150 | 6.3613 (USD:RMB) | 70,676 |

## 36. SEGMENT INFORMATION

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.