

**FocalTech Systems Co., Ltd. and
Subsidiaries**

**Consolidated Financial Statements for the
Three Months Ended March 31, 2018 and 2017**

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	March 31, 2018		December 31, 2017		March 31, 2017	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 2,786,399	20	\$ 2,596,128	19	\$ 2,214,779	16
Financial assets at fair value through other comprehensive income - current (Note 4 and 8)	14,640	-	-	-	-	-
Available-for-sale financial assets - current (Note 4 and 9)	-	-	35,814	-	-	-
Trade receivables, net (Note 4 and 12)	1,617,128	12	1,257,525	9	1,145,304	8
Inventories (Note 13)	1,991,627	15	2,685,765	20	3,030,734	21
Other financial assets (Note 4 and 11)	1,607,478	12	1,385,904	10	2,241,574	16
Other current assets	248,443	2	212,037	2	146,017	1
Total current assets	8,265,715	61	8,173,173	60	8,778,408	62
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss - non-current (Note 4 and 7)	46,362	-	-	-	-	-
Financial assets at fair value through other comprehensive income - non-current (Note 4 and 8)	238,913	2	-	-	-	-
Available-for-sale financial assets - non-current (Note 4 and 9)	-	-	245,640	2	174,275	1
Financial assets measured at cost - non-current (Note 4 and 10)	-	-	74,400	-	75,825	-
Property, plant and equipment (Note 15)	1,434,437	10	1,408,474	10	107,895	1
Goodwill (Notes 16)	3,237,268	24	3,237,268	24	3,237,268	23
Other intangible assets (Note 17)	194,509	1	210,714	2	244,116	2
Deferred tax assets	118,858	1	104,501	1	141,838	1
Other non-current assets (Note 15 and 31)	91,674	1	89,898	1	1,370,990	10
Total non-current assets	5,362,021	39	5,370,895	40	5,352,207	38
TOTAL	\$ 13,627,736	100	\$ 13,544,068	100	\$ 14,130,615	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 18)	\$ -	-	\$ -	-	\$ 606,600	4
Trade payables (Note 19)	1,324,230	10	1,310,390	10	1,271,993	9
Other payables (Note 20)	734,665	5	738,870	5	740,864	5
Current tax liabilities (Notes 4)	408,952	3	411,977	3	6,797	-
Other current liabilities (Notes 23)	125,726	1	82,620	1	63,358	1
Total current liabilities	2,593,573	19	2,543,857	19	2,689,612	19
NON-CURRENT LIABILITIES						
Deferred tax liabilities	34,562	1	15,876	-	176,181	1
Net defined benefit liabilities - non-current (Note 4)	29,552	-	29,620	-	46,327	-
Guarantee deposits received	306,908	2	200,951	2	106,531	1
Other non-current liabilities	10,400	-	10,400	-	10,400	-
Total non-current liabilities	381,422	3	256,847	2	339,439	2
Total liabilities	2,974,995	22	2,800,704	21	3,029,051	21
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 22 and 27)						
Share capital						
Ordinary shares	2,984,430	22	2,983,700	22	2,970,232	21
Capital surplus						
Additional paid-in capital	6,566,622	48	6,565,204	49	6,487,567	46
Treasury shares	40,868	1	40,868	-	40,868	-
Changes in ownership interests in subsidiaries	1,269	-	1,269	-	582	-
Employee share options	36,768	-	30,179	-	24,214	-
Employee restricted shares	-	-	-	-	73,785	1
Employee share options - expired	17,356	-	17,356	-	15,384	-
Total capital surplus	6,662,883	49	6,654,876	49	6,642,400	47
Retained earnings						
Legal reserve	186,154	1	186,154	1	165,045	1
Undistributed earnings	1,028,513	8	1,058,985	8	1,331,321	10
Total retained earnings	1,214,667	9	1,245,139	9	1,496,366	11
Other equity						
Exchange differences from translating the financial statements of foreign operations	(18,922)	-	47,154	-	79,975	-
Unrealized loss on financial assets at fair value through other comprehensive income	(3,939)	-	-	-	-	-
Equity directly associated with non-current assets held for sale	-	-	(2,791)	-	(1,581)	-
Unearned employee compensation	-	-	-	-	(33,744)	-
Total other equity	(22,861)	-	44,363	-	44,650	-
Treasury shares	(188,815)	(2)	(191,998)	(1)	(61,665)	-
Equity attributable to owners of the company	10,650,304	78	10,736,080	79	11,091,983	79
NON-CONTROLLING INTERESTS	2,437	-	7,284	-	9,581	-
Total equity	10,652,741	78	10,743,364	79	11,101,564	79
TOTAL	\$ 13,627,736	100	\$ 13,544,068	100	\$ 14,130,615	100

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31			
	2018		2017	
	Amount	%	Amount	%
REVENUE (Note 4 and 23)	\$ 2,612,661	100	\$ 2,161,081	100
COSTS OF SALES (Notes 13 and 24)	<u>(2,087,644)</u>	<u>(80)</u>	<u>(1,663,119)</u>	<u>(77)</u>
GROSS MARGIN	<u>525,017</u>	<u>20</u>	<u>497,962</u>	<u>23</u>
OPERATING EXPENSES (Notes 21, 24, 28 and 30)				
Selling and marketing expenses	(99,749)	(4)	(103,893)	(5)
General and administrative expenses	(80,188)	(3)	(72,042)	(4)
Research and development expenses	<u>(340,909)</u>	<u>(13)</u>	<u>(305,951)</u>	<u>(14)</u>
Total operating expenses	<u>(520,846)</u>	<u>(20)</u>	<u>(481,886)</u>	<u>(23)</u>
OPERATIONS INCOME(LOSS)	<u>4,171</u>	<u>-</u>	<u>16,076</u>	<u>-</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Note 24)	(564)	-	(2,619)	-
Interest income	17,326	1	15,874	1
Loss on foreign currency exchange	(15,958)	(1)	(44,633)	(2)
Other gains and losses - net	<u>19,703</u>	<u>1</u>	<u>4,869</u>	<u>-</u>
Total non-operating income and expenses	<u>20,507</u>	<u>1</u>	<u>(26,509)</u>	<u>(1)</u>
INCOME (LOSS) BEFORE INCOME TAX	24,678	1	(10,433)	(1)
INCOME TAX EXPENSE (Notes 4 and 25)	<u>(15,081)</u>	<u>(1)</u>	<u>2,234</u>	<u>-</u>
NET INCOME (LOSS)	<u>9,597</u>	<u>-</u>	<u>(8,199)</u>	<u>(1)</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit or loss:	-	-	-	-
Income tax relating to those items not to be reclassified to profit or loss(Notes25)	<u>(276)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:	-	-	-	-
Exchange differences from translating the financial statements of foreign operations	(66,076)	(2)	(353,609)	(16)
Unrealized gains from debt instrument investments measured at fair value through other comprehensive loss	(1,148)	-	-	-
Unrealized loss on available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>(83)</u>	<u>-</u>

(Continued)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31			
	2018		2017	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss	\$ (67,224)	(2)	\$ (353,692)	(16)
Other comprehensive income for the period, net of income tax	(67,500)	(2)	(353,692)	(16)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ (57,903)	(2)	\$ (361,891)	(17)
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 14,444	-	\$ (3,847)	-
Non-controlling interests	(4,847)	-	(4,352)	-
	<u>\$ 9,597</u>	<u>-</u>	<u>\$ (8,199)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ (53,056)	(2)	\$ (357,539)	(17)
Non-controlling interests	(4,847)	-	(4,352)	-
	<u>\$ (57,903)</u>	<u>(2)</u>	<u>\$ (361,891)</u>	<u>(17)</u>
EARNINGS PER SHARE (Note 26)				
Basic	<u>\$ 0.05</u>		<u>\$ (0.01)</u>	
Diluted	<u>\$ 0.05</u>		<u>\$ (0.01)</u>	

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)

