FocalTech Systems Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2018 and 2017

This is the translation of the financial statements. CPAs do not audit or review on this translation.

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Par Value)

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Note 4 and 6)	$ 2,355,926	21	$ 2,596,128	19
Financial asset at fair value through other comprehensive income-current(Note 4 and 8)	130,716	1	-	-
Available-for-sale financial assets - current (Note 4 and 9)	-	-	35,814	-
Trade receivables, net (Note 4 and 12)	983,496	9	1,257,525	9
Inventories (Note 4, 5 and 13)	2,120,600	19	2,685,765	20
Other financial assets (Note 4 and 11)	2,283,900	20	1,385,904	10
Other current assets (Note 24)	158,385	1	212,037	2
Total current assets	8,033,023	71	8,173,173	60
NON-CURRENT ASSETS				
Financial asset at fair value through profit or loss - non-current (Note 4 and 7)	112,063	1	-	-
Financial asset at fair value through other comprehensive income - non-current (Note 4 and 8)	183,253	2	-	-
Available-for-sale financial assets - non-current (Note 4 and 9)	-	-	245,640	2
Financial assets measured at cost (Note 4 and 10)	-	-	74,400	-
Property, plant and equipment (Note 4 and 15)	1,394,372	12	1,408,474	10
Goodwill (Notes 4 , 5 and 16)	1,237,268	11	3,237,268	24
Other intangible assets (Notes 4 and 17)	148,998	1	210,714	2
Deferred income tax assets (Notes 4 and 24)	134,858	1	104,501	1
Other non-current assets (Note 32)	56,286	1	89,898	1
Total non-current assets	3,267,098	29	5,370,895	40
TOTAL	$ 11,300,121	100	$ 13,544,068	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade payables (Note 18)	1,625,756	14	1,310,390	10
Other payables (Note 19)	794,104	7	738,870	5
Current tax liabilities (Notes 4 and 24)	394,493	3	411,977	3
Other current liabilities(Note 22)	64,875	1	82,620	1
Total current liabilities	2,879,228	25	2,543,857	19
NON-CURRENT LIABILITIES				
Deferred income tax liabilities (Notes 4 , 5 and 24)	30,998	-	15,876	-
Net defined benefit liabilities - non-current (Notes 4 and 20)	26,096	-	29,620	-
Guarantee deposits received	275,784	3	200,951	2
Other non-current liabilities	10,400	-	10,400	-
Total non-current liabilities	343,278	3	256,847	2
Total liabilities	3,222,506	29	2,800,704	21
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 , 21 and 26)				
Share capital				
Ordinary shares	2,987,432	26	2,983,700	22
Capital surplus				
Additional paid-in capital	6,422,355	58	6,565,204	49
Treasury shares	40,868	-	40,868	-
Changes in ownership interests in subsidiaries	20,448	-	1,269	-
Employee share options	47,476	-	30,179	-
Employee share options - expired	20,334	-	17,356	-
Total capital surplus	6,551,481	58	6,654,876	49
Retained earnings				
Legal reserve	186,154	2	186,154	1
Undistributed earnings	(1,434,755)	(13)	1,058,985	8
Total retained earnings	(1,248,601)	(11)	1,245,139	9
Other equity				
Exchange differences from translating the financial statements of foreign operations	149,454	1	47,154	-
Unrealized loss on financial assets at fair value through other comprehensive income	(2,290)	-	-	-
Equity directly associated with non-current assets held for sale	-	-	(2,791)	-
Total other equity	147,164	1	44,363	-
Treasury shares	(393,203)	(3)	(191,998)	(1)
Equity attributable to owners of the company	8,044,273	71	10,736,080	79
NON-CONTROLLING INTERESTS	33,342	-	7,284	-
Total equity	8,077,615	71	10,743,364	79
TOTAL	$ 11,300,121	100	$ 13,544,068	100

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
REVENUE (Note 4 and 22)	$ 9,919,368	100	$ 10,798,334	100
COSTS OF SALES (Notes 4,13 and 23)	(8,357,068)	(84)	(8,528,149)	(79)
GROSS PROFIT	1,562,300	16	2,270,185	21
OPERATING EXPENSES (Notes 23, 26 and 31)				
Selling and marketing expenses	(429,499)	(4)	(468,590)	(4)
General and administrative expenses	(326,676)	(3)	(314,478)	(3)
Research and development expenses	(1,481,181)	(15)	(1,324,902)	(12)
Total operating expenses	(2,237,356)	(22)	(2,107,970)	(19)
OPERATIONS INCOME	(675,065)	(7)	162,215	2
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Note 23)	(786)	-	(9,676)	-
Interest income (Note 4)	96,737	-	65,475	-
Gain on foreign currency exchange(Note 4)	17,422	-	(42,443)	-
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4)	(1,415)	-	-	-
Impairment losses of goodwill (Note 4,5 and 16)	(2,000,000)	(20)	-	-
Other gains and losses, net	59,449	1	28,162	-
Total non-operating income and expenses	(1,828,593)	(18)	41,518	-
INCOME BEFORE INCOME TAX	(2,503,649)	(25)	203,733	2
INCOME TAX EXPENSE (Notes 4 and 24)	15,531	-	(306,943)	(3)
NET INCOME	(2,488,118)	(25)	(103,210)	(1)
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 20)	3,275	-	16,581	-
Income tax related to items that will not be reclassified subsequently to profit or loss (Notes 4 and 24)	(733)	-	(1,990)	-
	2,542	-	14,591	-

(Continued)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences from translating the financial statements of foreign operations (Notes 4)	$ 104,532	2	$ (386,430)	(3)
Unrealized gains from debt instrument investments measured at fair value through other comprehensive income (Notes 4)	501	-	-	
Unrealized loss on available-for-sale financial assets (Notes 4)	-	-	(1,293)	-
	105,033	2	(387,723)	(3)
Total other comprehensive loss (net of income tax)	107,575	1	(373,132)	(3)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ (2,380,543)	(24)	$ (476,342)	(4)
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	$ (2,451,642)	(25)	$ (79,680)	(1)
Non-controlling interests	(36,476)	-	(23,530)	-
	$ (2,488,118)	(25)	$ (103,210)	(1)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	$ (2,346,299)	(24)	$ (452,812)	(4)
Non-controlling interests	(34,244)	-	(23,530)	-
	$ (2,380,543)	(24)	$ (476,342)	(4)
EARNINGS PER SHARE (Note 25)				
Basic	$(8.66)		$(0.28)	
Diluted	$(8.66)		$(0.28)	

