FocalTech Systems Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Six Months Ended June 30, 2019 and 2018

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	June 30, 2019		December 31, 2018		June 30, 2018	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$ 1,869,882	18	$ 2,355,926	21	$ 3,502,137	24
Financial assets at fair value through other comprehensive income - current (Note 8)	239,096	2	130,716	1	15,294	-
Trade receivables, net (Note 10)	890,217	8	983,496	9	1,779,939	12
Inventories (Note 11)	1,982,228	19	2,120,600	19	2,151,796	15
Other financial assets (Note 9)	2,225,121	21	2,283,900	20	1,818,856	12
Other current assets	144,766	2	158,385	1	223,376	1
Total current assets	7,351,310	70	8,033,023	71	9,491,398	64
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss - non-current (Note 7)	85,889	1	112,063	1	47,220	-
Financial assets at fair value through other comprehensive income - non-current (Note 8)	82,232	1	183,253	2	249,883	2
Property, plant and equipment (Note 13)	1,459,207	14	1,394,372	12	1,417,295	9
Goodwill (Notes 14)	1,237,268	12	1,237,268	11	3,237,268	22
Other intangible assets (Note 15)	119,919	1	148,998	1	177,546	1
Deferred tax assets	119,327	1	134,858	1	110,927	1
Other non-current assets (Note 29)	51,976	-	56,286	1	92,634	1
Total non-current assets	3,155,818	30	3,267,098	29	5,332,773	36
TOTAL	$ 10,507,128	100	$ 11,300,121	100	$ 14,824,171	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Trade payables (Note 16)	$ 1,139,765	11	$ 1,625,756	14	$ 2,020,494	14
Other payables (Note 17)	763,665	7	794,104	7	812,103	5
Dividends payables (Note 25)	150,000	1	-	-	150,000	1
Current tax liabilities (Notes 4)	378,275	4	394,493	3	413,492	3
Other current liabilities (Notes 20)	79,899	1	64,875	1	77,412	1
Total current liabilities	2,511,604	24	2,879,228	25	3,473,501	24
NON-CURRENT LIABILITIES						
Deferred tax liabilities	30,284	1	30,998	-	37,449	-
Net defined benefit liabilities - non-current (Note 4)	25,920	-	26,096	-	29,490	-
Guarantee deposits received	129,723	1	275,784	4	420,085	3
Other non-current liabilities	10,400	-	10,400	-	10,400	-
Total non-current liabilities	196,327	2	343,278	4	497,424	3
Total liabilities	2,707,931	26	3,222,506	29	3,970,925	27
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Notes 19 and 24)						
Share capital						
Ordinary shares	2,994,394	28	2,987,432	26	2,984,820	20
Capital surplus						
Additional paid-in capital	5,033,166	48	6,422,355	58	6,417,349	44
Treasury shares	40,868	1	40,868	-	40,868	-
Changes in ownership interests in subsidiaries	20,295	-	20,448	-	20,445	-
Employee share options	46,278	-	47,476	-	42,658	-
Employee share options - expired	20,731	-	20,334	-	18,409	-
Total capital surplus	5,161,338	49	6,551,481	58	6,539,729	44
Retained earnings						
Legal reserve	-	-	186,154	2	186,154	1
Undistributed earnings (accumulated deficits)	(311,793)	(2)	(1,434,755)	(13)	1,118,660	8
Total retained earnings (accumulated deficits)	(311,793)	(2)	(1,248,601)	(11)	1,304,814	9
Other equity						
Exchange differences from translating the financial statements of foreign operations	206,017	2	149,454	1	155,951	1
Unrealized gain (loss) on financial assets at fair value through other comprehensive income	1,563	-	(2,290)	-	(4,072)	-
Total other equity	207,580	2	147,164	1	151,879	1
Treasury shares	(268,656)	(3)	(393,203)	(3)	(182,049)	(1)
Equity attributable to owners of the parent	7,782,863	74	8,044,273	71	10,799,193	73
NON-CONTROLLING INTERESTS	16,334	-	33,342	-	54,053	-
Total equity	7,799,197	74	8,077,615	71	10,853,246	73
TOTAL	$ 10,507,128	100	$ 11,300,121	100	$ 14,824,171	100

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
NET REVENUE (Note 20)	$ 2,139,477	100	$ 2,732,730	100	$ 3,779,419	100	$ 5,345,391	100
COST OF REVENUE (Note 11 and 21)	(1,649,084)	(77)	(2,143,301)	(79)	(2,945,328)	(78)	(4,230,945)	(79)
GROSS PROFIT	490,393	23	589,429	21	834,091	22	1,114,446	21
OPERATING EXPENSES (Note 18, 21, 26 and 28)								
Selling and marketing expenses	(165,062)	(8)	(108,213)	(4)	(262,656)	(7)	(207,962)	(4)
General and administrative expenses	(74,153)	(3)	(89,068)	(3)	(156,657)	(4)	(169,256)	(3)
Research and development expenses	(398,290)	(19)	(354,665)	(13)	(786,697)	(21)	(695,574)	(13)
Total operating expenses	(637,505)	(30)	(551,946)	(20)	(1,206,010)	(32)	(1,072,792)	(20)
OPERATING INCOME (LOSS)	(147,112)	(7)	37,483	1	(371,919)	(10)	41,654	1
NON-OPERATING INCOME AND EXPENSES								
Finance costs (Note 21)	-	-	(6)	-	(1,150)	-	(570)	-
Other gains and losses - net	4,798	1	7,067	-	(939)	-	26,770	1
Gain (Loss) on foreign exchange	(88)	-	36,928	2	9,453	1	20,970	-
Interest income	27,781	1	22,814	1	54,788	1	40,140	1
Total non-operating income and expenses	32,491	2	66,803	3	62,152	2	87,310	2
INCOME (LOSS) BEFORE INCOME TAX	(114,621)	(5)	104,286	4	(309,767)	(8)	128,964	3
INCOME TAX EXPENSE (Note 4 and 22)	(20,738)	(1)	(24,361)	(1)	(19,426)	(1)	(39,442)	(1)
NET INCOME (LOSS)	(135,359)	(6)	79,925	3	(329,193)	(9)	89,522	2
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified subsequently to profit or loss								
And income tax that is relating to items that will not be reclassified to profit or loss (Notes22)	-	-	-	-	-	-	(276)	-
Items that may be reclassified subsequently to profit or loss:								
Exchange differences from translating the financial statements of foreign operations	11,649	-	176,631	6	57,213	2	110,555	2