	Equity Attributable to Owners of the Company											
	Retained Earnings				Other Equity				Total	Non-controlling Interests	Total Equity	
	Share Capital Ordinary Shares	Capital Surplus	Legal Reserve	Undistributed Earnings	Differences from Translating Financial Statement of Foreign Operations	Equity Directly Associated with Non-current Assets Held for Sale	Unrealized gains (losses) from financial asset measured at fair value through other comprehensive income	Unearned Employee Compensation				Treasury Shares
BALANCE, JANUARY 1, 2017	\$ 2,965,344	\$ 6,625,846	\$ 165,045	\$ 1,335,160	\$ 433,584	\$ (1,498)	\$ -	\$ (36,040)	\$ (62,992)	\$ 11,424,449	\$ 13,933	\$ 11,438,382
Net loss for the three months ended March 31, 2017	-	-	-	(3,847)	-	-	-	-	-	(3,847)	(4,352)	(8,199)
Other comprehensive loss for the three months ended March 31, 2017, net of income tax	-	-	-	-	(353,609)	(83)	-	-	-	(353,692)	-	(353,692)
Total comprehensive income (loss) for the three months ended March 31, 2017	-	-	-	(3,847)	(353,609)	(83)	-	-	-	(357,539)	(4,352)	(361,891)
Treasury stock transferred to employees (Note 22 and 27)	-	-	-	-	-	-	-	-	1,327	1,327	-	1,327
Compensation cost of employee share options (Note 22 and 27)	-	7,399	-	-	-	-	-	-	-	7,399	-	7,399
Issue of ordinary shares under employee share options (Note 22 and 27)	4,983	9,059	-	-	-	-	-	-	-	14,042	-	14,042
Compensation cost of employee restricted shares (Note 27)	-	-	-	-	-	-	-	2,296	-	2,296	-	2,296
Cancellation of employee restricted shares (Note 22)	(95)	96	-	-	-	-	-	-	-	1	-	1
Dividend return on unvested employee restricted stock	-	-	-	8	-	-	-	-	-	8	-	8
BALANCE AT MARCH 31, 2017	\$ 2,970,232	\$ 6,642,400	\$ 165,045	\$ 1,331,321	\$ 79,975	\$ (1,581)	\$ -	\$ (33,744)	\$ (61,665)	\$ 11,091,983	\$ 9,581	\$ 11,101,564
BALANCE, JANUARY 1, 2018	\$ 2,983,700	\$ 6,654,876	\$ 186,154	\$ 1,058,985	\$ 47,154	\$ (2,791)	\$ -	\$ -	\$ (191,998)	\$ 10,736,080	\$ 7,284	\$ 10,743,364
Effects of retrospective application and restatement	-	-	-	(44,640)	-	2,791	(2,791)	-	-	(44,640)	-	(44,640)
Restated balance as of January 1, 2018	2,983,700	6,654,876	186,154	1,014,345	47,154	-	(2,791)	-	(191,998)	10,691,440	7,284	10,698,724
Net income for the three months ended March 31, 2018	-	-	-	14,444	-	-	-	-	-	14,444	(4,847)	9,597
Other comprehensive loss for the three months ended March 31, 2018, net of income tax	-	-	-	(276)	(66,076)	-	(1,148)	-	-	(67,500)	-	(67,500)
Total comprehensive income (loss) for the three months ended March 31, 2018	-	-	-	14,168	(66,076)	-	(1,148)	-	-	(53,056)	(4,847)	(57,903)
Treasury stock transferred to employees (Note 22 and 27)	-	-	-	-	-	-	-	-	3,183	3,183	-	3,183
Compensation cost of employee share options (Note 22 and 27)	-	7,781	-	-	-	-	-	-	-	7,781	-	7,781
Issue of ordinary shares under employee share options (Note 22 and 27)	730	226	-	-	-	-	-	-	-	956	-	956
BALANCE AT MARCH 31, 2018	\$ 2,984,430	\$ 6,662,883	\$ 186,154	\$ 1,028,513	\$ (18,922)	\$ -	\$ (3,939)	\$ -	\$ (188,815)	\$ 10,650,304	\$ 2,437	\$ 10,652,741

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 Three Months Ended March 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax from continuing operation	\$ 24,678	\$ (10,433)
Adjustments for:		
Depreciation expenses	15,954	9,949
Amortization expenses	16,390	16,568
Gains from reversal of impairment loss on expected credit	(6,084)	-
Finance costs	564	2,619
Interest income	(17,326)	(15,874)
Compensation cost of employee share options	7,781	7,399
Compensation cost of employee restricted shares	-	2,296
Write-down of inventories	28,185	12,861
Unrealized loss (gain) on foreign currency exchange	(11,029)	(2,400)
Changes in operating assets and liabilities		
Increase in financial assets mandatorily classified as at fair value through profit or loss	(17,257)	-
Trade receivables	(361,708)	162,193
Inventories	632,145	(604,880)
Other current assets	(29,948)	(23,523)
Trade payables	28,228	(219,578)
Other payables	2,655	(128,679)
Other current liabilities	43,328	3,143
Net defined benefit liabilities	(68)	(59)
Cash generated from operations	356,488	(788,398)
Interest paid	(564)	(2,143)
Income tax paid	(5,247)	(5,405)
Net cash generated from operating activities	<u>350,677</u>	<u>(795,946)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial asset at fair value through other comprehensive income	20,510	-
Purchase of available-for-sale financial assets	-	(9,242)
Purchase for property, plant and equipment	(20,044)	(7,310)
Purchase of intangible assets	(2,205)	(63,433)
Increase in other financial assets	(250,064)	(67,979)
Increase in other non-current assets	(595)	(2,643)
Interest received	11,967	11,856
Net cash generated from investing activities	<u>(240,431)</u>	<u>(138,751)</u>

(Continued)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in guarantee deposits	\$ 108,651	\$ (6,744)
Issue of ordinary shares under employee share options	956	14,042
Treasury stock transferred to employees	3,183	1,327
Payment for cancellation of employee restricted shares	-	(28)
Proceeds from dividend returned by unvested employee restricted shares	-	8
Net cash used in financing activities	<u>112,790</u>	<u>8,605</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(32,765)</u>	<u>(124,908)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	190,271	(1,051,000)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>2,596,128</u>	<u>3,265,779</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 2,786,399</u>	<u>\$ 2,214,779</u>

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 THREE MONTHS ENDED MARCH 31, 2018 AND 2017 (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, with the reference date of the acquisition and share swap on January 2, 2015. This Acquisition was comprehensively considered as a reverse merger, where FocalTech Corporation, Ltd. was treated as the acquirer and the Company as the acquiree.

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 April 24, 2018.

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

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

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

- 1) IFRS 9 “Financial Instruments” and related amendment

IFRS 9 “Financial Instruments” supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, and IFRS 7 “Financial Instruments: Disclosures” and other standards are consequentially amended as well. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets. The relevant accounting policies could be found in Note 4.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed on January 1, 2018, the Company performed an assessment of the classification of the financial assets, retrospective applied IFRS 9, and elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amounts under IAS 39 and

the new measurement categories and carrying amounts under IFRS 9 for each class of the Company's financial assets and financial liabilities on January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark	
	IAS 39	IFRS 9	IAS 39	IFRS 9		
Cash and cash equivalents	Loans and receivables	At amortized cost	\$ 2,596,128	\$ 2,596,128	(a)	
Preferred stock investments	Available-for-sale financial assets	Mandatorily at fair value through profit or loss (FVTPL)	44,640	-	(b)	
Private funds	Available-for-sale financial assets	Mandatorily at fair value through profit or loss (FVTPL)	29,760	29,760	(b)	
Bond investments	Available-for-sale financial assets	At fair value for debt instrument investment through other comprehensive income (FVTOCI)	281,454	281,454	(c)	
Accounts/notes receivables, other financial assets and refundable deposits	Loans and receivables	At amortized cost	2,684,032	2,684,032	(a)	
	IAS 39 Carrying Amount as of January 1, 2018	Reclassification	Remeasurement	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Note
FVTPL	\$ -					
Add: Reclassification from available for sale (IAS 39)	-	\$ 74,400				(b)
Financial assets measured at cost - remeasurement (IAS 39)	-	-	\$ (44,640)			(b)
	-	74,400	(44,640)	\$ 29,760	\$ (44,640)	
FVTOCI						
Add: Reclassification from available for sale financial assets (IAS 39)	-	281,454	-			(c)
	-	281,454	-	281,454	-	
Total	\$ -	\$ 355,854	\$ (44,640)	\$ 311,214	\$ (44,640)	

- a) Cash and cash equivalents, notes and accounts receivables, other financial assets and refundable deposits, that were previously classified as loans and receivables under IAS 39, would be measured at amortized cost with an assessment of expected credit losses under IFRS 9.
- b) Since the cash flows of unlisted stock investments and private funds, previously classified as financial assets measured at cost under IAS 39, are not fully matched for the payments of the principals and interests of the outstanding principal amounts, and unlisted stock investments and private funds are equity instruments held for trading, they are mandatorily reclassified as measured at fair value through profit or loss under IFRS 9 and needed to be remeasured. In respect of unlisted stock investments, the adjustments would result in a decrease in carrying

amount and retained earnings of NT\$44,640 thousand on first application date.