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

(Concluded)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company											
			Retained Earnings		Other Equity							
	Share Capital Ordinary Shares	Capital Surplus	Legal Reserve	Undistributed Earnings	Exchange Differences from Translating Financial Statement of Foreign Operations	Equity Directly Associated with Non-current Assets Held for Sale	Unrealized gains(losses) from financial assets measured at fair value through other comprehensive income	Unearned Employee Compensation	Treasury Shares	Total	Non-controlling Interests	Total Equity
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
Appropriation of 2016 earnings												
Legal reserve	-	-	21,109	(21,109)	-	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	(189,985)	-	-	-	-	-	(189,985)	-	(189,985)
Net income for the year ended December 31, 2017	-	-	-	(79,680)	-	-	-	-	-	(79,680)	(23,530)	(103,210)
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	14,591	(386,430)	(1,293)	-	-	-	(373,132)	-	(373,132)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	(65,089)	(386,430)	(1,293)	-	-	-	(452,812)	(23,530)	(476,342)
Buy-back of ordinary shares (Note 21)	-	-	-	-	-	-	-	-	(245,812)	(245,812)	-	(245,812)
Treasury stock transferred to employees (Note 21 and 26)	-	-	-	-	-	-	-	-	(116,806)	116,806	-	116,806
Changes in ownership interests in subsidiaries (Note 27)	-	687	-	-	-	-	-	-	-	687	(687)	-
Compensation cost of employee share options (Note 21 and 26)	-	36,339	-	-	-	-	-	-	-	36,339	-	36,339
Issue of ordinary shares under employee share options (Note 21 and 26)	18,619	20,762	-	-	-	-	-	-	-	39,381	-	39,381
Vested employee restricted stock (Note 21 and 26)	-	(28,972)	-	-	-	-	-	28,972	-	-	-	-
Compensation cost of employee restricted shares (Note 21 and 26)	-	-	-	-	-	-	-	7,068	-	7,068	-	7,068
Cancellation of employee restricted shares (Note 21)	(263)	214	-	-	-	-	-	-	-	(49)	-	(49)
Dividend return on unvested employee restricted stock	-	-	-	8	-	-	-	-	-	8	-	8
Increase in non-controlling interests (Note 27)	-	-	-	-	-	-	-	-	-	-	17,568	17,568
BALANCE AT DECEMBER 31, 2017	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
Cash distribution from additional paid-in capital	-	(150,000)	-	-	-	-	-	-	-	(150,000)	-	(150,000)
Net income for the year ended December 31, 2018	-	-	-	(2,451,642)	-	-	-	-	-	(2,451,642)	(36,476)	(2,488,118)
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	2,542	102,300	-	501	-	-	105,343	2,232	107,575
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	(2,449,100)	102,300	-	501	-	-	(2,346,299)	(34,244)	(2,380,543)
Buy-back of ordinary shares (Note 21)	-	-	-	-	-	-	-	-	(384,906)	(384,906)	-	(384,906)
Treasury stock transferred to employees (Note 21 and 26)	-	-	-	-	-	-	-	-	183,701	183,701	-	183,701
Changes in ownership interests in subsidiaries (Note 27)	-	19,179	-	-	-	-	-	-	-	19,179	(19,179)	-
Compensation cost of employee share options (Note 21 and 26)	-	26,474	-	-	-	-	-	-	-	26,474	-	26,474
Issue of ordinary shares under employee share options(Note 21 and 26)	3,732	952	-	-	-	-	-	-	-	4,684	-	4,684
Increase in non-controlling interests (Note 27)	-	-	-	-	-	-	-	-	-	-	79,481	79,481
BALANCE AT DECEMBER 31, 2018	$ 2,987,432	$ 6,551,481	$ 186,154	$ (1,434,755)	$ 149,454	$ -	$ (2,290)	$ -	$ (393,203)	$ 8,044,273	$ 33,342	$ 8,077,615

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operation	$(2,503,649)	$ 203,733
Adjustments for:		
Depreciation expenses	64,564	46,616
Amortization expenses	67,402	70,096
Gains from reversal of impairment loss on expected credit	(6,084)	-
Loss on financial assets and liabilities at fair value through profit or loss	1,415	-
Finance costs	786	9,676
Interest income	(96,737)	(65,475)
Compensation cost of employee share options	26,474	36,339
Compensation cost of employee restricted shares	-	7,068
Loss on disposal of property, plant and equipment	-	27
Write-down of inventories	750,433	51,120
Impairment losses of goodwill	2,000,000	-
Unrealized loss (gain) on foreign currency exchange	15,856	(13,905)
Changes in operating assets and liabilities		
Increase in financial assets mandatorily classified as at fair value through profit or loss	(81,672)	-
Trade receivables	290,765	46,223
Inventories	(134,052)	(322,093)
Other current assets	65,080	(87,563)
Trade payables	286,289	(169,037)
Other payables	41,828	(128,262)
Other current liabilities	(17,680)	22,305
Net defined benefit liabilities	(249)	(185)
Cash generated from operations	770,769	(293,317)
Interest paid	(786)	(9,721)
Income tax paid	(30,348)	(24,635)
Net cash generated from operating activities	739,635	(327,673)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial asset at fair value through other comprehensive income	(59,090)	-
Proceeds from disposal of financial asset at fair value through other comprehensive income	36,179	-
Purchase of available-for-sale financial assets	-	(123,620)
Purchase for property, plant and equipment	(73,996)	(75,208)
Purchase of intangible assets	(3,512)	(84,203)
Decrease in other financial assets	(846,904)	768,087
Decrease (increases) in other non-current assets	33,026	58,273
Interest received	86,828	60,945
Net cash generated from investing activities	(827,469)	604,274

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increases in short-term borrowings	$ -	$ (608,630)
Increase in guarantee deposits received	70,539	89,858
Cash dividends	(150,000)	(189,985)
Proceeds from issuance ordinary shares under employee share options	4,684	39,381
Buy -back of ordinary shares	(384,906)	(245,812)
Treasury stock transferred to employees	183,701	116,806
Increase in non-controlling interests	79,481	17,568
Proceeds from dividend returned by unvested employee restricted shares	-	8
Payment for cancellation of employee restricted shares	-	(77)
Net cash used in financing activities	(196,501)	(780,883)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	44,133	(165,369)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(240,202)	(669,651)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,596,128	3,265,779
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 2,355,926	$ 2,596,128

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 YEARS ENDED DECEMBER 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"), formerly named as Orise Technology Co., Ltd., was incorporated in the Republic of China ("ROC") in January 2006 and moved to Hsinchu Science Park in April on the same year. The Company's shares have been listed on the Taiwan Stock Exchange ("TSE") since July 2007. On January 2, 2015, the Company acquired FocalTech Corporation, Ltd. through a share swap and renamed on January 17, 2015. This acquisition was comprehensively considered as a reverse merger, where FocalTech Corporation, Ltd. was treated as the acquirer in the financial statements. The Company is mainly engaged in research, development, design, manufacturing, and sales of solutions regarding to human and machine interface devices, such as Display Driver IC, Touch Control IC and so on.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on February 22, 2019.