(Continued)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Unrealized gains (losses) from debt instrument investments measured at fair value through other comprehensive income	2,024	-	(133)	-	3,853	-	(1,281)	-
Items that may be reclassified subsequently to profit or loss	13,673	-	176,498	6	61,066	2	109,274	2
Total other comprehensive income	13,673	-	176,498	6	61,066	2	108,998	2
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$ (121,686)	(6)	$ 256,423	9	$ (268,127)	(7)	$ 198,520	4
NET INCOME (LOSS) ATTRIBUTABLE TO:								
Owners of the Parent	$ (128,442)	(6)	$ 90,147	3	$ (311,793)	(8)	$ 104,591	2
Non-controlling interests	(6,917)	-	(10,222)	-	(17,400)	(1)	(15,069)	-
	$ (135,359)	(6)	$ 79,925	3	$ (329,193)	(9)	$ 89,522	2
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:								
Owners of the Parent	$ (115,213)	(5)	$ 264,887	10	$ (251,377)	(7)	$ 211,831	4
Non-controlling interests	(6,473)	(1)	(8,464)	(1)	(16,750)	-	(13,311)	-
	$ (121,686)	(6)	$ 256,423	9	$ (268,127)	(7)	$ 198,520	4
EARNINGS (LOSSES) PER SHARE (Note 23)								
Basic	$ (0.47)		$ 0.31		$ (1.13)		$ 0.36	
Diluted			$ 0.31				$ 0.36	

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

(Concluded)

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent										
	Share Capital		Retained Earnings		Other Equity						
	Ordinary Shares	Capital Surplus	Legal Reserve	Undistributed Earnings (Accumulated Deficits)	Exchange Differences from Translating the Financial Statement of Foreign Operations	Unrealized Losses on Available-for-Sale Financial Assets	Unrealized Gains (Losses) on Financial Assets at Fair Value through Other Comprehensive Income	Treasury Shares	Total	Non-controlling Interests	Total Equity
BALANCE, JANUARY 1, 2018	$ 2,983,700	$ 6,654,876	$ 186,154	$ 1,058,985	$ 47,154	$ (2,791)	$ -	$ (191,998)	$ 10,736,080	$ 7,284	$ 10,743,364
Effects of retrospective application and restatement	-	-	-	(44,640)	-	2,791	(2,791)	-	(44,640)	-	(44,640)
Restated balance as of January 1, 2018	2,983,700	6,654,876	186,154	1,014,345	47,154	-	(2,791)	(191,998)	10,691,440	7,284	10,698,724
Cash distribution from additional paid-in capital	-	(150,000)	-	-	-	-	-	-	(150,000)	-	(150,000)
Net income for the six months ended June 30, 2018	-	-	-	104,591	-	-	-	-	104,591	(15,069)	89,522
Other comprehensive income (loss) for the six months ended June 30, 2018, net of income tax	-	-	-	(276)	108,797	-	(1,281)	-	107,240	1,758	108,998
Total comprehensive income (loss) for the six months ended June 30, 2018	-	-	-	104,315	108,797	-	(1,281)	-	211,831	(13,311)	198,520
Treasury shares transferred to employees (Note 19 and 24)	-	-	-	-	-	-	-	9,949	9,949	-	9,949
Changes in ownership interests in subsidiaries	-	19,176	-	-	-	-	-	-	19,176	(19,176)	-
Compensation cost of employee share options (Note 19 and 24)	-	15,365	-	-	-	-	-	-	15,365	-	15,365
Issuance of ordinary shares from exercise of employee share options (Note 19 and 24)	1,120	312	-	-	-	-	-	-	1,432	-	1,432
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	79,256	79,256
BALANCE, JUNE 30, 2018	$ 2,984,820	$ 6,539,729	$ 186,154	$ 1,118,660	$ 155,951	$ -	$ (4,072)	$ (182,049)	$ 10,799,193	$ 54,053	$ 10,853,246
BALANCE, JANUARY 1, 2019	$ 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
Reduction on legal reserve to offset accumulated deficits	-	-	(186,154)	186,154	-	-	-	-	-	-	-
Reduction on capital surplus to offset accumulated deficits	-	(1,248,601)	-	1,248,601	-	-	-	-	-	-	-
Cash distribution from additional paid-in capital	-	(150,000)	-	-	-	-	-	-	(150,000)	-	(150,000)
Net loss for the six months ended June 30, 2019	-	-	-	(311,793)	-	-	-	-	(311,793)	(17,400)	(329,193)
Other comprehensive income for the six months ended June 30, 2019, net of income tax	-	-	-	-	56,563	-	3,853	-	60,416	650	61,066
Total comprehensive income (loss) for the six months ended June 30, 2019	-	-	-	(311,793)	56,563	-	3,853	-	(251,377)	(16,750)	(268,127)
Compensation cost of employee share options (Note 19 and 24)	-	6,125	-	-	-	-	-	-	6,125	-	6,125
Treasury shares transferred to employees (Note 19 and 24)	-	-	-	-	-	-	-	124,547	124,547	-	124,547
Changes in ownership interests in subsidiaries	-	(153)	-	-	-	-	-	-	(153)	153	-
Issuance of ordinary shares from exercise of employee share options (Note 19 and 24)	6,962	2,486	-	-	-	-	-	-	9,448	-	9,448
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	(411)	(411)
BALANCE, JUNE 30, 2019	$ 2,994,394	$ 5,161,338	$ -	$ (311,793)	$ 206,017	$ -	$ 1,563	$ (268,656)	$ 7,782,863	$ 16,334	$ 7,799,197

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	For the Six Months Ended June 30	
	2019	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) income before income tax	$ (309,767)	$ 128,964
Adjustments for:		
Depreciation expenses	39,829	32,408
Amortization expenses	29,671	36,926
Gain from reversal of expected credit impairment	-	(6,084)
Net (gain) loss on financial assets at fair value through profit or loss	(332)	481
Finance costs	1,150	570
Interest income	(54,788)	(40,140)
Compensation costs of employee share options	6,125	15,365
(Reversal gain) loss from write-off of inventories	(23,034)	56,583
Unrealized loss on foreign exchange	1,649	909
Changes in operating assets and liabilities		
Financial assets mandatorily measured at fair value through profit or loss	27,441	(17,257)
Trade receivables	97,557	(500,113)
Inventories	179,455	502,967
Other current assets	23,162	5,644
Trade payables	(501,901)	674,470
Other payables	(37,461)	57,089
Other current liabilities	14,416	(6,247)
Net defined benefit liabilities	(176)	(130)
Cash generated from operations	(507,004)	942,405
Interest paid	(1,150)	(570)
Income tax paid	(25,047)	(31,671)
Net cash inflow(outflow) from operating activities	(533,201)	910,164
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial asset at fair value through other comprehensive income	-	20,676
Acquisition of property, plant and equipment	(91,534)	(26,668)
Acquisition of intangible assets	-	(2,220)
Decrease (increase) in other financial assets	83,112	(392,057)
Decrease (increase) in other non-current assets	4,839	(1,923)
Interest received	46,789	26,277
Net cash inflow(outflow) from investing activities	43,206	(375,915)

(Continued)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	For the Six Months Ended June 30	
	2019	**2018**
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in guarantee deposits	$ (147,706)	$ 211,194
Exercise of employee share options	9,448	1,432
Treasury shares transferred to employees	124,547	9,949
(Decrease) increase in non-controlling interests	(411)	79,256
Net cash inflow(outflow) financing activities	(14,122)	301,831
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	18,073	69,929
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(486,044)	906,009
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,355,926	2,596,128
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,869,882	$ 3,502,137

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 SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(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 in 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 mainly engages in the research, development, design, manufacturing, and sales of solutions regarding 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 of New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on August 9, 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) (collectively, "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC).

   Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Company's accounting policies:

   1) IFRS 16 "Leases"

      IFRS 16 sets out the accounting standards for leases that supersedes IAS 17"Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

      Definition of a lease

      The Company decides to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts signed or changed after January 1, 2019. Contracts currently identified as a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

      The Company as lessee

      Except for payments for low-value assets and short-term leases which are recognized as expenses on a straight-line basis, the Company recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets. On the consolidated statements of comprehensive income, the Company presents the depreciation expense charged on the right-of-use assets separately from interest expense accrued on lease liabilities and computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities. Cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

Leases agreements classified as operating leases under IAS 17 are measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities. Right-of-use assets are subject to impairment testing under IAS 36.

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

There is no impact on assets, liabilities and equity as of January 1, 2019 under the initial application.

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 clarifies the accounting for uncertainties in income taxes. The Company is to assume that the taxation authority will examine any amounts reported to it and have full knowledge of all relevant information when doing so. If the Company concludes that it is probable that a particular tax treatment is accepted, the Company has to determine taxable profit (loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings. If it is not probable that a particular tax treatment is accepted, the Company has to use the most likely amount or the expected value of the tax treatment. The decision should be based on which method provides better predictions of the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

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

The amendments require the Company to use the most updated actuarial assumptions for its net defined benefit liabilities (assets) to determine current service cost and net interest for the remainder of the annual reporting period when a plan amendment, curtailment or settlement occurs. In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Company shall apply aforementioned amendments prospectively.

b. The IFRSs issued by International Accounting Standards Board (IASB) and endorsed by FSC with effective date starting 2020

New, Revised or Amended Standards and Interpretations	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IAS 1 and IAS 8 “Definition of Materiality”	January 1, 2020 (Note 2)

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

Note 2: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

Amendments to IFRS 3 - Definition of a Business

The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments define an output by focusing on goods and services provided to customers and remove the reference to an ability to reduce costs accordingly. Meanwhile, the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs is removed.

In addition, the amendments introduce an optional concentration test, which entities may elect to apply or not, that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

As of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact from the application of other standards and interpretations on the Company's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

c. The IFRSs issued by IASB but not yet endorsed and issued into effect by FSC

New, Revised or Amended Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021

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

As of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact from the application of aforementioned standards and interpretations on the Company's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis, except for financial instruments measured at fair value and the net defined benefit liabilities recognized in the amount of the present value of defined benefit obligation less the fair value of any plan assets.

The fair value measurements are grouped into Levels 1 to 3 based on the observable intensity and importance of related input value:

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

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the

asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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

c. Basis of consolidation

See Note 12 for the detailed information of the subsidiaries (including the percentage of ownership and main business).

d. Other significant accounting policies

Except for accounting policies for leases and the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2018.

1) Leases

<u>2019</u>
The Company assesses whether the contract is, or contains a lease at the inception of a contract.

<u>The Company as lessee</u>

The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

<u>2018</u>

<u>The Company as lessee</u>

Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

2) Retirement benefits

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

3) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. The effect of changes in tax rate resulting from the amendments in the tax regulations is recognized in profit or loss or other comprehensive income in full in the occurring period, which is consistent with the accounting treatment of the corresponding transaction itself.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgments, estimations and assumptions applied in these consolidated financial statements are consistent with those in the consolidated financial statements for the year ended December 31, 2018.

6. CASH AND CASH EQUIVALENTS

	June 30, 2019	December 31, 2018	June 30, 2018
Cash on hand	$ 3,733	$ 2,344	$ 2,685
Checking accounts and demand deposits	1,014,023	840,827	826,039
Cash equivalent (time deposits with original maturities within three months)	852,126	1,512,755	2,673,413
	$ 1,869,882	$ 2,355,926	$ 3,502,137

The interest rate intervals at the end of the reporting period were as follows:

	June 30, 2019	December 31, 2018	June 30, 2018
Demand deposits	0.001%-0.5%	0.001%-0.48%	0.001%-0.4%
Time deposits	0.6%-2.9%	0.6%-3.37%	0.6%-2.78%

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

	June 30, 2019	December 31, 2018	June 30, 2018
Mandatorily measured at fair value through profit or loss (FVTPL)			
Listed preferred shares	$ 10,676	$ 10,540	$ 10,302
Private Funds	44,523	41,023	36,918
Structured Investments	30,690	60,500	-
	$ 85,889	$ 112,063	$ 47,220

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	June 30, 2019	December 31, 2018	June 30, 2018
Investments in debt instruments			
Current			
Foreign investments			
Fixed income bonds	$ 239,096	$ 130,716	$ 15,294
Non – Current			
Foreign investments			
Fixed income bonds	$ 82,232	$ 183,253	$ 249,883
Yield rates	1.963%-4.117%	1.963%-4.117%	1.963%-3.332%

9. OTHER FINANCIAL ASSETS

	June 30, 2019	December 31, 2018	June 30, 2018
Time deposits with original maturities more than three months	$ 2,225,121	$ 2,283,900	$ 1,818,856
Interest rate intervals	0.8%-4.18%	1.75%-4.18%	1.045%-4.5%

10. TRADE RECEIVABLES, NET

	June 30, 2019	December 31, 2018	June 30, 2018
Trade receivables	$ 890,217	$ 983,496	$ 1,877,411
Less: Allowance for doubtful accounts	-	-	(97,472)
Trade receivables, net	$ 890,217	$ 983,496	$ 1,779,939

The average credit term for sales of goods was 60-120 days. In order to minimize credit risk, the Company's management has delegated a team responsible for determining line of credit, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade receivable at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the Company's management believes the Company's credit risk was significantly reduced.

The Company applies the simplified approach prescribed by IFRS 9, which permits the use of lifetime expected loss allowances for all trade receivables. The expected credit losses on trade receivables are estimated by using an allowance matrix with reference to customers' past default records, customers' current financial position, and general economic conditions of the industry. According to past experiences, there is no significant difference in the loss pattern among different customer groups. Therefore, the Company does not further identify any specific customer groups for the allowance matrix, and only sets the expected credit loss rate based on the overdue duration of trade receivables.