- c) The bond investments are classified as available-for-sale financial assets under IAS 39 and measured at fair value. Since the contractual cash flows are fully matched for the payments of the principals and interests of the outstanding principal amounts, and the purpose of the business model could be achieved by receiving contractual cash flows and selling those financial assets, these bond investments are measured at fair value through other comprehensive income under IFRS 9.

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

IFRS 15 specifies the recognition principle of income generated from the customer contracts; also, the guidelines will replace IAS 18 “Income,” IAS 11 “Construction Contracts,” and related interpretations. The relevant accounting policies could be found in Note 4.

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

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

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

New, Revised or Amended Standards and Interpretations	Effective Date Announced by IASB (Note 1)
"Annual Improvements to IFRSs 2015-2017 Cycle"	January 1, 2019
Amendments for IFRS 9 “Prepayments Features with Negative Compensation”	January 1, 2019 (Note 2)
Amendments for IFRS 10 and IAS 28 “Sales or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined
IFRS 16 “Leases”	January 1, 2019 (Note 3)
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments for IFRS 19 “Employee Benefits - Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 4)
Amendments for IFRS 28 “Long-term Equity for Associated or Joint Venture Companies ”	January 1, 2019
IFRIC 23 “Treatment of Income Tax Uncertainty”	January 1, 2019

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

Note 2: The FSC allows the Group to select earlier adoption of the amendments from January 1, 2018.

Note 3: On December 19, 2017, the FSC announced that companies should apply IFRS 16 on January 1, 2019.

Note 4: This amendment applies to the amendment, curtailment or settlement of employee benefit plans that occurred after January 1, 2019.

1) IFRS 16 “Leases”

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

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease

under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

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

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

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept the Company declaration, the Company’s financial statements should reflect consistently with its income tax filing, using the same assumptions regarding the taxable income, tax bases, unused loss credits, unused tax credits or tax rates. If it is not probable to be accepted by the taxation authority, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method could come out the better prediction to the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

The Company shall either retrospectively apply IFRIC 23 and restate each prior reporting period presented, and, if this is possible without the use of hindsight, or retrospectively recognize the cumulative effect initially on the beginning of the reporting period in which the Company first applies IFRIC23.

3) Amendments to IAS 19 " Employee Benefits - Plan Amendment, Curtailment or Settlement"

The amendment provides that when the plan is amended, curtailed or settled, the current service cost and net interest for the remainder of the year shall be determined on the basis of the actuarial assumptions used to re-measure the net defined benefit liabilities (assets). In addition, the amendment clarifies the impact of the plan’s amendment, curtailment or settlement on rules applied to the asset cap. The aforementioned amendments will be applied prospectively.

Except for the statements above, as of the date on that consolidated financial statements approved to issue, the Company is continuously assessing and evaluating the possible impacts that the application of other standards and interpretations will have on the Company’s financial position and financial performance, and will disclose the relevant impacts 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 Preparation

The consolidated financial statements are prepared on the historical cost basis, except for the financial instruments measured at fair value and the net defined benefit liabilities recognised in the fair value of the estimated assets, and explained in the accounting policies below.

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

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Basis of consolidation

About the detail information, holding percentages, and main business of the subsidiaries, please refer to Note 14.

d. Other significant accounting policies

Except for accounting policies of financial instruments and revenue recognition and 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, 2017.

1) Financial instruments

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

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

a) Financial assets

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

i) Measurement category

2018

The Group's financial assets include those measured at FVTPL, at amortized cost and investments in debt instruments measured at FVTOCI.

A. Financial asset at FVTPL

The equity instruments that are not specified as FVTOCI and debt instruments that do not meet the criteria of amortized cost or FVTOCI are mandatorily required to be measured at FVTPL. Any gain or loss arising from the remeasurement is recognized in profit or loss at fair value, including any interest or dividend earned on the financial asset. The

determination methodology of fair value of financial instruments states in Note 29.

B. Financial assets at amortized cost

Financial assets that meet both two following conditions will subsequently be measured at amortized cost:

- (i) The objective of the business model to hold the financial asset is to collect contractual cash flows; and
- (ii) The cash flows from contractual terms of the financial asset on specified dates are solely matched for payments of principal and interests on the principal amount outstanding.

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

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

- (i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and
- (ii) Financial asset that has subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

Cash equivalents include time deposits with original maturities within 3 months from obtaining date, high liquidation level, readily convertible to a known amount of cash at any time, and low risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

C. Investments in debt instruments at FVTOCI

Investments in debt instruments that meet both the following conditions are subsequently measured at FVTOCI:

- (i) The objective of the business model to hold the financial asset is to collect contractual cash flows and sell financial assets; and
- (ii) The cash flows from contractual terms of the financial asset on specified dates are solely matched for payments of principal and interests on the principal amount outstanding.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses or reversed gains on investments in debt instruments at FVTOCI are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when these debt instruments are disposed.

2017

The Group's financial assets are classified into available-for-sale financial assets, loans and receivables.

a. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified as 1) loans and receivables, 2) held-to-maturity financial assets or 3) financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Foreign exchange gains or losses from available-for-sale financial assets, interest incomes from the monetary available-for-sale financial assets by effective interest method and dividends from 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. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

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

b. Loans and receivables

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

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

ii) Impairment of financial assets

2018

At the end of each reporting period, a loss allowance for expected credit loss is recognized for financial assets at amortized cost (including accounts receivable) and for investments in debt instruments that are measured at FVTOCI.

The loss allowance for accounts receivable is determined by the expected credit losses over the lifetime. For other financial assets at amortized cost and investments in debt instruments that are measured at FVTOCI, if the credit risk on the financial instrument has not increased significantly after initial recognition, a loss allowance is determined by the expected credit losses resulting from the possible default events within 12 months after the reporting date. If, on the other hand, there has been a significant increase in credit risk after initial recognition, a loss allowance is determined by the expected credit losses resulting from all possible default events over the expected life of a financial instrument.

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

2017

The Group assesses whether other financial assets have deducted objective evidence at each balance sheet date. When there is objective evidence that the estimated future cash flows of the financial assets are attributable to the single or multiple events arising from the original recognition of the financial assets, then the financial asset has been impaired

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

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

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

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

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

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

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

iii) Derecognition of financial assets

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

Before 2018, when a financial asset is derecognized in its entirety, the difference between the asset's carrying amount and the sum of the consideration and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. From 2018, when a financial asset carried at amortized cost is derecognized in its entirety, the difference between the

asset's carrying amount and the consideration is recognized in profit or loss. If the financial asset is an investment in debt instruments at FVTOCI and derecognized in its entirety, the difference between the asset's carrying amount and the sum of the consideration and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b) Equity instruments

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

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

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

c) Financial liabilities

i) Subsequent measurement

All the financial liabilities are measured by amortized cost using the effective interest method.

ii) Derecognition of financial liabilities

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

2) Revenue recognition

a) Sale of goods

2018

After the Group performance obligations from the contract with the customers, it allocates the transaction price to each performance obligations, and recognizes revenue when performance obligations are satisfied.