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 2018 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.

	Measurement Category		Carrying Amount		
Financial Assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Remark**
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 with an assessment of expected credit losses 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. The IFRSs recognized by FSC and the Regulations Governing the Preparation of Financial Reports by Securities Issuers with effective date starting from 2019.

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)
IFRS 16 “Leases”	January 1, 2019
Amendments for IFRS 19 “Employee Benefits - Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
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: 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 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations.

<u>Definition for leases</u>

When IFRS 16 first time is applied, the Company decides only to include the contracts signed or changed after January 1, 2019 to use IFRS 16 evaluation. The contracts currently considered to be judged as leases based on IAS 17 and IFRIC 4 will not be re-evaluated and will be processed in accordance with the transitional provisions of IFRS 16.

The Company is lessee

When IFRS 16 first time is applied, the Company will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value asset lease and short-term leases recognized as expenses on a straight line basis. On the consolidated statements of comprehensive income, the Company will 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 will be classified within financing activities. The interest portion will be classified within operating activities. Before IFRS 16 is applied, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

For the current agreements judged and processed as operating leases based on IAS 17, the measurement of the lease liability on January 1, 2019 will be discounted by the remaining lease payments at the incremental borrowing rate of the lessee at that date. All right-of-use assets will be measured by the amount of the lease liability on that date, which will be subject to IAS 36 impairment assessment.

The Company is expected to apply the expedient method and account those leases which lease term ends on or before December 31, 2019 as short-term leases.

There is no impact on the assets, liabilities and equity on January 1, 2019 by this 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.

When IFRIC23 first time is applied, the Company plans to retrospectively recognize the cumulative effect initially in retained earnings on Jan. 1st , 2019.

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 is applied prospectively.

Except for the statements above, as of the date on that consolidated financial statements approved to issue, the amendments of other standards and interpretations do not have significant impacts on the Company’s financial position and financial performance.

c. 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)
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Materiality”	January 1, 2020 (Note 3)

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

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

Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

The 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 recognized 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. Standards in differentiating current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

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

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

Current liabilities include:

1) Assets held primarily for the purposes of transactions

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

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

Noncurrent assets include:

1) Liabilities held primarily for the purposes of transactions

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

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

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Applicable adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Total comprehensive income of the subsidiaries is attributed both to the shareholders of the parent and the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing controlling over the subsidiaries are accounted as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their interests in the subsidiaries respectively. The amount adjusted for the non-controlling interests and the difference between fair value and the consideration paid or received are recognized directly in equity and attributed to shareholders of the parent.

See Note 14 for the detailed information of the subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

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

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

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

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

f. Inventories

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

g. Property, plant and equipment

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

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

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

h. Goodwill

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

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

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

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

i. Intangible assets

1) Intangible assets acquired separately

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

2) Intangible assets acquired in a business combination

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

3) Derecognition of intangible assets

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

j. Impairment of tangible and intangible assets other than goodwill

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

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

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

k. Financial instruments

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

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

1) Financial assets

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

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, excluding any interest or dividend earned from the financial asset. The determination methodology of fair value of financial instruments states in Note 30.

B. Financial assets at amortized cost

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

(1) The objective of the business model to hold the financial asset is to collect contractual cash flows; and

(2) 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 the credit-impaired financial asset 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:

(1) The objective of the business model to hold the financial asset is to collect contractual cash flows and sell financial assets; and

(2) 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.

<u>2017</u>

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.

2) Equity instruments

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

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

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

3) Financial liabilities

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.

l. Provisions

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

m. Revenue recognition

1) 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.

2) Interest income

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

n. Leasing

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

o. Government Grants

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

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

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

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

q. Share-based payment arrangements

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

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

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

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

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

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

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

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

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

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

r. Taxation

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

1) Current tax

The tax levied on the unappropriated earnings according to the Income Tax Law should be accrued in the year when the resolution regarding to the appropriated earnings is made in the shareholder meeting.

Any adjustment of prior years' tax liability is counted in the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. In addition, a deferred tax liability is not recognized on taxable temporary difference arising from initial recognition of goodwill.

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

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

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

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

3) Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Impairment of Goodwill

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.

b. Write-down of inventory

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Cash on hand	$ 2,344	$ 1,870
Checking accounts and demand deposits	840,827	762,436
Cash equivalent (investments with original maturities less than three months)	1,512,755	1,831,822
	$ 2,355,926	$ 2,596,128

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

	December 31	
	2018	2017
Demand deposits	0.001%-0.48%	0.001%-0.4%
Time deposits	0.6%-3.37%	0.6%-2.4%

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

	December 31 2018	December 31 2017
Mandatorily at fair value through profit or loss (FVTPL)		
Listed preferred shares	$ 10,540	$ -
Private Funds	41,023	-
Structured Investments	60,500	-
	$ 112,063	$ -

Private Funds above 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

	December 31, 2018
Investments in debt instruments	
Current	
Foreign investments	
Fixed income bonds	$ 130,716
Non – Current	
Foreign investments	
Fixed income bonds	$ 183,253
Yield rates	1.963%-4.117%

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 - NON-CURRENT-2017

	December 31 2017
Current	
Foreign investments	
Fixed income bonds	$ 35,814
Non-current	
Foreign investments	
Fixed income bonds	$ 245,640
	1.708%~3.0168%

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

	December 31 2017
Foreign unlisted preferred shares	$ 44,640
Private Funds	29,760
	$ 74,400

11. OTHER FINANCIAL ASSETS

	December 31	
	2018	2017
Time deposits with original maturities more than three months	$ 2,283,900	$ 1,385,904
Market rate intervals	1.75%～4.18%	1.045%～3.74%

12. TRADE RECEIVABLES, NET

	December 31	
	2018	2017
Trade receivables	$ 983,496	$ 1,358,709
Less: Allowance for doubtful accounts	-	(101,184)
Trade receivables, net	$ 983,496	$ 1,257,525

From January 1 ,2018 to December 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.

December 31, 2018

	Non Past Due	Overdue 1-60 Days	Overdue 61-180 Days	Overdue Over 181 Days	Total
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	$884,692	$ 77,795	$ 1,937	$ 19,072	$ 983,496

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

	December 31, 2018
Beginning balance	$ 101,184
Less: Impairment loss reversed	(6,084)
Less: Write-off	(97,344)
Difference from foreign exchange translation	2,244
Ending balance	$ -

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. Until December 31, 2018, the reorganization plan had been approved and executed. The Group wrote off the allowance for doubtful accounts of 97,344 thousand and reversed it for 6,084 thousand NT in 2018, and received of 19,072 thousand NT in January, 2019.