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

June 30, 2019

	Non Past Due	Overdue 1-60 Days	Overdue 61-180 Days	Overdue Over 180 Days	Total
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	$ 874,603	$ 15,614	$ -	$ -	$ 890,217

December 31, 2018

	Non Past Due	Overdue 1-60 Days	Overdue 61-180 Days	Overdue Over 180 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

June 30, 2018

	Non Past Due	Overdue 1-60 Days	Overdue 61-180 Days	Overdue Over 180 Days	Total
Expected credit loss rate	0%	0%	0%	84%	0%
Gross carrying amount	$ 1,721,166	$ 40,044	$ 79	$ 116,122	$ 1,877,411
Loss allowance (Lifetime ECL)	-	-	-	(97,472)	(97,472)
Amortized cost	$ 1,721,166	$ 40,044	$ 79	$ 18,650	$ 1,779,939

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

	For the Six Months Ended June 30, 2019	For the Six Months Ended June 30, 2018
Beginning balance	$ -	$ 101,184
Less: Impairment loss reversed	-	(6,084)
Difference from foreign exchange translation	-	2,372
Ending balance	$ -	$ 97,472

Wintek Corporation announced the following material information on October 13, 2014. Due to continuous loss from operation, the board of directors of Wintek Corporation resolved to apply to court for an reorganization and emergency disposal of Wintek Corporation in accordance with relevant regulations of the Company Act. Until December 31, 2018, the reorganization plan had been approved and executed. The Company wrote off NT$97,344 thousand for the related doubtful accounts and reversed previously accrued losses of NT$6,084 thousand in 2018. The Company received NT$19,072 thousand in January, 2019.

11. INVENTORIES

	June 30, 2019	December 31, 2018	June 30, 2018
Finished goods	$ 385,951	$ 537,585	$ 590,040
Work in process	1,204,876	921,944	904,930
Raw materials and supplies	391,401	661,071	656,826
	$ 1,982,228	$ 2,120,600	$ 2,151,796

The cost of goods sold were NT$1,649,084 thousand and NT$2,143,301 thousand, including the write-down of inventories of NT$(23,034) thousand and NT$$28,398 thousand for the three months ended June 30, 2019 and 2018, respectively. The cost of goods sold were NT$2,945,328 thousand and NT$4,230,945 thousand, including the write-down of inventories of NT$(23,034) thousand and NT$$56,583 thousand for the six months ended June 30, 2019 and 2018, respectively.

12. SUBSIDIARIES

Details of the Company’s subsidiaries included in the consolidated financial statements were as follows:

			Percentage of Ownership		
Investor	**Investee**	**Main Businesses**	**June 30, 2019**	**December 31, 2018**	**June 30, 2018**
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd.	Investment	100%	100%	100%
	FocalTech Electronics, Ltd.	Research, development, manufacturing and sales of integrated circuits	100%	100%	100%
FocalTech Systems Co., Ltd. And FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Research, development, manufacturing and sales of integrated circuits	62.07% (Note)	61.88% (Note)	62%
FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	Research and development of integrated circuits	100%	100%	100%
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	Investment	100%	100%	100%
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Research, development, manufacturing and sales of integrated circuits	100%	100%	100%
FocalTech Systems, Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	Design and R&D of integrated circuits	100%	100%	100%
	FocalTech Electronics Co., Ltd.	Import and export of integrated circuits	100%	100%	100%

(Continued)

FocalTech Electronics, Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	Post-sales service for affiliates' IC products	100%	100%	100%
	FocalTech Electronics (Shenzhen) Co., Ltd.	Design and R&D of integrated circuits	100%	100%	100%
	Hefei PineTech Electronics Co., Ltd.	Research, development and sales of integrated circuits	100%	100%	100%

(concluded)

Note. The Company's direct and indirect holding percentage changed due to the exercise of employee share options and the capital increase of FocalTech Smart Sensors, Ltd. in 2018.

As of June 30, 2019, the immaterial subsidiaries of the Company included FocalTech Smart Sensors Co., Ltd., FocalTech Electronics Co., Ltd., FocalTech Systems (Shenzhen) Co., Ltd., FocalTech Electronics (Shenzhen) Co., Ltd., FocalTech Electronics (Shanghai) Co., Ltd., Hefei PineTech Electronics Co., Ltd. and FocalTech Smart Sensors, Ltd. As of June 30, 2018, the immaterial subsidiaries of the Company included FocalTech Smart Sensors Co., Ltd., FocalTech Electronics Co., Ltd., FocalTech Electronics (Shenzhen) Co., Ltd., FocalTech Electronics (Shanghai) Co., Ltd., Hefei PineTech Electronics Co., Ltd. and FocalTech Smart Sensors, Ltd.

The financial statements of the immaterial subsidiaries had not been reviewed by the auditors. As of June 30, 2019 and 2018, the total amounts of assets of the immaterial subsidiaries were NT$385,504 thousand, and NT$553,030 thousand, respectively, accounted for 4% and 4% of total consolidated assets, respectively. The total amounts of liabilities were NT$40,062 thousand, and NT$117,654 thousand, respectively, accounted for 1% and 3% of total consolidated liabilities, respectively. For the three months ended June 30, 2019 and 2018, and for the six months ended June 30, 2019 and 2018, the total immaterial subsidiaries comprehensive loss has been recognized at NT$47,441 thousand, NT$14,005 thousand, NT$102,739 thousand and NT$23,464 thousand, respectively, accounted for 39%, (5%), 38% and (12%) of the comprehensive income (loss), respectively.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improve-ments	Total
Cost						
Balance, January 1, 2018	$ 1,358,019	$ 165,491	$ 14,479	$ 42,437	$ 39,209	$ 1,619,635
Additions	1,028	23,856	1,214	570	-	26,668
Disposals	-	(3,841)	-	-	-	(3,841)
Effect of foreign currency exchange differences	14,219	1,642	104	403	157	16,525
Balance, June 30, 2018	$ 1,373,266	$ 187,148	$ 15,797	$ 43,410	$ 39,366	$ 1,658,987
Accumulated depreciation						
Balance, January 1, 2018	$ 16,029	$ 121,011	$ 10,236	$ 27,331	$ 36,554	$ 211,161
Depreciation	18,430	9,370	861	2,671	1,076	32,408
Disposals	-	(3,841)	-	-	-	(3,841)
Effect of foreign currency exchange differences	4	1,505	66	232	157	1,964
Balance, June 30, 2018	$ 34,463	$ 128,045	$ 11,163	$ 30,234	$ 37,787	$ 241,692
Carrying amounts as of June 30, 2018	$ 1,338,803	$ 59,103	$ 4,634	$ 13,176	$ 1,579	$ 1,417,295
Cost						
Balance, January 1, 2019	$ 1,375,563	$ 192,558	$ 15,970	$ 42,675	$ 38,956	$ 1,665,722
Additions	-	90,945	9	580	-	91,534
Effect of foreign currency exchange differences	12,766	1,343	114	358	137	14,718
Balance, June 30, 2019	$ 1,388,329	$ 284,846	$ 16,093	$ 43,613	$ 39,093	$ 1,771,974

(continued)

Accumulated depreciation						
Balance, January 1, 2019	$ 51,610	$ 138,166	$ 11,635	$ 31,508	$ 38,431	$ 271,350
Depreciation	18,600	18,271	600	1,832	526	39,829
Effect of foreign currency exchange differences	255	891	68	238	136	1,588
Balance, June 30, 2019	$ 70,465	$ 157,328	$ 12,303	$ 33,578	$ 39,093	$ 312,767
Carrying amounts as of December 31, 2018 and January 1, 2019	$ 1,323,953	$ 54,392	$ 4,335	$ 11,167	$ 525	$ 1,394,372
Carrying amounts as of June 30, 2019	$ 1,317,864	$ 127,518	$ 3,790	$ 10,035	$ -	$ 1,459,207

(concluded)

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 pledged as collateral.