Revenue comes from sales of goods for IC for portable devices. Revenue is recognized when the goods are delivered to the customer's specific location, at which time the customer has full discretion over the manner of distribution and price to sell the goods and the primary responsibility for sales to future customers. Revenue and trade receivable is recognized concurrently.

2017

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

- i) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- ii) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- iii) The amount of revenue can be measured reliably;

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

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

b) Interest income

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

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. The effect of a change in tax rate resulting from the amendment in the tax law is recognized consistent with the accounting treatment of the corresponding transaction itself, and is recognized in profit or loss or other comprehensive income in full in the occurring period.

5. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS

Except for the following, the uncertainty of critical accounting judgments, estimations and assumptions applied are consistent with those in the consolidated financial statements for the year ended December 31, 2017.

Income taxes

As of March 31, 2018, December 31, 2017, and March 31, 2017, the deferred tax liabilities on earnings of the subsidiaries, FocalTech Corporation, Ltd. and FocalTech Electronics, Ltd., reporting at \$3,135,718 thousand, \$3,385,197 thousand, and \$3,983,252 thousand, are not recognized respectively, due to the dividend policy of the subsidiaries and the reversal of temporary differences of earnings being able to be controlled by the Company. It's probable that the temporary differences will not be reversed in the foreseeable future.

6. CASH AND CASH EQUIVALENTS

	March 31, 2018	December 31, 2017	March 31, 2017
Cash on hand	\$ 1,861	\$ 1,870	\$ 3,112
Checking accounts and demand deposits	1,604,460	762,436	782,398
Cash equivalent (fixed deposit with original maturities less than three months)	<u>1,180,078</u>	<u>1,831,822</u>	<u>1,429,269</u>
	<u>\$ 2,786,399</u>	<u>\$ 2,596,128</u>	<u>\$ 2,214,779</u>

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

	March 31, 2018	December 31, 2017	March 31, 2017
Demand deposits	0.001%-0.4%	0.001%-0.4%	0.001%-0.35%
Fixed deposits	0.6%-4.01%	0.6%-2.4%	0.6%-3.5%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS-NON-CURRENT

	March 31, 2018	December 31, 2017	March 31, 2017
<u>Mandatorily at fair value through profit or loss (FVTPL)</u>			
Listed preferred shares	\$ 10,200	\$ -	\$ -
Private Funds (Note)	<u>36,162</u>	<u>-</u>	<u>-</u>
	<u>\$ 46,362</u>	<u>\$ -</u>	<u>\$ -</u>

Note : The investments were previously classified as financial assets measured at cost under IAS 39. Related information of reclassification and 2017 detail could be found in Note 3 and 10.

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

	March 31, 2018
Investments in debt instruments	
<u>Current</u>	
Foreign investments	
Fixed income bonds	<u>\$ 14,640</u>
<u>Non – Current</u>	
Foreign investments	
Fixed income bonds	<u>\$ 238,913</u>
Yield rates	1.963%-3.0168%

Note : The investments were previously classified as available-for-sale under IAS 39. Note 3 and 9 are the information for reclassification and 2017 detail.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017	March 31, 2017
<u>Current</u>		
Foreign investments		
Fixed income bonds	\$ <u>35,814</u>	\$ <u>-</u>
<u>Non - Current</u>		
Foreign investments		
Fixed income bonds	\$ <u>245,640</u>	\$ <u>174,275</u>
Yield rates	1.708%-3.0168%	1.708%-2.6739%

10. FINANCIAL ASSETS MEASURED AT COST- NON-CURRENT - 2017

	December 31, 2017	March 31, 2017
Foreign unlisted preferred shares	\$ 44,640	\$ 45,495
Private Funds	<u>29,760</u>	<u>30,330</u>
	<u>\$ 74,400</u>	<u>\$ 75,825</u>

11. OTHER FINANCIAL ASSETS

	March 31, 2018	December 31, 2017	March 31, 2017
Time deposits with original maturities more than three months	\$ <u>1,607,478</u>	\$ <u>1,385,904</u>	\$ <u>2,241,574</u>
Market rate intervals	1.045%-4.03%	1.045%-3.74%	0.4%-2.7%

12. TRADE RECEIVABLES, NET

	March 31, 2018	December 31, 2017	March 31, 2017
Notes receivables	\$ -	\$ -	\$ 6
Trade receivables	1,710,264	1,385,709	1,248,420
Less: Allowance for doubtful accounts	<u>(93,136)</u>	<u>(101,184)</u>	<u>(103,122)</u>
Trade receivables, net	<u>\$ 1,617,128</u>	<u>\$ 1,257,525</u>	<u>\$ 1,145,304</u>

March 31, 2018

The average credit period on sales of goods was 60-120 days. 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 Company applies the simplified approach prescribed by IFRS 9, which permits the use of allowances of expected credit losses over the lifetime for all trade receivables. The expected credit losses on trade receivables are estimated by using an allowance matrix with references to past customer default records, customer's current financial position, and general economic conditions of the industry. Due to the past

experiences, there is no significant difference in the loss patterns of different customer groups. Therefore, the allowance matrix does not further distinguish the customer base, and only sets the expected credit loss rate based on the overdue days of trade receivable.

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

March 31, 2018

	Non Past Due	Overdue 1-60 Days	Overdue 61-180 Days	Overdue Over 181 Days	Total
Expected credit loss rate	-	-	-	84%	-
Gross carrying amount	\$ 1,596,575	\$ 2,117	\$ 155	\$ 111,417	\$ 1,710,264
Loss allowance (Lifetime ECL)	-	-	-	(93,136)	(93,136)
Amortized cost	<u>\$ 1,596,575</u>	<u>\$ 2,117</u>	<u>\$ 155</u>	<u>\$ 18,281</u>	<u>\$ 1,617,128</u>

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

	For the three months ended March 31, 2018
Beginning balance	\$ 101,184
Less: Impairment loss reversed	(6,084)
Difference from foreign exchange translation	(1,964)
Ending balance	<u>\$ 93,136</u>

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 March 31, 2018, the Group recognized allowance of doubtful trade receivables against Wintek Corporation of 93,136 thousand.

2017

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

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

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

	December 31, 2017	March 31, 2017
Less than 60 days	\$ 5,049	\$ 40,488
61-180 days	-	1,093
More than 180 days	<u>13,292</u>	<u>12,505</u>
	<u>\$ 18,341</u>	<u>\$ 54,086</u>

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
Balance at January 1, 2017	\$ 109,650
Foreign exchange translation	<u>(6,528)</u>
Balance at March 31, 2017	<u>\$ 103,122</u>

13. INVENTORIES

	March 31, 2018	December 31, 2017	March 31, 2017
Finished goods	\$ 569,829	\$ 993,694	\$ 1,206,562
Work in progress	807,251	916,087	964,982
Raw materials and supplies	<u>614,547</u>	<u>775,984</u>	<u>859,190</u>
	<u>\$ 1,991,627</u>	<u>\$ 2,685,765</u>	<u>\$ 3,030,734</u>

The cost of goods sold included inventory write-downs for the three months ended March 31, 2018 and 2017 was \$28,185 thousand and \$12,861 thousand, respectively.

14. SUBSIDIARIES

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

Investor	Investee	Main Businesses	Proportion of Ownership		
			March 31, 2018	December 31, 2017	March 31, 2017
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 Systems Co., Ltd. And FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	-	67.11%(a)	69%(a)
	FocalTech Smart Sensors, Ltd.	Investment activity	67.11%(c)	100%(b)	-
FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	100%(c)	-	-

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	100%	100%	100%

- a. FocalTech Smart Sensors Co., Ltd. was incorporated in July 2016, 100% owned by the Group. The Group's holding diluted to 69% and 67.11% after the capital injection in November 2016 and September 2017, respectively due to employee stock option plan and/or no pro rata subscription in new share.
- b. FocalTech Smart Sensors, Ltd. was incorporated in December 2017 and 100% owned by the Group.
- c. The Group reorganized the investment structure in March 2018. The share swap resulted that FocalTech Smart Sensors, Ltd. 100% owned FocalTech Smart Sensors Co, Ltd. After reorganization, FocalTech Smart Sensors, Ltd. is 67.11% owned by FocalTech Systems Co., Ltd and FocalTech Electronics Co., Ltd.