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
Less than 60 days	$ 5,049
61-180 days	-
More than 180 days	13,292
	$ 18,341

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	$ 109,605
Foreign exchange translation	(8,466)
Balance at December 31, 2017	$ 101,184

13. INVENTORIES

	December 31	
	2018	2017
Finished goods	$ 537,585	$ 993,694
Work in progress	921,944	916,087
Raw materials and supplies	661,071	775,984
	$ 2,120,600	$ 2,685,765

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was $8,357,068 thousand and $8,528,149 thousand, included the write-downs of inventories of $750,433 thousand and $51,120 thousand for the years ended December 31, 2018 and 2017, respectively.

14. SUBSIDIARIES

Subsidiaries included in the consolidated financial statement were as follows:

			Proportion of Ownership December 31	
Investor	Investee	Nature of Activities	2018	2017
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd.	Investment activity	100%	100%
	FocalTech Electronics, Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%
FocalTech Systems Co., Ltd. and FocalTech Electronics Co., Ltd.(a)	FocalTech Smart Sensors Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	-	67.11%
FocalTech Systems Co., Ltd. and FocalTech Electronics Co., Ltd.(a)	FocalTech Smart Sensors,Ltd.	Research, development, manufacturing and sale of integrated circuits	61.88%	100%
FocalTech Smart Sensors,Ltd.(a)	FocalTech Smart Sensors Co., Ltd.	Research, development, manufacturing	100%	-
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	Investment activity	100%	100%
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%
FocalTech Systems, Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	Design and research of integrated circuits	100%	100%
	FocalTech Electronics Co., Ltd.	Import and export of integrated circuits	100%	100%
FocalTech Electronics, Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	Sales support and post-sales service for affiliates' IC products	100%	100%
	FocalTech Electronics	Design and research of integrated circuits	100%	100%

	(Shenzhen) Co., Ltd.			
	Hefei PineTech Electronics Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%

a. a. FocalTech Smart Sensors, Ltd. was set up in December 2017 and 100% owned by the Company. The Group's reorganization of the investment structure, and capital injection and exercise of employee stock in FocalTech Smart Sensors, Ltd. in 2018 resulted in FocalTech Systems Co., Ltd and FocalTech Electronics Co., Ltd. directly to own FocalTech Smart Sensors, Ltd. and indirect to hold FocalTech Smart Sensors Co., Ltd.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improve-ments	Total
Cost						
Balance at January 1, 2017	$ 37,600	$ 159,892	$ 14,180	$ 38,730	$ 35,956	$ 286,358
Additions	51,548	15,040	888	4,353	3,555	75,384
Disposals	-	(4,179)	(398)	-	-	(4,577)
Effect of foreign currency exchange differences	14,283	(5,262)	(191)	(646)	(302)	7,882
Reclassification	1,254,588	-	-	-	-	1,254,588
Balance at December 31, 2017	$1,358,019	$ 165,491	$ 14,479	$ 42,437	$ 39,209	$1,619,635
Accumulated depreciation						
Balance at January 1, 2017	$ 2,020	$ 109,056	$ 8,839	$ 22,142	$ 32,205	$ 174,262
Depreciation	13,866	20,714	1,872	5,522	4,642	46,616
Disposals	-	(4,176)	(374)	-	-	(4,550)
Effect of foreign currency exchange differences	143	(4,583)	(101)	(333)	(293)	(5,167)
Balance at December 31, 2017	$ 16,029	$ 121,011	$ 10,236	$ 27,331	$ 36,554	$ 211,161
Carrying amounts at December 31, 2017	$1,341,990	$ 44,480	$ 4,243	$ 15,106	$ 2,655	$1,408,474
Cost						
Balance at January 1, 2018	$ 1,358,019	$ 165,491	$ 14,479	$ 42,437	$ 39,209	$ 1,619,635
Additions	41,271	30,108	1,704	913	-	73,996
Disposals	-	(3,841)	-	-	-	(3,841)
Effect of foreign currency exchange differences	(23,727)	800	(213)	(675)	(253)	(24,068)
Balance at December 31, 2018	$1,375,563	$ 192,558	$ 15,970	$ 42,675	$ 38,956	$1,665,772
Accumulated depreciation						
Balance at January 1, 2018	$ 16,029	$ 121,011	$ 10,236	$ 27,331	$ 36,554	$ 211,161
Depreciation	36,472	19,767	1,536	4,660	2,129	64,564
Disposals	-	(3,841)	-	-	-	(3,841)
Effect of foreign currency exchange differences	(891)	1,229	(137)	(483)	(252)	(534)
Balance at December 31, 2018	$ 51,610	$ 138,166	$ 11,635	$ 31,508	$ 38,431	$ 271,350
Carrying amounts at December 31, 2018	$1,323,953	$ 54,392	$ 4,335	$ 11,167	$ 525	$1,394,372

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	45-50 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

	For the Year Ended December 31	
	2018	**2017**
Beginning balance	$ 3,237,268	$ 3,237,268
Impairment loss	(2,000,000)	-
Ending balance	$ 1,237,268	$ 3,237,268

Considering the synergy of integration of LCD driver and touch controller under the industry trend, the reverse merger was triggered by FocalTech Corporation, Ltd. on January 2, 2015, resulting the goodwill of 3,237,268 thousand. In 2017, 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,. But the recoverable amount from IDC (Integrated Driver Controller) still exceeded the carrying value so the Company did not recognize any impairment for the goodwill. In 2018, the impacts of market improper competition and the shortage of wafer supply made the company a serious market share decline, which is expected to influence the market shares and gross margins in the future. Therefore, the recoverable amount from IDC (Integrated Driver Controller) less than the carrying value so the Company recognized the impairment loss of NT2,000,000 thousand.