14. GOODWILL

	June 30, 2019	December 31, 2018	June 30, 2018
Ending balance	$ 1,237,268	$ 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 in the goodwill of NT3,237,268 thousand. In 2018, the impacts of market improper competition and the shortage of wafer supply made the company suffer a serious market share decline, which was expected to influence the market share and gross margins in the future. Therefore, it was estimated that the recoverable amount from IDC (Integrated Driver Controller) was less than the carrying value, and the Company recognized an impairment loss of NT2,000,000 thousand.

The recoverable amount derived from projected cash flows from IDC at a discount rate of 9.95%, under the assumptions of future growth rates of smartphone, market shares, gross margins and forecasted operating expenses made by management judgments and historical experiences.

15. OTHER INTANGIBLE ASSETS

	Licenses and Franchises	Software	Patents	Trademark	Total
Cost					
Balance, January 1, 2018	$ 126,919	$ 149,951	$ 76,718	$ 74,000	$ 427,588
Additions	-	2,220	-	-	2,220
Effect of foreign currency exchange differences	2,546	3,255	2	-	5,803
Balance, June 30, 2018	$ 129,465	$ 155,426	$ 76,720	$ 74,000	$ 435,611

(continued)

Accumulated amortization					
Balance, January 1, 2018	$ 72,394	$ 98,685	$ 23,595	$ 22,200	$ 216,874
Amortization expenses	12,839	16,494	3,893	3,700	36,926
Effect of foreign currency exchange differences	1,668	2,595	2	-	4,265
Balance, June 30, 2018	$ 86,901	$ 117,774	$ 27,490	$ 25,900	$ 258,065
Carrying amounts as of June 30, 2018	$ 42,564	$ 37,652	$ 49,230	$ 48,100	$ 177,546
Cost					
Balance, January 1, 2019	$ 130,393	$ 157,801	$ 76,714	$ 74,000	$ 438,908
Effect of foreign currency exchange differences	1,255	1,653	2	-	2,910
Balance, June 30, 2019	$ 131,648	$ 159,454	$ 76,716	$ 74,000	$ 441,818
Accumulated amortization					
Balance, January 1, 2019	$ 95,724	$ 133,210	$ 31,376	$ 29,600	$ 289,910
Amortization expenses	8,302	13,777	3,892	3,700	29,671
Effect of foreign currency exchange differences	900	1,416	2	-	2,318
Balance, June 30, 2019	$ 104,926	$ 148,403	$ 35,270	$ 33,300	$ 321,899
Carrying amounts as of December 31, 2018and January 1, 2019	$ 34,669	$ 24,591	$ 45,338	$ 44,400	$ 148,998
Carrying amounts as of June 30, 2019	$ 26,722	$ 11,051	$ 41,446	$ 40,700	$ 119,919

(concluded)

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

16. TRADE PAYABLES

	June 30, 2019	December 31, 2018	June 30, 2018
Trade payables	$ 1,139,765	$ 1,625,756	$ 2,020,494

The average payment term is 30-60 days. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

17. OTHER PAYABLES

	June 30, 2019	December 31, 2018	June 30, 2018
Payable for rebates	$ 325,214	$ 337,581	$ 392,806
Payable for salaries and bonuses	316,478	336,145	262,792
Payable for labor, health and social insurance	14,789	15,475	15,006
Reserve for litigations	52,686	52,101	62,886
Payable for professional services and others	54,498	52,802	78,613
	$ 763,665	$ 794,104	$ 812,103

18. RETIREMENT BENEFIT

Pension expenses under the defined benefit plans, calculated using the actuarially determined pension cost rate as of December 31, 2018 and 2017, were NT$111 thousand, NT$140 thousand, NT$223 thousand and NT$280 thousand for the three months ended June 30, 2019 and 2018, and six months ended June 30, 2019 and 2018, respectively.

19. EQUITY

a. Share capital

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

	June 30, 2019	December 31, 2018	June 30, 2018
Numbers of shares authorized (in thousands)	500,000	500,000	500,000
Shares authorized	$ 5,000,000	$ 5,000,000	$ 5,000,000
Number of shares issued and fully paid (in thousands)	299,439	298,743	298,482
Shares issued	$ 2,994,394	$ 2,987,432	$ 2,984,820

b. Capital surplus

	Additional Paid-in Capital (1)	Treasury Shares (1)	Changes in ownership interests in subsidiaries (2)	Employee Share Options (3)	Employee Share Options -Expired (2)	Total
BALANCE, JANUARY 1, 2018	$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	-	-	19,176	-	-	19,176
Compensation cost of employee share options	-	-	-	15,365	-	15,365
Issuance of ordinary shares from exercise of employee share options	2,145	-	-	(1,833)	-	312
Expiration of employee share options	-	-	-	(1,053)	1,053	-
BALANCE, JUNE 30, 2018	$ 6,417,349	$ 40,868	$ 20,445	$ 42,658	$ 18,409	$ 6,539,729
BALANCE, JANUARY 1, 2019	$6,422,355	$ 40,868	$ 20,448	$ 47,476	$ 20,334	$6,551,481
Capital surplus used to offset accumulated deficits	(1,248,601)	-	-	-	-	(1,248,601)
Cash distribution from additional paid-in capital	(150,000)	-	-	-	-	(150,000)
Changes in ownership interests in subsidiaries	-	-	(153)	-	-	(153)
Compensation cost of employee share options	-	-	-	6,125	-	6,125
Issuance of ordinary shares from exercise of employee share options	9,412	-	-	(6,926)	-	2,486

Expiration of employee share options	-	-	-	(397)	397	-
BALANCE, JUNE 30, 2019	$ 5,033,166	$ 40,868	$ 20,295	$ 46,278	$ 20,731	$ 5,161,338

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 transferred to share capital within a limited percentage of the paid-in capital each year.

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

The amendments to the Company's Articles of Incorporation had been approved in the shareholders meeting held on June 20, 2019, which stipulate that earnings distribution or loss off-setting may be made on a quarterly basis after the quarter end.