As of March 31, 2018 and 2017, the immaterial subsidiaries of the Group included FocalTech Smart Sensors Co., Ltd., FocalTech Electronics Co., Ltd., FocalTech Electronics (Shenzhen) Co., Ltd., FocalTech Electronics (Shanghai) Co., Ltd., Hefei PineTech Electronics Co., Ltd. and FocalTech Smart Sensors, Ltd. The financial statements of the immaterial subsidiaries had not been reviewed by the auditors.

As of March 31, 2018 and 2017, the total amounts of assets of the immaterial subsidiaries were \$399,177 thousand and \$355,380 thousand, 3% and 3% of total consolidated assets, respectively. The total amounts of liabilities were \$83,658 thousand, and \$120,853 thousand, 3% and 4% of total consolidated liabilities, respectively. For the three months ended March 31, 2018 and 2017, the total immaterial subsidiaries comprehensive loss has been recognized \$9,459 thousand and \$37,536 thousand, that held 16% and 10% in the consolidated statements of comprehensive loss, respectively.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improvements	Construction in Progress	Total
<u>Cost</u>							
Balance at January 1, 2017	\$ 37,600	\$ 159,892	\$ 14,180	\$ 38,730	\$ 35,956	\$ -	\$ 286,358
Additions	-	4,198	-	270	-	3,555	8,023
Disposals	-	(550)	-	-	-	-	(550)
Effect of foreign currency exchange differences	-	(5,545)	(533)	(1,863)	(808)	-	(8,749)
Balance at March 31, 2017	<u>\$ 37,600</u>	<u>\$ 157,995</u>	<u>\$ 13,647</u>	<u>\$ 37,137</u>	<u>\$ 35,148</u>	<u>\$ 3,555</u>	<u>\$ 285,082</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2017	\$ 2,020	\$ 109,056	\$ 8,839	\$ 22,142	\$ 32,205	\$ -	\$ 174,262
Depreciation	209	6,009	506	1,361	1,864	-	9,949
Disposals	-	(550)	-	-	-	-	(550)
Effect of foreign currency exchange differences	-	(4,312)	(311)	(1,058)	(793)	-	(6,474)
Balance at March 31, 2017	<u>\$ 2,229</u>	<u>\$110,203</u>	<u>\$ 9,034</u>	<u>\$ 22,445</u>	<u>\$ 33,276</u>	<u>\$ -</u>	<u>\$ 177,187</u>
Carrying amounts at March 31, 2017	<u>\$ 35,371</u>	<u>\$ 47,792</u>	<u>\$ 4,613</u>	<u>\$ 14,692</u>	<u>\$ 1,872</u>	<u>\$ 3,555</u>	<u>\$ 107,895</u>
<u>Cost</u>							
Balance at January 1, 2018	\$1,358,019	\$ 165,491	\$ 14,479	\$ 42,437	\$ 39,209	\$ -	\$ 1,619,635
Additions	693	18,172	1,045	134	-	-	20,044
Effect of foreign currency exchange differences	21,486	(471)	175	616	237	-	22,043
Balance at March 31, 2018	<u>\$1,380,198</u>	<u>\$ 183,192</u>	<u>\$ 15,699</u>	<u>\$ 43,187</u>	<u>\$ 39,446</u>	<u>\$ -</u>	<u>\$1,661,722</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	\$ 16,029	\$ 121,011	\$ 10,236	\$ 27,331	\$ 36,554	\$ -	\$ 211,161
Depreciation	9,147	4,437	455	1,365	550	-	15,954
Effect of foreign currency exchange differences	254	(814)	109	384	237	-	170
Balance at March 31, 2018	<u>\$ 25,430</u>	<u>\$124,634</u>	<u>\$ 10,800</u>	<u>\$ 29,080</u>	<u>\$ 37,341</u>	<u>\$ -</u>	<u>\$ 227,285</u>
Carrying amounts at December 31, 2017 and January 1, 2018	<u>\$1,341,990</u>	<u>\$ 44,480</u>	<u>\$ 4,243</u>	<u>\$ 15,106</u>	<u>\$ 2,655</u>	<u>\$ -</u>	<u>\$1,408,474</u>
Carrying amounts at March 31, 2018	<u>\$1,354,768</u>	<u>\$ 58,558</u>	<u>\$ 4,899</u>	<u>\$ 14,107</u>	<u>\$ 2,105</u>	<u>\$ -</u>	<u>\$1,434,437</u>

FocalTech Systems (Shenzhen) Co., Ltd. prepaid RMB 292,408 thousand (tax included) in 2016 for the office building, recorded as other non-current assets. The Group reclassified as Buildings and other non-current assets after obtaining official registration and related documents in the 2nd quarter of 2017.

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

	March 31, 2018	December 31, 2017	March 31, 2017
<u>Cost</u>			
	<u>\$ 3,237,268</u>	<u>\$ 3,237,268</u>	<u>\$ 3,237,268</u>

The reverse merger by FocalTech Corporation, Ltd. on January 2, 2015, with the goodwill of 3,237,268, could bring in the synergy of integration of LCD driver and touch controller under the industry trend. IDC (Integrated Driver Controller) revenue and profit was lower than expected due to longer design-in schedule in panel makers, more complicated verification items for Brand customers and more time to lean the process for the supply chain...etc,. The recoverable amount from IDC (Integrated Driver Controller) still exceeded the carrying value so the Company did not recognize any impairment for the goodwill.

The recoverable amount is calculated by IDC projected net cash flows, discounted at 10%, under the assumptions of management team judgments and historical experiences with regard to future growth rates and market shares of smartphone, gross margins and forecasted operating expenses.

17. OTHER INTANGIBLE ASSETS

	Licenses and Franchises	Software	Patents	Trademark	Total
<u>Cost</u>					
Balance at January 1, 2017	\$ 66,668	\$ 141,943	\$ 76,723	\$ 74,000	\$ 359,334
Additions	62,189	1,244	-	-	63,433
Effect of foreign currency exchange differences	<u>(4,674)</u>	<u>(7,888)</u>	<u>(14)</u>	<u>-</u>	<u>(12,576)</u>
Balance at March 31, 2017	<u>\$ 124,183</u>	<u>\$ 135,299</u>	<u>\$ 76,709</u>	<u>\$ 74,000</u>	<u>\$ 410,191</u>
<u>Accumulated amortization</u>					
Balance at January 1, 2017	\$ 60,058	\$ 65,679	\$ 15,815	\$ 14,800	\$ 156,352
Amortization expense	2,722	10,050	1,946	1,850	16,568
Effect of foreign currency exchange differences	<u>(3,121)</u>	<u>(3,710)</u>	<u>(14)</u>	<u>-</u>	<u>(6,845)</u>
Balance at March 31, 2017	<u>\$ 59,659</u>	<u>\$ 72,019</u>	<u>\$ 17,747</u>	<u>\$ 16,650</u>	<u>\$ 166,075</u>
Carrying amounts at March 31, 2017	<u>\$ 64,524</u>	<u>\$ 63,280</u>	<u>\$ 58,962</u>	<u>\$ 57,350</u>	<u>\$ 244,116</u>
<u>Cost</u>					
Balance at January 1, 2018	\$ 126,919	\$ 149,951	\$ 76,718	\$ 74,000	\$ 427,588
Additions	-	2,205	-	-	2,205
Effect of foreign currency exchange differences	<u>(2,383)</u>	<u>(3,002)</u>	<u>4</u>	<u>-</u>	<u>(5,381)</u>
Balance at March 31, 2018	<u>\$ 124,536</u>	<u>\$ 149,154</u>	<u>\$ 76,722</u>	<u>\$ 74,000</u>	<u>\$ 424,412</u>