The recoverable amount is calculated by IDC projected net cash flows, discounted at 9.95% and 10% for the years ended December 31, 2018 and 2017, 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
Cost					
Balance at January 1, 2017	$ 66,668	$ 141,943	$ 76,723	$ 74,000	$ 359,334
Additions	65,673	18,530	-	-	84,203
Effect of foreign currency exchange differences	(5,422)	(10,522)	(5)	-	(15,949)
Balance at December 31, 2017	$ 126,919	$ 149,951	$ 76,718	$ 74,000	$ 427,588
Accumulated amortization					
Balance at January 1, 2017	$ 60,058	$ 65,679	$ 15,815	$ 14,800	$ 156,352
Amortization expense	16,628	38,283	7,785	7,400	70,096
Effect of foreign currency exchange differences	(4,292)	(5,277)	(5)	-	(9,574)

Balance at December 31, 2017	$ 72,394	$ 98,685	$ 23,595	$ 22,200	$ 216,874
Carrying amounts at December 31, 2017	$ 54,525	$ 51,266	$ 53,123	$ 51,800	$ 210,714
Cost					
Balance at January 1, 2018	$ 126,919	$ 149,951	$ 76,718	$ 74,000	$ 427,588
Additions	-	3,512	-	-	3,512
Effect of foreign currency exchange differences	3,474	4,338	(4)	-	7,808
Balance at December 31, 2018	$ 130,393	$ 157,801	$ 76,714	$ 74,000	$ 438,908
Accumulated amortization					
Balance at January 1, 2018	$ 72,394	$ 98,685	$ 23,595	$ 22,200	$ 216,874
Amortization expense	21,085	31,132	7,785	7,400	67,402
Effect of foreign currency exchange differences	2,245	3,393	(4)	-	5,634
Balance at December 31, 2018	$ 95,724	$ 133,210	$ 31,376	$ 29,600	$ 289,910
Carrying amounts at December 31, 2018	$ 34,669	$ 24,591	$ 45,338	$ 44,400	$ 148,998

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. TRADE PAYABLES

	December 31	
	2018	**2017**
Trade payables	$1,625,756	$1,310,390

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.

19. OTHER PAYABLES

	December 31	
	2018	**2017**
Payable for rebates	$ 337,581	$ 236,574
Payable for salaries and bonus	336,145	349,166
Payable for labor, health and social insurance	15,475	15,463
Reserve for litigations	52,101	62,800
Payable for professional services and others	52,802	74,867
	$ 794,104	$ 738,870

20. RETIREMENT BENEFIT

a. Defined contribution plans

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

b. Defined benefit plans

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

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

	December 31	
	2018	**2017**
Present value of defined benefit obligation	$ 45,590	$ 47,526
Fair value of plan assets	(19,494)	(17,906)
Net defined benefit liability	$ 26,096	$ 29,620

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liability (Asset)**
Balance at January 1, 2017	$ 63,114	$ (16,728)	$ 46,386
Service cost			
Current service cost	119	-	119
Net interest expense (income)	1,042	(286)	756
Recognized in profit or loss	1,161	(286)	875
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	168	168
Actuarial loss - changes in financial assumptions	1,000	-	1,000
Actuarial loss - experience adjustments	(17,749)	-	(17,749)
Recognized in other comprehensive income	(16,749)	168	(16,581)
Contributions from the employer	-	(1,060)	(1,060)
Balance at December 31, 2017	47,526	(17,906)	29,620

Service cost			
Current service cost	122	-	122
Net interest expense (income)	713	(276)	437
Recognized in profit or loss	835	(276)	559
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(504)	(504)
Actuarial loss - changes in financial assumptions	1,565	-	1,565
Actuarial loss - experience adjustments	(4,336)	-	(4,336)
Recognized in other comprehensive income	(2,771)	(504)	(3,275)
Contributions from the employer	-	(808)	(808)
Balance at December 31, 2018	$ 45,590	$ (19,494)	$ 26,096

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

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

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

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

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

	December 31	
	2018	**2017**
Discount rate	1.25%	1.50%
Expected rate of salary increase	4.50%	4.50%

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

	December 31	
	2018	**2017**
Discount rate		
0.25% increase	$ (1,564)	$ (1,640)
0.25% decrease	$ 1,633	$ 1,713
Expected rate of salary increase		
1% increase	$ 6,763	$ 7,082
1% decrease	$ (5,817)	$ (6,092)

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

	December 31 2018	December 31 2017
The expected contributions to the plan for the next year	$ 690	$ 950
The average duration of the defined benefit obligation	16 years	16 years

21. EQUITY

a. Share capital

Ordinary shares (NT$10 par value per share)

	December 31 2018	December 31 2017
Numbers of shares authorized (in thousands)	500,000	500,000
Shares authorized	$ 5,000,000	$ 5,000,000
Number of shares issued and fully paid (in thousands)	298,743	298,370
Shares issued	$ 2,987,432	$ 2,983,700

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, 2017	$ 6,468,819	$ 40,305	$ 582	$ 27,578	$ 73,797	$ 14,765	$ 6,625,846
Changes in ownership interests in subsidiaries	-	-	687	-	-	-	687
Treasury Stock transferred to Employees	-	563	-	(563)	-	-	-
Compensation cost of employee share options	-	-	-	36,339	-	-	36,339
Issue of ordinary shares under employee share options	51,346	-	-	(30,584)	-	-	20,762
Employee share options expired	-	-	-	(2,591)	-	2,591	-
Employee restricted shares vested	44,741	-	-	-	(73,713)	-	(28,972)
Cancellation of employee restricted stock	298	-	-	-	(84)	-	(214)
BALANCE AT DECEMBER 31, 2017	6,565,204	40,868	1,269	30,179	-	17,356	6,654,876
cash distribution from additional paid-in capital	(150,000)	-	-	-	-	-	(150,000)
Changes in ownership interests in subsidiaries	-	-	19,179	-	-	-	19,179
Compensation cost of employee share options	-	-	-	26,474	-	-	26,474
Issue of ordinary shares under employee share options	7,151	-	-	(6,199)	-	-	952
Employee share options expired	-	-	-	(2,978)	-	2,978	-
BALANCE AT DECEMBER 31, 2018	$6,422,355	$ 40,868	$ 20,448	$ 47,476	$ -	$ 20,334	$ 6,551,481

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 23.

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 2016having been approved in the shareholders' meetings on June 15, 2018, and June 14, 2017, respectively, were as follows:

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

In the shareholders' meeting on June 15, 2018, the Company approved the cash distribution from additional paid-in capital of $150,000 thousand which comes from the premium over the par value when issuing, approximately $0.51 per share.

d. Treasury stock

	Shares (In Thousands)
Number of shares at January 1, 2017	2,376
Increase during the period	6,808
Decrease during the period	(3,248)
Number of shares at December 31, 2017	5,936
Number of shares at January 1, 2018	5,936
Increase during the period	15,689
Decrease during the period	(5,655)
Number of shares at December 31, 2018	15,970

On July 26, 2018, the board of directors approved The 4th Shares Buy Back Program no more than 8,000 thousand shares for transferring to employees. The transferring price to employees would be the average purchase price.