The Company's amended Articles of Incorporation provide that, when distributing earnings of the first three quarters, the Company shall first estimate and reserve the taxes to be paid, offset its losses, estimate and reserve remuneration for employees and directors, set aside a legal reserve at 10% of the remaining earnings, and then set aside or reverse a special reserve in accordance with relevant laws or regulations. The Board of Directors may prepare a distribution proposal for the remaining earnings plus the unappropriated retained earnings at the beginning of the period in consideration of the operation status. Earnings distribution may be made in the form of shares after an approved resolution made by the shareholders' meeting, or in the form of cash after an approved resolution made by the BOD.

The Company's amended Articles of Incorporation provide that, when distributing annual earnings, the Company shall pay taxes, offset its losses, set aside 10% as legal reserve, then set aside or reverse a special reserve in accordance with relevant laws or regulations. The Board of Directors shall prepare a distribution proposal for the remaining earnings plus the unappropriated retained earnings of previous years. Earnings distribution may be made in the form of shares after an approved resolution made by the shareholders' meeting. Pursuant to the Company Act, the distributable dividends and bonuses or the legal reserve and the capital reserve (stipulated in Article 241, Paragraph 1 of the Company Act) in whole or in part may be paid in cash after a resolution has been adopted by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

The Company's Articles of Incorporation prior to the amendments provided that, when distributing annual earnings, the Company shall pay taxes, offset its losses, set aside 10% as legal reserve, and then set aside or reverse a special reserve in accordance with relevant laws or regulations. The Board of Directors shall prepare a distribution proposal for the remaining earnings plus the unappropriated retained earnings of previous years for approval at the stockholders' meeting.

See Note 21(d) for policy stipulated in the Articles of Incorporation regarding remuneration for employees and directors.

Considering current and future development plans, investment conditions, capital requirements, market competition situations, and shareholder interests, the Company shall distribute dividends to the shareholders no less than 10% of the current year's earnings. Shareholders' dividends could be paid in cash or shares while the cash dividends should not be less than 10% of the total distributable dividends. Dividends distribution may not be made if the amount of cash dividends per share is less than NT$0.5.

Appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficits. If the Company has no accumulated 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.

NT$186,154 thousand from legal reserve and NT$1,248,601 thousand from capital surplus for loss offsetting as well as the cash distribution of NT$150,000 thousand, i.e. approximately NT$0.5 per share, from additional paid-in capital had been approved in the Company's shareholders' meeting on June 20, 2019.

The cash distribution of NT$150,000 thousand, i.e. approximately NT$0.51 per share, from additional paid-in capital had been approved in the Company's shareholders' meeting on June 15, 2018.

d. Treasury stock

	Shares (In Thousands)
Number of shares on January 1, 2018	5,936
Decrease during the period	(375)
Number of shares on June 30, 2018	5,561
Number of shares on January 1, 2019	15,970
Decrease during the period	(4,932)
Number of shares on June 30, 2019	11,038

The detailed information for other Shares Buy Back Programs could be found in Note 24 (b).

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.

20. REVENUE

	For the Three Months Ended June 30		**For the Six Months Ended June 30**	
	2019	**2018**	**2019**	**2018**
IC for mobile devices	$2,139,477	$2,732,730	$3,779,419	$5,345,391

Contract balances

	June 30, 2019	**December 31, 2018**	**June 30, 2018**
Contract liabilities			
Sales of goods	$ 29,110	$ 13,895	$ 22,920

21. NET INCOME

a. Finance costs

	For the Three Months Ended June 30		**For the Six Months Ended June 30**	
	2019	**2018**	**2019**	**2018**
Interest on bank loans	$ -	$ 6	$ -	$ 6
Interest on deposits	-	-	1,150	471
Others	-	-	-	93
	$ -	$ 6	$ 1,150	$ 570

b. Depreciation and amortization

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Property, plant and equipment	$ 20,981	$ 16,454	$ 39,829	$ 32,408
Intangible assets	14,687	20,536	29,671	36,926
	$ 35,668	$ 36,990	$ 69,500	$ 69,334
An analysis of depreciation and amortization by function				
Operating costs	$ 282	$ 587	$ 664	$ 1,164
Operating expenses	35,386	36,403	68,836	68,170
	$ 35,668	$ 36,990	$ 69,500	$ 69,334

c. Employee benefits expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Post-employment benefits				
Defined contribution plans	$ 7,158	$ 7,108	$ 14,329	$ 14,165
Defined benefit plans (Note 18)	111	140	223	280
Share-based payments (Note 24)	3,269	7,584	6,125	15,365
Other employee benefits	372,789	350,327	750,705	692,884
Total employee benefits expense	$ 383,327	$ 365,159	$ 771,382	$ 722,694
An analysis of employee benefits expense by function				
Operating costs	$ 27,493	$ 26,179	$ 54,541	$ 53,381
Operating expenses	355,834	338,980	716,841	669,313
	$ 383,327	$ 365,159	$ 771,382	$ 722,694

d. The remuneration to employees and directors

According to the Company's Articles of Incorporation, the distributable compensation to employees and remuneration to directors shall not be less than 1% and not more than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors. Due to the net loss before tax for the six months ended June 30, 2019, there was no accrual for any remuneration to employees and directors. The accrued employees' compensation and remuneration to directors for the three months and six months ended June 30, 2018 are as follows:

Accrual rate

	For the Six Months Ended June 30,2018
Employees' compensation	19.82%
Remuneration to directors	0.18%

Amount

	For the Three Months Ended June 30,2018	For the Six Months Ended June 30,2018
	Cash	Cash
Employees' compensation	$ 25,923	$ 31,946
Remuneration to directors	$ 148	$ 295

If there is any 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 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

22. INCOME TAXES

a. Major components of tax expense recognized in profit or loss:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Current tax				
In respect of the current period	$ 2,715	$ 13,551	$ 3,271	$ 24,344
Adjustments on prior periods	1,198	72	1,198	72
	3,913	13,623	4,469	24,416
Deferred tax				
In respect of the current period	16,825	10,738	14,957	26,463
Effect of tax rate changes	-	-	-	(11,437)
	16,825	10,738	14,957	15,026
Income tax expense recognized in profit or loss	$ 20,738	$ 24,361	$ 19,426	$ 39,442

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in tax rate on deferred tax income was recognized in profit in 2018. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

b. Income tax expense recognized in other comprehensive income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Deferred income tax				
Effect of tax rate change	$ -	$ -	$ -	$ 276

c. Income tax assessments

Tax returns of the Company and FocalTech Smart Sensors Co., Ltd. through 2017, and that of FocalTech Electronics Co., Ltd. through 2016 had been assessed by the tax authorities.