Accumulated amortization

Balance at January 1, 2018	\$ 72,394	\$ 98,685	\$ 23,595	\$ 22,200	\$ 216,874
Amortization expense	4,308	8,286	1,946	1,850	16,390
Effect of foreign currency exchange differences	<u>(1,371)</u>	<u>(1,994)</u>	<u>4</u>	<u>-</u>	<u>(3,361)</u>
Balance at March 31, 2018	<u>\$ 75,331</u>	<u>\$ 104,977</u>	<u>\$ 25,545</u>	<u>\$ 24,050</u>	<u>\$ 229,903</u>
Carrying amounts at December 31, 2017 and January 1, 2018	<u>\$ 54,525</u>	<u>\$ 51,266</u>	<u>\$ 53,123</u>	<u>\$ 51,800</u>	<u>\$ 210,714</u>
Carrying amounts at March 31, 2018	<u>\$ 49,205</u>	<u>\$ 44,177</u>	<u>\$ 51,177</u>	<u>\$ 49,950</u>	<u>\$ 194,509</u>

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

	March 31, 2018	December 31, 2017	March 31, 2016
Unsecured bank loans			
Amount	\$ -	\$ -	\$ 606,600
Annual interest rate	-	-	1.46%

19. TRADE PAYABLE

	March 31, 2018	December 31, 2017	March 31, 2017
Trade payables	<u>\$ 1,324,230</u>	<u>\$ 1,310,390</u>	<u>\$ 1,271,993</u>

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

20. OTHER PAYABLES

	March 31, 2018	December 31, 2017	March 31, 2017
Payable for rebates	\$ 300,963	\$ 236,574	\$ 309,469
Payable for salaries and bonus	288,675	349,166	314,911
Payable for labor, health and social insurance	15,293	15,463	14,486
Reserve for litigations	60,089	62,800	67,807
Payable for professional services and others	<u>69,645</u>	<u>74,867</u>	<u>34,191</u>
	<u>\$ 734,665</u>	<u>\$ 738,870</u>	<u>\$ 740,864</u>

21. RETIREMENT BENEFIT

Employee benefit expenses in respect of the Group's defined benefit retirement plans were \$140 thousand and \$231 thousand for the three months ended March 31, 2018 and 2017, respectively, and were calculated using the actuarially determined pension cost discount rate as of December 31, 2017 and 2016.

22. EQUITY

a. Share capital

Ordinary shares (NT\$10 par value per share)

	March 31, 2018	December 31, 2017	March 31, 2017
Numbers of shares authorized (in thousands)	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Shares authorized	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>298,443</u>	<u>298,370</u>	<u>297,023</u>
Shares issued	<u>\$ 2,984,430</u>	<u>\$ 2,983,700</u>	<u>\$ 2,970,232</u>

b. Capital surplus

	Additional Paid-in Capital (1)	Treasury Shares (1)	Changes in ownership interests in subsidiaries (2)	Employee Share Options (3)	Employee Restricted Shares (3)	Employee Share Options -Expired (2)	Total
BALANCE, JANUARY 1, 2016	\$6,468,819	\$ 40,305	\$ 582	\$ 27,578	\$ 73,797	\$ 14,765	\$6,625,846
Treasury Stock transferred to Employees	-	563	-	(563)	-	-	-
Compensation cost of employee share options	-	-	-	7,399	-	-	7,399
Issue of ordinary shares under employee share options	18,640	-	-	(9,581)	-	-	9,059
Employee share options expired	-	-	-	(619)	-	619	-
Cancellation of employee restricted stock	108	-	-	-	(12)	-	96
BALANCE AT MARCH 31, 2017	<u>\$6,487,567</u>	<u>\$ 40,868</u>	<u>\$ 582</u>	<u>\$ 24,214</u>	<u>\$ 73,785</u>	<u>\$ 15,384</u>	<u>\$6,642,400</u>
BALANCE, JANUARY 1, 2018	\$6,565,204	\$ 40,868	\$ 1,269	\$ 30,179	\$ -	\$ 17,356	\$6,654,876
Compensation cost of employee share options	-	-	-	7,781	-	-	7,781
Issue of ordinary shares under employee share options	1,418	-	-	(1,192)	-	-	226
BALANCE AT MARCH 31, 2018	<u>\$6,566,622</u>	<u>\$ 40,868</u>	<u>\$ 1,269</u>	<u>\$ 36,768</u>	<u>\$ -</u>	<u>\$ 17,356</u>	<u>\$6,662,883</u>

1) This type of capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or converted to share capital (at a certain percentage of the Company's capital surplus annually).

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

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

c. Retained earnings and dividend policy

Under the Company's Articles of Incorporation, in the allocation of the net profits for each fiscal year, the Company should first offset its deficits in previous years and then set aside a legal reserve at 10% of the remaining profits until the accumulated legal capital reserve equals total capital. After deducting the legal reserve and any special reserve as required by laws or related regulations.

Any balance, the distribution of earnings is proposed by the board of directors for approval at the stockholders' meeting. For the comparison of the original and amended of the "Articles of Incorporation" about the accrual basis of the employees' compensation and remuneration to directors, please refer to Note 24(d).

Considering current and future development plans, investment conditions, capital requirements, and market competition situations, and shareholder benefits, The Company would appropriate the dividends to the shareholders not less than 10% of the current year's earnings. The dividends could be paid in cash or shares. The cash portion should be equal or more than 10% of the total dividends. It is allowed not to distribute any cash dividend if the cash amount per share is less than NT 0.5.

Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2017 and 2016 had been proposed by the company's board of directors on April 24, 2018 and approved in the shareholders' meetings on June 14, 2017, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share</u>	
	<u>For the Year Ended December 31</u>		<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Legal reserve	\$ -	\$ 21,109		
Cash dividends	-	189,985	\$ -	\$ 0.64

The Company's board proposed the cash distribution from additional paid-in capital of \$150,000 thousand which comes from the premium over the par value when issuing, approximately \$0.5 per share, on April 24, 2018.

The appropriation of earnings and cash distribution from additional paid-in capital for 2017 is subject to the resolution of the shareholders' meeting to be held on June 2018.

d. Treasury stock

	Shares (In Thousands)
Number of shares at January 1, 2017	2,376
Decrease during the period	<u>(50)</u>
Number of shares at March 31, 2017	<u>2,326</u>
Number of shares at January 1, 2018	5,936
Decrease during the period	<u>(120)</u>
Number of shares at March 31, 2018	<u>5,816</u>

Please refer to Note 27 (d) for the detailed information in The 2nd Shares Buy Back Program.

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

23. REVENUE

	For the Three Months Ended March 31		
	2018	2017	
IC for portable devices	<u>\$ 2,612,661</u>	<u>\$ 2,161,081</u>	
<u>Contract balances</u>			
	March 31, 2018	December 31, 2017	March 31, 2017
Contract liabilities			
Sales of goods	<u>\$ 69,474</u>	<u>\$ 29,341</u>	<u>\$ 28,776</u>

24. NET INCOME (LOSS)

a. Finance costs

	For the Three Months Ended March 31	
	2018	2017
Interest on deposits	\$ 471	\$ 355
Others	93	-
Interest on bank loans	<u>-</u>	<u>2,264</u>
	<u>\$ 564</u>	<u>\$ 2,619</u>

b. Depreciation and amortization

	For the Three Months Ended March 31	
	2018	2017
Property, plant and equipment	\$ 15,954	\$ 9,949
Intangible assets	<u>16,390</u>	<u>16,568</u>
	<u>\$ 32,344</u>	<u>\$ 26,517</u>
An analysis of deprecation by function		
Operating expenses	\$ 31,767	\$ 23,808
Operating costs	<u>577</u>	<u>2,709</u>
	<u>\$ 32,344</u>	<u>\$ 26,517</u>

c. Employee benefits expense

	For the Three Months Ended March 31	
	2018	2017
Post-employment benefits		
Defined contribution plans	\$ 7,057	\$ 6,329
Defined benefit plans (Note 21)	140	231
Share-based payments (Note 27)	7,781	9,695
Other employee benefits	<u>342,557</u>	<u>322,421</u>
Total employee benefits expense	<u>\$ 357,535</u>	<u>\$ 338,676</u>
	For the Three Months Ended March 31	
	2018	2017
An analysis of employee benefits expense by function		
Operating expenses	\$ 330,333	\$ 310,755
Operating costs	<u>27,202</u>	<u>27,921</u>
	<u>\$ 357,535</u>	<u>\$ 338,676</u>

d. The remuneration to employees and directors

The Company stipulates 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. Due to the pretax loss in 2017, there was no accrual for any remuneration to employees and directors. The estimated employees' compensation and remuneration to directors from January 1 to March 31, 2018 are as following:

Accrual rate

	For the Three Months Ended March 31, 2018
Employees' compensation	19.52%
Remuneration of directors	0.48%

Amount

	For the Three Months Ended March 31, 2018
Employees' compensation	<u>\$ 6,023</u>
Remuneration of directors	<u>\$ 147</u>

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 bonuses to employees and remuneration to directors for 2016 was resolved by the board of directors on February 24, 2017, respectively as follows:

	For the Year Ended December 31,2016
	<u>Cash</u>
Employees' compensation	\$ 60,075
Remuneration of directors	\$ 645

There was no difference between the amounts of the employees' compensation and the remuneration to directors paid and recognized in the consolidated financial statements for the year ended December 31, 2016.

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

25. INCOME TAXES

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

	For the Three Months Ended March 31	
	<u>2018</u>	<u>2017</u>
Current tax		
In respect of the current year	\$ 10,793	\$ 3,533
Adjustments for prior years	<u>-</u>	<u>249</u>
	<u>10,793</u>	<u>3,782</u>
Deferred tax		
In respect of the current year	15,725	(6,016)
Effect of tax rate changes	<u>(11,437)</u>	<u>-</u>
	<u>4,288</u>	<u>(6,016)</u>
Income tax expense recognized in profit or loss	<u>\$ 15,081</u>	<u>\$ (2,234)</u>

In 2018, the amendment of the Republic of China Income Tax Law let the income tax rate for corporations adjust to 20% from 17%. The effect of the change in tax rate on deferred tax income was recognized in profit in 2018. In addition, the tax rate applicable to the undistributed earnings was reduced from 10% to 5%.

- b. Income tax expense recognized in other comprehensive income

	For the Three Months Ended March 31	
	<u>2018</u>	<u>2017</u>
Deferred income tax		
Effect of tax rate change	<u>\$ 276</u>	<u>\$ -</u>

c. Income tax assessments

The Company's tax returns until 2015, FocalTech Electronics Co., Ltd. and FocalTech Smart Sensors Co., Ltd.'s tax returns until 2016 have been assessed by the tax authorities.

26. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Three Months Ended March 31	
	2018	2017
Basic earnings per share	<u>\$ 0.05</u>	<u>\$ (0.01)</u>
Diluted earnings per share	<u>\$ 0.05</u>	<u>\$ (0.01)</u>

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

Net Profit for the Year

	For the Three Months Ended March 31	
	2018	2017
Earnings used in the computation of basic earnings per share	<u>\$ 14,444</u>	<u>\$ (3,847)</u>

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

	For the Three Months Ended March 31	
	2018	2017
Weighted average number of ordinary shares in computation of basic earnings per share	287,838	291,098
Effect of potentially dilutive ordinary shares:		
Employee share option (Note)	1,215	-
Employees' compensation or bonus issue to employees (Note)	189	-
Employee restricted shares (Note)	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>289,242</u>	<u>291,098</u>

Note : The computation of diluted earnings per share did not include the shares from employee share options, employees' compensation and Employee Restricted Shares for three months ended March 31 2017 due to anti-dilution.

If the Group is able to select the settlement of the compensation 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 settled in shares until the final number of shares distributed to employees is resolved in the following year.

27. SHARE-BASED PAYMENT ARRANGEMENTS

The Company did not have new share option plan or restricted stock plan issued for employees for the three months ended March 31, 2018 and 2017, except for The 2nd Shares Buy Back Program stated below. The detailed information of the employee share option plans and employee restricted shares plans could be found in Note 25 of the consolidated financial statements of the year ended December 31, 2017.

a. Employee share option plan in 2015

	For the Three Months Ended March 31, 2018		For the Three Months Ended March 31, 2017	
	Number of Options	Weighted- average Exercise Price (NT\$)	Number of Options	Weighted- average Exercise Price (NT\$)
Balance at January 1	1,476,500	\$ 12.2	2,506,000	\$ 12.4
Options exercised	(60,000)	12.2	-	-
Options forfeited	<u>(33,000)</u>	12.2	<u>(100,000)</u>	12.4
Balance at March 31	<u>1,383,500</u>	12.4	<u>2,406,000</u>	12.4

b. Employee share option plan in 2013

	For the Three Month Ended March 31			
	2018		2017	
	Number of Options	Weighted- average Exercise Price (NT\$)	Number of Options	Weighted- average Exercise Price (US\$)
Balance at January 1	768,750	\$ 37.9	1,220,500	\$ 38.5
Options forfeited	-	-	(25,750)	38.5
Options exercised	-	-	(155,500)	38.5
Options expired	<u>(38,500)</u>	37.9	<u>(37,500)</u>	38.5
Balance at March 31	<u>730,250</u>	37.9	<u>1,001,750</u>	38.5
Options exercisable, end of period	<u>730,250</u>	37.9	<u>725,250</u>	38.5

c. Employee share option plan in 2006

	For the Three Month Ended March 31			
	2018		2017	
	Number of Options	Weighted- average Exercise Price (NT\$)	Number of Options	Weighted- average Exercise Price (US\$)
Balance at January 1	1,637,199	\$ 19.84	2,662,359	\$ 21.01
Options forfeited	-	-	-	-
Options exercised	<u>(13,000)</u>	17.24	<u>(342,853)</u>	23.49
Balance at March 31	<u>1,624,199</u>	19.86	<u>2,319,506</u>	20.65
Options exercisable, end of period	<u>1,624,199</u>	19.86	<u>2,168,935</u>	20.04

d. The 2nd Shares Buy Back Program.

The Company's employee subscription base dates were February 8, 2018 and February 24, 2017. The eligible employees subscribed 120 thousand shares and 50 thousand shares at the price of 26.53 with the total proceeds as 3,183 thousand and 1,327 thousand respectively. The fair value of the transfer date of the share purchase option is 11.26.

Compensation cost recognized for share-based payments above and employee restricted share plans in 2013 and 2014 for the three months ended March, 2018 and 2017 were as follows:

	For the Three Months Ended March 31	
	2018	2017
Employee share option plans	\$ 909	\$ 2,271
Shares buy back and transfer to employee program	6,872	5,128
Employee restricted share plans	<u>-</u>	<u>2,296</u>
	<u>\$ 7,781</u>	<u>\$ 9,695</u>
	For the Three Months Ended March 31	
	2018	2017
Capital surplus - employee share options	\$ 7,781	\$ 7,399
Other equity - unearned employee compensation	<u>-</u>	<u>2,296</u>
	<u>\$ 7,781</u>	<u>\$ 9,695</u>

28. 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 January 2020.

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

	March 31, 2018	March 31, 2017
lease payment	<u>\$ 8,965</u>	<u>\$ 16,008</u>

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

	March 31, 2018	December 31, 2017	March 31, 2017
Not later than 1 year	\$ 26,153	\$ 29,819	\$ 33,187
Later than 1 year and not later than 5 years	<u>7,136</u>	<u>12,021</u>	<u>17,835</u>
	<u>\$ 33,289</u>	<u>\$ 41,840</u>	<u>\$ 51,022</u>

29. FINANCIAL INSTRUMENTS

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

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

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

1) Fair value hierarchy

March 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Listed preferred shares	\$ 10,200	\$ -	\$ -	\$ 10,200
Private funds	<u>-</u>	<u>-</u>	<u>36,162</u>	<u>36,162</u>
Total	<u>\$ 10,200</u>	<u>\$ -</u>	<u>\$ 36,162</u>	<u>\$ 46,362</u>
Financial assets at FVTOCI				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 253,553</u>	<u>\$ -</u>	<u>\$ 253,553</u>

December 31, 2017

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 281,454</u>	<u>\$ -</u>	<u>\$ 281,454</u>

March 31, 2017

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Investments in debt instruments				
Fixed income bonds	\$ <u> -</u>	\$ <u>174,275</u>	\$ <u> -</u>	\$ <u>174,275</u>

There was no type transfer between Level 1 and Level 2 for the three months ended March 31, 2018 and 2017.