On August 23, 2018, the board of directors approved The 5th Shares Buy Back Program, and bought back 7,689 thousand shares for transferring to employees. The transferring price to employees would be the average purchase price.

The detailed information for other Shares Buy Back Programs could be found in Note 26 (f) and (g).

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.

e. Non - controlling interests

	December 31	
	2018	**2017**
Balance at the beginning of the year	$ 7,284	$ 13,933
Non - controlling interests: net income for the year	(36,476)	(23,530)
Exchange differences from translating the financial statements of foreign operations	2,232	-
Non - controlling interests: capital injection to FocalTech Smart Sensors Co., Ltd.	-	17,568
Non - controlling interests: capital injection to FocalTech Smart Sensors, Ltd.	79,481	
Changes in ownership interests of subsidiaries (Note 27)	(19,179)	(687)
Balance at the end of the year	$ 33,342	$ 7,284

22. REVENUE

	For the Year Ended December 31	
	2018	**2017**
IC for portable devices	$ 9,919,368	$ 10,798,334

Contract balances

	December 31	
	2018	**2017**
Contract liabilities		
Sales of goods	$ 13,895	$ 29,341

23. NET INCOME

a. Finance costs

	For the Year Ended December 31	
	2018	**2017**
Interest on bank loans	$ 222	$ 7,566
Interest on deposits	471	355
Others	93	1,755
	$ 786	$ 9,676

b. Depreciation and amortization

	For the Year Ended December 31	
	2018	**2017**
Property, plant and equipment	$ 64,564	$ 46,616
Intangible assets	67,402	70,096
	$ 131,966	$ 116,712

An analysis of deprecation and amortization by function		
Operating expenses	$ 130,080	$ 108,794
Operating costs	1,916	7,918
	$ 131,996	$ 116,712

c. Employee benefits expense

	For the Year Ended December 31	
	2018	2017
Post-employment benefits		
Defined contribution plans	$ 28,493	$ 27,394
Defined benefit plans (see Note 20)	559	875
Share-based payments (see Note 26)	26,474	43,406
Other employee benefits	1,502,267	1,426,877
Total employee benefits expense	$ 1,557,793	$ 1,498,552
An analysis of employee benefits expense by function		
Operating expenses	$ 1,446,107	$ 1,384,761
Operating costs	111,686	113,791
	$ 1,557,793	$ 1,498,552

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. In 2017 and 2018, due to the net loss before tax, there was no accrual for any remuneration to employees and 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.

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

24. INCOME TAXES

a. Income tax recognized in profit or loss

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	$ 7,585	$264,210
Adjustments for prior years	(6,890)	14,899
	695	279,109
Deferred tax		
In respect of the current year	(19,740)	27,834
Adjustments for prior years	3,514	-
	(16,226)	27,834
Income tax expense (income) recognized in profit or loss	$(15,531)	$306,943

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

	For the Year Ended December 31	
	2018	2017
Profit before tax from continuing operations	$(2,503,649)	$ 203,733
Income tax expense calculated at the statutory rate and the effective tax rate	$(313,796)	$ 38,329
Nondeductible expenses in determining taxable income	282,030	3,860
Tax-exempt income	(3,623)	-
Tax effect of earnings to be distributed by subsidiaries	18,650	-
Accumulated overseas undistributed surplus income tax	-	246,151
Unrecognized temporary differences	(852)	-
Tax credit from R&D incentive	-	(9,211)
Unrecognized loss carryforwards	18,513	12,696
Adjustments for prior years' tax	(3,376)	14,899
Effect of tax rate changes	(12,137)	-
Others	(940)	219
Income tax expense recognized in profit or loss	$ (15,531)	$ 306,943

In 2017, the Group applied a tax rate of 17% for entities (including the Company, FocalTech Electronics Co., Ltd. and FocalTech Smart Sensors Co., Ltd.) subject to the R.O.C. Income Tax Law. In February 2018, the Income Tax Law in the R.O.C. was amended to adjust the corporate income tax rate from 17% to 20%, and become effective from 2018. In addition, the applicable tax rate for undistributed earnings was reduced from 10% to 5%. The company's research and development expenditure is expected to offset the corporate income tax by 30%, so the effective tax rate is 14% and 12% respectively after considering the deduction effect in 2018 and 2017. For other jurisdictions, taxes are calculated using the applicable tax rate for each individual jurisdiction.

b. Current tax assets and liabilities

	For the Year Ended December 31	
	2018	2017
Current tax assets(recorded as other current assets)		
Tax refund receivable	$ 859	$ 1,331

	For the Year Ended December 31	
	2018	2017
Current tax liabilities		
Income tax levied on accumulated overseas undistributed earnings (i)	$386,137	$396,064
Income tax payable	8,356	15,913
Total	$394,493	$411,977

(i) The estimated income tax from accumulated overseas undistributed earnings determined at the end of 2017 for FocalTech Systems, Inc. could be paid in installments for eight years under the US tax law.

c. Deferred tax assets and liabilities

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

<u>2018</u>

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Obsolete of inventory	$ 70,87	$ 38,692	$ -	$ -	$ 109,571
Allowance for receivables	11,13	(11,138)	-	-	-
Employee share option	3,14	(1,069)	-	-	2,078
Others	1,30	698	(733)	-	1,272
	86,47	27,183	(733)	-	112,921
Tax losses	18,03	4,165	-	(258)	21,937
	$ 104,501	$ 31,348	$ (733)	$ (258)	$ 134,858
Deferred tax liabilities					
Temporary differences					
Investment income recognized from foreign investees	$	$ 18,650	$ -	$ -	$ 18,650
Intangible assets	15,87	(3,528)	-	-	12,348
	$ 15,87	$ 15,122	$ -	$ -	$ 30,998

<u>2017</u>

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Reclassification	Exchange Differences	Closing Balance
Deferred tax assets						
Temporary differences						
Obsolete of inventory	$ 67,220	$ 3,659	$ -	$ -	$ -	$ 70,879
Allowance for receivables	11,190	(52)	-	-	-	11,138
Employee share option	3,147	-	-	-	-	3,147
Others	6,247	(2,950)	(1,990)	-	-	1,307
	87,804	657	(1,990)	-	-	86,471
Tax losses	48,565	(30,255)	-	-	(280)	18,030
	$136,369	$ (29,598)	$ (1,990)	$ -	$ (280)	$ 104,501
Deferred tax liabilities						
Temporary differences						
Investment income recognized from foreign investees	$ 168,343	$ -	$ -	$ (158,850)	$ (9,493)	$ -
Intangible assets	17,640	(1,764)	-	-	-	15,876
	$ 185,983	$ (1,764)	$ -	$(158,850)	$ (9,493)	$ 15,876

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

Loss carryforwards as of December 31, 2018 comprised of:

Unused Amount	**Expiry Year**
$ 28,771	2020
9,660	2021
6,555	2022
8,845	2023
50,114	2026
73,861	2027
92,564	2028
$ 270,370	

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

As of December 31, 2018 and 2017, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were $3,037,751 thousand and $3,385,197 thousand, respectively.

f. Income tax assessments

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

25. LOSS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2018	**2017**
Basic earnings per share	$ (8.66)	$ (0.28)

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

	For the Year Ended December 31	
	2018	**2017**
Earnings used in the computation of basic earnings per share	$(2,451,642)	$(79,680)

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

	For the Year Ended December 31	
	2018	**2017**
Weighted average number of ordinary shares used in the computation of diluted earnings per share	283,205	288,839

Note: The Group has a net loss after tax, so there is no dilution effect in 2018 and 2017.

26. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee stock option plan

As of December 31, 2018, the valid and outstanding employee stock option plans are as following:

Plan	Issuer	Number of Options	Valid Period	Vesting Terms
2006 employee stock option plan	FocalTech Systems, Inc.(Note)	12,600,000	10 years	(1) certain percentages of the options defined in the plan are vested and exercisable after the first anniversary, or (2) according to the achievement level of the performance target defined in advance.
2013 employee stock option plan	The company	2,000,000	6 years	(1) a certain percentage of the options defined in the plan are vested and exercisable after the second anniversary.
2015 employee stock option plan	The company	2,800,000	10 years	(1) a certain percentage of the options defined in the plan are vested and exercisable after the second anniversary.

Note：Due to restructure of the Group, FocalTech Systems, Inc. transferred all the rights and obligations of the stock options to FocalTech Corporation, Ltd. in 2013.

Information about outstanding options in 2018 and 2017 is as following:

2018

Employee Stock Option Plan	Beginning Balance Quantity of Options	Beginning Balance Weighted-average Exercise Price (NT$)	Options unvested Quantity of Options	Options unvested Weighted-average Exercise Price (NT$)	Options exercised Quantity of Options	Options exercised Weighted-average Exercise Price (NT$)	Options expired Quantity of Options	Options expired Weighted-average Exercise Price (NT$)	Ending Balance Quantity of Options	Ending Balance Weighted-average Exercise Price (NT$)
2006	1,637,199	$ 19.84	-	$ -	(26,000)	$ 17.24	(16,200)	$ 22.16	1,594,999	$ 19.86
2013	768,750	37.90	-	-	-	-	(141,500)	37.90	627,250	37.90
2015	1,476,500	12.2	(116,500)	12.2	(347,250)	12.2	(27,000)	12.2	985,750	12.2

2017

Employee Stock Option Plan	Beginning Balance Quantity of Options	Beginning Balance Weighted-average Exercise Price (NT$)	Options unvested Quantity of Options	Options unvested Weighted-average Exercise Price (NT$)	Options exercised Quantity of Options	Options exercised Weighted-average Exercise Price (NT$)	Options expired Quantity of Options	Options expired Weighted-average Exercise Price (NT$)	Ending Balance Quantity of Options	Ending Balance Weighted-average Exercise Price (NT$)
2006	2,662,359	$ 21.01	-	$ -	(1,025,160)	$ 22.21	-	$ -	1,637,199	$ 19.84
2013	1,220,500	38.50	(51,750)	38.50	(244,250)	38.40	(155,750)	38.10	768,750	37.90
2015	2,506,000	12.40	(437,000)	12.3	(592,500)	12.2	-	-	1,476,500	12.2

Information about vested options of 2018 and 2017 are as following:

Employee Stock Option Plan	December 31, 2018		December 31, 2017	
	Range of exercise price (NT$)	Weighted-average remaining contractual life (years)	Range of exercise price (NT$)	Weighted-average remaining contractual life (years)
2006	$2.13~32.10	2.32~4.48	$2.13~32.10	3.32~5.48
2013	37.9	0.5	37.9	1.5
2015	12.2	6.67	12.2	7.67

For the subsequent changes in the Company's ordinary share capital, such as issuance of shares in cash, from earnings and capital surplus, consolidation, spin-off, share split, and issuance of global depositary receipts, the exercise price and the conversion ratio would be considered to adjust accordingly based on the plans.

b. Shares Buy Back Program

Based on the 2nd and the 3rd Shares Buy Back Program for transferring to employees approved by The board of directors on April 28, 2016 and May 12, 2017, the Company bought back 5,000 thousand and 6,808 thousand shares respectively. The transferred price to employees would be the average purchase price which is respectively $26.53 and $36.11 per share.

Information about Shares Buy Back Programs is as follows:

The 2nd Shares Buy Back Program			The 3rd Shares Buy Back Program		
Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT$)	Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT$)
2016/10/28	2,624	$ 11.26	106/7/24	3,198	$ 12.85
2017/02/24	50	11.26	107/7/26	3,515	-
2018/02/08	120	4.3			
2018/04/24	255	-			
2018/07/26	1,765	-			
Total	4,814		Total	6,713	

The limitations and rights on the unvested shares were as follows;

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

If an employee fails to meet the vesting conditions, the trust institution would dispose the unvested shares and return proceeds to the employee no more than the original purchase price.

c. Options of the share transfer plan granted were measured by using the Black-Scholes pricing model

Compensation cost recognized for share-based payments above in 2018 and 2017 were as follows:

	For the Year Ended December 31	
	2018	2017
Employee share option plans	$ 26,474	$ 36,339
Employee restricted share plans	-	7,068
	$ 26,474	$ 43,407

	For the Year Ended December 31	
	2018	2017
Capital surplus - employee share options	$ 26,474	$ 36,339
Other equity - unearned employee compensation	-	7,068
	$ 26,474	$ 43,407

27. Equity transactions with non - controlling interests

In September 2017, the Group ownership interest over FocalTech Smart Sensors Co., Ltd. diluted to 67.11% after the capital injection due to employee stock option plan and no pro rata subscription in new share. The Group reorganized the investment structure in 2018. More information could be found in Note 14 for the proportion of ownership after reorganization.

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

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 February 2020.

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

	For the Year Ended December 31	
	2018	2017
lease payment	$ 36,243	$ 53,177

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

	December 31	
	2018	2017
Not later than 1 year	$ 22,573	$ 29,819
Later than 1 year and not later than 5 years	240	12,021
	$ 22,813	$ 41,840

29. CAPITAL MANAGEMENT

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

To define the strategy of the Group's capital structure, the Group first sets its target market share according to the industry scale, the growth of the industry and the product roadmap. Based on the projected market position, the Group plans the research and development investment and capital expenditure. Furthermore, the Group calculates working capitals and cash demands based on the long-term development plan considering the industry characteristics to build up the overall operating model. Finally, the Group evaluates not only the possible contribution margin, operating profit ratio and cash flows according to the product competitiveness but also risk factors such as the fluctuation of the business circle and the life circle of the product to decide the suitable capital structure. The management reviews capital structures periodically and considers the possible costs and risks of different capital structures. Generally, the Group adopted prudent capital management strategy.