23. EARNINGS (LOSS) PER SHARE

Unit: NT$ Per Share

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Basic earnings (loss) per share	$ (0.47)	$ 0.31	$ (1.13)	$ 0.36
Diluted earnings per share		$ 0.31		$ 0.36

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

Net Profit for the Period

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Earnings (loss) used in the computation of basic earnings (loss) per share	$ (128,442)	$ 90,147	$ (311,793)	$ 104,591

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Weighted average number of ordinary shares in computation of basic earnings (loss) per share	275,088	287,888	274,774	287,863
Effect of potentially dilutive ordinary shares:				
Employee share option	-	1,058	-	1,082
Employees' compensation issued	-	975	-	1,201
Weighted average number of ordinary shares used in the computation of diluted earnings per share	275,088	289,921	274,774	290,146

Note：The Company has a net loss after tax for the three months and six months ended June 30, 2019, so there is no dilution effect in the calculation of earnings (loss) per share.

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

24. SHARE-BASED PAYMENT ARRANGEMENTS

The Company did not have new share option plan issued for employees for the six months ended June 30, 2019 and 2018. The detailed information of the employee share option plans could be found in Note 26 of the consolidated financial statements for the year ended December 31, 2018.

a. Employee share option plan

Information on outstanding options for the six months ended June 30, 2019 and 2018 is as follows:

June 30, 2019

Employee Share Option Plan	Beginning Balance		Options unvested		Options exercised		Options expired		Ending Balance	
	Units of Option	Weighted-Average Exercise Price (NT$)	Units of Option	Weighted-Average Exercise Price (NT$)	Units of Option	Weighted-Average Exercise Price (NT$)	Units of Option	Weighted-Average Exercise Price (NT$)	Units of Option	Weighted-Average Exercise Price (NT$)
2006	1,594,999	$ 19.86	-	$ -	(630,200)	$ 13.72	(14,400)	$ 28.30	950,399	$ 23.81
2013	627,250	37.90	-	-	-	-	(7,000)	37.90	620,250	37.90
2015	985,750	12.20	(28,250)	12.20	(66,000)	12.20	-	-	891,500	12.20

June 30, 2018

Employee Share Option Plan	Beginning Balance		Options unvested		Options exercised		Options expired		Ending Balance	
	Units of Option	Weighted-Average Exercise Price (NT$)	Units of Option	Weighted-Average Exercise Price (NT$)	Units of Option	Weighted-Average Exercise Price (NT$)	Units of Option	Weighted-Average Exercise Price (NT$)	Units of Option	Weighted-Average Exercise Price (NT$)
2006	1,637,199	$ 19.84	(9,000)	$ 17.24	(13,000)	$ 17.24	-	$ -	1,615,199	$ 19.88
2013	768,750	37.90	-	-	-	-	(62,500)	37.90	706,250	37.90
2015	1,476,500	12.20	(104,500)	12.20	(99,000)	12.20	-	-	1,273,000	12.20

b. Shares Buyback Program

Based on the 2nd and the 5rd Shares Buy Back Program for transferring to employees approved by The board of directors on April 28, 2016, May 12, 2017, July 26, 2018 and August 23, 2018, the Company bought back 5,000 thousand, 6,808 thousand, 8,000 thousand and 7,689 thousand shares respectively. The transferred price to employees would be the average purchase price which is respectively $26.53, $36.11, $24.10 and $24.98 per share.

Information about Shares Buy Back Programs for the six months ended June 30, 2019 is as follows:

The 2nd Shares Buy Back Program			The 3rd Shares Buy Back Program			The 5th Shares Buy Back Program		
Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT$)	Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT$)	Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT$)
2016/10/28	2,624	$ 11.26	2017/07/24	3,198	$ 12.85	2019/05/07	4,651	$ -
2017/02/24	50	11.26	2018/07/26	3,515	-			
2018/02/08	120	4.30	2019/05/07	95	-			
2018/04/24	255	-						
2018/07/26	1,765	-						
2019/05/07	186	-						
Total	5,000		Total	6,808		Total	4,651	

Compensation cost of aforementioned share-based payments for the six months ended June 30, 2019 and 2018 was as follows:

	For the Six Months Ended June 30	
	2019	2018
Employee share option plans	$ 497	$ 1,076
Shares buyback programs	5,628	14,289
	$ 6,125	$ 15,365
Adjustment account:		
Capital surplus - employee share options	$ 6,125	$ 15,365

25. NON-CASH TRANSACTIONS

The cash dividends of 2018 and 2017 resolved by the shareholder's meeting were NT$150,000 thousand and NT$150,000 thousand, respectively, and were not paid as of June 30, 2019 and 2018. (Referring to Note 19)

26. OPERATING LEASE ARRANGEMENTS

The Company as Lessee

The Company and its subsidiaries have lease contracts in relation to office, plant and part of office equipment, and they would expire by March 2020. Those agreements are short-term leases and qualified for the recognition exemption to leases so the Company does not recognize right-of-use assets and lease liabilities for these leases. The committed payments for the short-term leases were $9,472 thousand as of June 30, 2019

The lease payments recognized in profit or loss were as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Lease payments	$ 8,831	$ 9,134	$ 18,164	$ 18,099

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

	December 31, 2018	June 30, 2018
Not later than 1 year	$ 22,573	$ 22,031
Later than 1 year and not later than 5 years	240	3,732
	$ 22,813	$ 25,763

27. FINANCIAL INSTRUMENTS

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

The Company's management believes the carrying amounts of financial assets and financial liabilities not measured at fair value approximate their fair values.

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

1) Fair value hierarchy

June 30, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Listed preferred shares	$ 10,676	$ -	$ -	$ 10,676
Private funds	-	-	44,523	44,523
Structured Investments	-	30,690	-	30,690
Total	$ 10,676	$ 30,690	$ 44,523	$ 85,889
Financial assets at FVTOCI				
Investments in debt instruments				
Fixed income bonds	$ -	$ 321,328	$ -	$ 321,328

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets 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				
Investments in debt instruments				
Fixed income bonds	$ -	$ 313,969	$ -	$ 313,969

June 30, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Listed preferred shares	$ 10,302	$ -	$ -	$ 10,302
Private funds	-	-	36,918	36,918
Total	$ 10,302	$ -	$ 36,918	$ 47,220
Financial assets at FVTOCI				
Investments in debt instruments				
Fixed income bonds	$ -	$ 265,177	$ -	$ 265,177

There were no transfers between Level 1 and Level 2 for the six months ended June 30, 2019 and 2018.