2) Reconciliation of financial instruments measured by Level 3 fair value

For the Three Months ended March 31, 2018

	Equity Investments
<u>Financial assets at FVTPL</u>	
Balance at January 1, 2018	\$ 29,760
Purchases	7,057
Effect of foreign currency exchange differences	<u>(655)</u>
Balance at March 31, 2018	\$ <u>36,162</u>

3) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

The fair values of foreign fixed income bonds are determined by quoted market prices provided by the independent third party.

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

The unlisted equity investment is measured by the asset method, which evaluate the total value of individual asset and individual liability of the target to reflect the overall value of the company or business. The Company had carefully evaluated and selected the suitable evaluation method and the individual fair value of each asset and liability, but the use of different evaluation models or fair values may result in different evaluation results.

c. Categories of financial instruments

	March 31, 2018	December 31, 2017	March 31, 2017
<u>Financial assets</u>			
Fair value through profit or loss (FVTPL)			
Mandatorily at FVTPL	\$ 46,362	\$ -	\$ -
Loans and receivables (Note 1)	-	5,280,160	5,641,921
Available-for-sale financial assets (Note 2)	-	355,854	250,100
Amortized cost (Note 3)	6,047,819	-	-
Financial assets at FVTOCI			

	March 31, 2018	December 31, 2017	March 31, 2017
Investments in debt instruments	253,553	-	-
<u>Financial liabilities</u>			
Amortized cost (Note 4)	2,365,803	2,250,211	2,725,988

- 1) The amounts included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes and trade receivables, other financial assets and refundable deposits, booked in other non-current assets.
- 2) The balances included the carrying amount of available-for-sale and financial assets measured at cost.
- 3) The amounts included financial assets measured at amortized cost, which comprise cash and cash equivalents, notes and trade receivables, other financial assets and refundable deposits, booked in other non-current assets.
- 4) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, trade and other payables and deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include cash and cash equivalents, trade receivable, other financial assets, financial assets at FVTPL, available-for-sale financial assets, financial assets measured at cost, financial assets at FVTOCI, borrowings, trade and other payables. 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.

1) Market risk

The major financial risks from the Company's operation were foreign currency exchange risk referred to a) and interest rate risk referred to 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 32.

Sensitivity analysis

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

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 increase 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 Three Months Ended	
	March 31	
	2018	2017
Profit or loss/ equity	<u>\$ 31,197</u> (i)	<u>\$ 18,627</u> (i)

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.

b) Interest rate risk

The Group was exposed to interest risk arising from fixed rate time deposits, bond investments, borrowings and floating rate demand deposits. The time deposits were at fixed interest rates, and bonds were at fixed rates or with 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.

	March 31, 2018	December 31, 2017	March 31, 2017
Fair value interest rate risk			
Financial assets	<u>\$ 3,041,109</u>	<u>\$ 3,499,180</u>	<u>\$ 3,845,118</u>
Financial liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 606,600</u>
Cash flow interest rate risk			
Financial assets	<u>\$ 1,604,460</u>	<u>\$ 762,436</u>	<u>\$ 782,398</u>

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 three months ended March 31, 2018 and 2017 would decrease/increase by \$1,003 thousand and \$489 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.

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

As of March 31, 2018, the Group's five largest customers took 63% of total trade receivables, the remaining transactions with a large number of unrelated customers, thus, no significant concentration of credit risk was observed.

Credit risk management for investments in debt instruments

The Company's investments in debt instruments are financial assets at fair value through other comprehensive income. The Company policy allows only to invest the targets with credit ratings equal to or higher than the investment grade and with low credit risk after the impairment assessment. Credit rating information is provided by independent rating institute. The Company continuously tracks external rating information to monitor changes in credit risk of the invested debt instruments, and also examines other information such as the bond yield curve and the debtor's material information to assess whether the credit risk of the debt instrument investment has increased significantly after the original recognition.

The Company assesses the 12-month expected credit loss based on the probability of default and loss given from default provided by external credit rating agencies. The current credit risk assessment policies and carrying amount of investments in debt instruments for each credit rating are as follows:

<u>Category</u>	<u>Description</u>	<u>Basis for Recognizing Expected Credit Loss</u>	<u>Expected Credit Loss Ratio</u>	<u>Carrying Amount as of March 31, 2018</u>
Performing	The debtor with low credit risk and fully capable paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 253,553</u>

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 March 31, 2017, December 31, 2016, and March 31, 2016, the available unutilized short-term bank loan facilities refer to (b) Financing facilities.

a) Liquidity and interest risk rate tables for financial liabilities

The Group's remaining contractual maturity for its 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.

March 31, 2018

	On Demand or Less than 1 Year	1-5 Years
Non-interest bearing	<u>\$ 2,058,895</u>	<u>\$ 306,908</u>

December 31, 2017

	On Demand or Less than 1 Year	1-5 Years
Non-interest bearing	<u>\$ 2,049,260</u>	<u>\$ 200,951</u>

March 31, 2017

	On Demand or Less than 1 Year	1-5 Years
Fixed interest rate liabilities	\$ 606,600	\$ -
Non-interest bearing	<u>2,012,857</u>	<u>106,531</u>
	<u>\$ 2,619,457</u>	<u>\$ 106,531</u>

b) Financing facilities

	March 31, 2018	December 31, 2017	March 31, 2017
Unsecured bank overdraft facility, reviewed annually:			
Amount used	\$ -	\$ -	\$ 606,600
Amount unused	<u>3,346,300</u>	<u>3,385,600</u>	<u>2,306,600</u>
	<u>\$ 3,346,300</u>	<u>\$ 3,385,600</u>	<u>\$ 2,913,200</u>

The amounts above included unsecured bank overdraft facility obtained by the Subsidiaries and only guaranteed by the Company credit.

30. 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 Three Months Ended March 31	
	2018	2017
Long-term employee benefits	\$ 7,196	\$ 4,475
Short-term employee benefits	9,863	13,392
Post-employment benefits	89	152
Share-based payments	<u>1,689</u>	<u>1,782</u>
	<u>\$ 18,837</u>	<u>\$ 19,801</u>

31. ASSETS PLEDGED AS COLLATERAL

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

	March 31, 2018	December 31, 2017	March 31, 2017
Pledge deposits (classified as other non-current assets)	<u>\$ 36,400</u>	<u>\$ 35,882</u>	<u>\$ 34,773</u>

32. 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:

March 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 66,977	29.105 (USD:NTD)	\$ 1,949,363
USD	1,965	6.2881 (USD:RMB)	57,198
<u>Financial liabilities</u>			
Monetary items			
USD	33,664	29.105 (USD:NTD)	979,802
USD	13,840	6.2881 (USD:RMB)	402,818

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 64,113	29.76 (USD:NTD)	\$ 1,908,009
USD	1,971	6.5342 (USD:RMB)	58,644
<u>Financial liabilities</u>			
Monetary items			
USD	27,718	29.76 (USD:NTD)	824,887
USD	7,920	6.5342 (USD:RMB)	235,704

March 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 45,394	30.33 (USD:NTD)	\$ 1,376,793
USD	1,681	6.8993 (USD:RMB)	50,997
<u>Financial liabilities</u>			
Monetary items			
USD	24,445	30.33 (USD:NTD)	741,409
USD	10,348	6.8993 (USD:RMB)	313,846

33. SEGMENT INFORMATION

Segment information is provided to those who allocate resources and assess 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.