The Group was not restricted to other external capital requirements.

30. FINANCIAL INSTRUMENTS

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

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

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

1.) Fair value hierarchy

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial asset at FVTPL				
Listed preferred shares	$10,540	$ -	$ -	$10,540
Private funds	-	-	41,023	41,023
Structured Investments	-	60,500	-	60,500
Total	$10,540	$60,500	$41,023	$112,063
Financial assets at FVTOCI assets				
Investments in debt instruments				
Fixed income bonds	$ -	$313,969	$ -	$313,969

December 31, 2017

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Fixed income bonds	$ -	$ 281,454	$ -	$ 281,454

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

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

2018

	Equity Investments
Financial assets at FVTPL	
Balance at January 1, 2018	$ 29,760
Purchases	11,173
Recognized in profit or loss(other income or loss)	(841)
Effect of foreign currency exchange differences	931
Balance at December 31, 2018	$ 41,023

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. The fair values of structured investments are determined by quoted prices provided by the seller.

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

The unlisted equity investment is measured by the market approach, which decides fair value by referring to the recent financing activities of investees or the market transaction prices and status of the similar companies. The Company had carefully evaluated and selected the suitable evaluation method, but the use of different evaluation models or fair values may result in different evaluation results.

c. Categories of financial instruments

	December 31	
	2018	**2017**
Financial assets		
Fair value through profit or loss (FVTPL)		
Mandatorily at FVTPL	$ 112,063	$ -
Available-for-sale financial assets (Note 2)	-	$ 355,854
Loans and receivables (Note 1)	-	5,280,160
Amortized cost (Note 3)	5,661,319	-
Financial assets at FVTOCI Investments in debt instruments	313,969	-
Financial liabilities		
Amortized cost (Note 4)	2,695,644	2,250,211

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 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, 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 i) and interest rate risk referred to ii).

i) 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 34.

<u>Sensitivity analysis</u>

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

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

	USD Impact		RMB Impact	
	For the Year Ended December 31		For the Year Ended December 31	
	2018	**2017**	**2018**	**2017**
Profit or loss/ equity	$ 19,632 (1)	$ 45,303 (1)	$ 1,752 (2)	$ 53 (2)

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

(2). This was mainly attributable to the exposure to outstanding RMB time deposits.

ii) Interest rate risk

The Group was exposed to interest risk arising from fixed rate time deposits, bond investments and floating rate demand deposits and structured investments. 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.

	December 31	
	2018	**2017**
Fair value interest rate risk		
Financial assets	$ 4,110,624	$ 3,499,180
Cash flow interest rate risk		
Financial assets	$ 901,327	$ 762,436

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 year ended December 31, 2018 and 2017 would decrease/increase by $2,253 thousand and $1,906 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 December 31, 2018, the Group's five largest customer took 65% 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 Group's investments in debt instruments are financial assets at fair value through profit or loss and 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:

Category	Description	Basis for Recognizing Expected Credit Loss	Expected Credit Loss Ratio	Carrying Amount as of December 31, 2018
Performing	The debtor with low credit risk and fully capable paying off contractual cash flows	12 months expected credit loss	0%	$ 374,469

3) Liquidity risk

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

As of December 31, 2018 and 2017, the available unutilized short-term bank loan facilities refer to (ii) Financing facilities.

i) Liquidity and interest risk rate tables for non-derivative 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.

December 31, 2018

	On Demand or Less than 1 Year	**1-5 Years**
Non-interest bearing	$ 2,419,860	$ 275,784

December 31, 2017

	On Demand or Less than 1 Year	**1-5 Years**
Non-interest bearing	$ 2,049,260	$ 200,951

ii) Financing facilities

	December 31, 2018	**December 31, 2017**
Unsecured bank overdraft facility, reviewed annually:		
Amount used	$ -	$ -
Amount unused	1,300,000	3,385,600
	$ 1,300,000	$ 3,385,600

31. TRANSACTIONS WITH RELATED PARTIES

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

b. Compensation of key management personnel

	For the Year Ended December 31	
	2018	**2017**
Long-term employee benefits	$ 32,494	$ 34,487
Short-term employee benefits	40,513	32,077
Post-employment benefits	467	282
Share-based payments	6,367	5,397
	$ 79,841	$ 72,243

32. ASSETS PLEDGED AS COLLATERAL

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

	December 31	
	2018	2017
Pledge deposits (classified as other non-current assets)	$ 4,000	$ 35,882

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

FocalTech Electronics, Ltd., a subsidiary of the Company, filed a litigation of patent infringement against Novatek Microelectronics Corp. in September 2018 .As of the report issue date, the result of litigation and the effect on financial statements still could not be inferred.

34. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed.

The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 39,074	30.715 (USD:NTD)	$ 1,200,151
USD	6,644	6.8632 (USD:RMB)	204,081
RMB	7,832	0.1457 (RMB:USD)	35,049
Financial liabilities			
Monetary items			
USD	16,911	30.715 (USD:NTD)	519,425
USD	16,024	6.8632 (USD:RMB)	492,173

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 64,113	29.76 (USD:NTD)	$ 1,908,009
USD	1,971	6.5342 (USD:RMB)	58,644
RMB	231	0.153 (RMB:USD)	1,050
Financial liabilities			
Monetary items			
USD	27,718	29.76 (USD:NTD)	824,887
USD	7,920	6.5342 (USD:RMB)	235,704

35. SEGMENT INFORMATION

a. Operating segments

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

b. Revenue from major products and services

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

	For the Year Ended December 31	
	2018	2017
IC for portable devices	$ 9,919,368	$ 10,798,334

c. Geographical information

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

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

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2018	2017	2018	2017
China	$ 7,806,528	$ 9,007,540	$ 1,411,145	$ 1,471,256
Taiwan	961,843	791,248	170,222	188,534
Others	1,150,997	999,546	-	-
	$ 9,919,368	$ 10,798,334	$ 1,581,367	$ 1,659,790

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

d. Information about major customers

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

	For the Year Ended December 31	
	2018	2017
Custom A and subsidiaries	$ 1,654,742	$ 2,588,225
Custom B and subsidiaries	1,478,529	1,817,638
Custom C and subsidiaries	1,504,451	1,493,504