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

For the six Months ended June 30, 2019

	For the Six Months Ended June 30	
Financial assets at FVTPL	2019	2018
Balance, beginning of period	$ 41,023	$ 29,760
Purchases	1,955	7,057
Recognized in profit or loss(other income or loss)	1,213	(583)
Effect of foreign currency exchange differences	332	684
Balance, end of period	$ 44,523	$ 36,918

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 fair values of non-publicly traded equity investments are mainly determined by using the market approach, with reference to the recent financing activities of investees or the market transaction prices and status of the similar instruments. The Company evaluated and selected the suitable valuation method with discretion, but the use of different valuation models or fair values may result in different valuation results.

c. Categories of financial instruments

	June 30, 2019	**December 31, 2018**	**June 30, 2018**
Financial assets			
Fair value through profit or loss (FVTPL)			
Mandatorily at FVTPL	$ 85,889	$ 112,063	$ 47,220
Amortized cost (Note 1)	5,015,341	5,661,319	7,137,409
Financial assets at FVTOCI			
Investments in debt instruments	321,328	313,969	265,177
Financial liabilities			
Amortized cost (Note 2)	2,183,153	2,695,644	3,402,682

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

2) The balances included financial liabilities measured at amortized cost, which comprise trade payables, other payables, dividends payables and guarantee deposits received.

d. Financial risk management objectives and policies

The Company’s major financial instruments include cash and cash equivalents, trade receivable, other financial assets, financial assets at FVTPL, financial assets at FVTOCI, trade and other payables. The Company’s Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign exchange risk, interest rate risk and other price risk), credit risk and liquidity risk.

The board of directors is solely responsible for establishing and monitoring the framework of risk management of the Company. The chairman is authorized by the board of directors to develop and monitor 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 Company’s financial risk management policies are established for identifying and analyzing the financial risks to the Company, evaluating the impacts of the financial risks, and conducting the financial-risk aversion policies. The financial risk management policies are periodically reviewed to reflect changes in the market and the operations. The Company devotes to build a disciplined and constructive control environment through proper internal controls, such as training and establishing managerial principles and operation procedures in order to have all employees aware of their own roles and responsibilities.

The Company's management oversees the Company operates in compliance with financial risk management policies and reviews the appropriateness of risk management structure under supervision of the board of directors. Internal auditors, in assistance to the board of directors, perform periodical and exceptional reviews on the controls and procedures of financial risk management and report the results of review to the board of directors.

1) Market risk

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

a) Foreign currency risk

The carrying amounts of the Company's monetary assets and monetary liabilities denominated in foreign currency at the end of the reporting period are shown in Note 31.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar. The following table details the Company'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 value at the end of the reporting period by a 5% change in foreign currency rates. A positive number in below table indicates an increase in pre-tax profit or equity associated with a 5% depreciation of the functional currency against the relevant currency. In contrast, 5% appreciation of the functional currency against the relevant currency leads to an equal and opposite impact on pre-tax profit or equity.

	USD Impact	
	For the Six Months Ended June 30	
	2019	**2018**
Profit or loss/ equity	$ 39,582 (i)	$ 43,364 (i)

i. This was mainly attributable to the outstanding balances of USD time deposits, trade receivables, trade payables, other payables, other current assets and other current liabilities.

b) Interest rate risk

The Company was exposed to interest rate risk primarily related to its investments in fixed-rate time deposits, bonds, 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. Therefore, changes in interest rates would not affect the future cash flows.

Financial assets exposed to interest rates at the end of the reporting period were as follows:

	June 30, 2019	December 31, 2018	June 30, 2018
Fair value interest rate risk			
Financial assets	$ 3,398,575	$ 4,110,624	$ 4,757,446
Cash flow interest rate risk			
Financial assets	$ 1,044,713	$ 901,327	$ 826,039

Sensitivity analysis

The below sensitivity analysis was determined based on the Company's exposure to interest rates for non-derivative instruments as of the end of the reporting period. An increase or a decrease of 25 basis points 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 Company's pre-tax profit for the six months ended June 30, 2019 and 2018 would increase/ decrease by NT$1,306 thousand and NT$1,033 thousand, respectively.

2) Credit risk

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

The Company's major credit risk of trade receivables mainly came from its top 5 customers. Ongoing credit evaluation of the financial condition of the customers is performed.

As of June 30, 2019, trade receivables from top 5 customers represented 76% of total trade receivables. The credit concentration risk of other trade receivables was insignificant.

Credit risk management for investments in debt instruments

The Company'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's policy allows it only to invest in those 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 material information concerning the debtors 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 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 June 30, 2019
Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	$ 352,018

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 of paying off contractual cash flows	12 months expected credit loss	0%	$ 374,469

Category	Description	Basis for Recognizing Expected Credit Loss	Expected Credit Loss Ratio	Carrying Amount as of June 30, 2018
Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	$ 265,177

3) Liquidity risk

The Company manages its liquidity risk by monitoring and maintaining adequate cash and cash equivalents to fund its operations and mitigate the impacts of fluctuations in cash flows. In addition, bank loans are a significant resource of liquidity for the Company.

As of June 30, 2019, December 31, 2018, and June 30, 2018, the available unused short-term bank loan facilities were set out in (b) Financing credit line.

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

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments, including principal and interest.

June 30, 2019

	On Demand or Less than 1 Year	1-5 Years
Non-interest bearing	$ 2,053,430	$ 129,723

December 31, 2018

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

June 30, 2018

	On Demand or Less than 1 Year	1-5 Years
Non-interest bearing	$ 2,982,597	$ 420,085

b) Financing credit line

	June 30, 2019	December 31, 2018	June 30, 2018
Unsecured bank overdraft line of credit			
Amount unused	$ 1,208,710	$ 1,300,000	$ 3,227,600

The above amounts included credit line for the subsidiaries guaranteed by the Company.

28. TRANSACTIONS WITH RELATED PARTIES

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

b. Compensation of key management personnel

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Long-term employee benefits	$ 16,156	$ 28	$ 20,001	$ 7,224
Short-term employee benefits	8,845	12,874	20,738	22,737
Post-employment benefits	225	108	270	197
Share-based payments	755	1,500	1,510	3,189
	$ 25,981	$ 14,510	$ 42,519	$ 33,347

29. PLEDGED ASSETS

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

	June 30, 2019	December 31, 2018	June 30, 2018
Pledge deposits (categorized in other non-current assets)	$ 4,000	$ 4,000	$ 36,225

30. 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.

31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company 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:

June 30, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 47,808	31.06 (USD:NTD)	$ 1,484,918
USD	2,369	6.8747 (USD:RMB)	73,588
Financial liabilities			
Monetary items			
USD	15,058	31.06 (USD:NTD)	467,716
USD	9,632	6.8747 (USD:RMB)	299,155

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

June 30, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 65,596	30.46 (USD:NTD)	$ 1,998,045
USD	3,258	6.6166 (USD:RMB)	99,244
Financial liabilities			
Monetary items			
USD	31,132	30.46 (USD:NTD)	948,282
USD	9,249	6.6166 (USD:RMB)	281,735

32. SEGMENT INFORMATION

Segment information is provided to business decision makers to allocate resources and assesse segment performance. The Company's operation focuses on the sales and development of mobile device related IC under a single operation unit. Thus, the information of individual operating segment is not applicable.