

FocalTech Systems Co., Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2019 and 2018**

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2019		December 31, 2018		September 30, 2018	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 2,910,374	26	\$ 2,355,926	21	\$ 2,954,236	21
Financial assets at fair value through other comprehensive income – current (Note 8)	180,055	2	130,716	1	72,339	-
Trade receivables, net (Note 10)	1,076,818	10	983,496	9	1,177,178	8
Inventories (Note 11)	1,406,039	13	2,120,600	19	2,384,774	17
Other financial assets (Note 9)	2,054,943	19	2,283,900	20	2,196,333	15
Other current assets	230,771	2	158,385	1	215,609	2
Total current assets	<u>7,859,000</u>	<u>72</u>	<u>8,033,023</u>	<u>71</u>	<u>9,000,469</u>	<u>63</u>
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss - non-current (Note 7)	87,007	1	112,063	1	77,496	-
Financial assets at fair value through other comprehensive income - non-current (Note 8)	82,144	1	183,253	2	252,897	2
Property, plant and equipment (Note 13)	1,402,938	13	1,394,372	13	1,395,734	10
Goodwill (Notes 14)	1,237,268	11	1,237,268	11	3,237,268	22
Other intangible assets (Note 15)	108,593	1	148,998	1	162,228	1
Deferred tax assets	118,503	1	134,858	1	117,979	1
Other non-current assets (Note 29)	53,960	-	56,286	-	87,207	1
Total non-current assets	<u>3,090,413</u>	<u>28</u>	<u>3,267,098</u>	<u>29</u>	<u>5,330,809</u>	<u>37</u>
TOTAL	<u>\$ 10,949,413</u>	<u>100</u>	<u>\$ 11,300,121</u>	<u>100</u>	<u>\$ 14,331,278</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 16)	\$ -	-	\$ -	-	\$ 100,000	1
Trade payables (Note 17)	1,290,051	12	1,625,756	15	1,859,493	13
Other payables (Note 18)	920,010	8	794,104	7	831,673	6
Current tax liabilities (Notes 4)	380,628	3	394,493	3	414,941	3
Other current liabilities (Notes 21)	193,505	2	64,875	1	71,392	-
Total current liabilities	<u>2,784,194</u>	<u>25</u>	<u>2,879,228</u>	<u>26</u>	<u>3,277,499</u>	<u>23</u>
NON-CURRENT LIABILITIES						
Deferred tax liabilities	31,672	-	30,998	-	40,454	-
Net defined benefit liabilities - non-current (Note 4)	25,836	-	26,096	-	29,431	-
Guarantee deposits received	266,118	3	275,784	3	244,863	2
Other non-current liabilities	10,400	-	10,400	-	10,400	-
Total non-current liabilities	<u>334,026</u>	<u>3</u>	<u>343,278</u>	<u>3</u>	<u>325,148</u>	<u>2</u>
Total liabilities	<u>3,118,220</u>	<u>28</u>	<u>3,222,506</u>	<u>29</u>	<u>3,602,647</u>	<u>25</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Notes 20 and 25)						
Share capital						
Ordinary shares	2,994,857	27	2,987,432	26	2,986,407	21
Capital surplus						
Additional paid-in capital	5,034,044	47	6,422,355	58	6,420,329	45
Treasury shares	48,662	1	40,868	-	40,868	-
Changes in ownership interests in subsidiaries	20,295	-	20,448	-	20,491	-
Employee share options	28,709	-	47,476	-	45,658	-
Employee share options - expired	31,688	-	20,334	-	19,718	-
Total capital surplus	<u>5,163,398</u>	<u>48</u>	<u>6,551,481</u>	<u>58</u>	<u>6,547,064</u>	<u>45</u>
Retained earnings (accumulated losses)						
Legal reserve	-	-	186,154	2	186,154	1
Undistributed earnings (accumulated deficits)	(231,810)	(2)	(1,434,755)	(13)	1,203,944	9
Total retained earnings (accumulated deficits)	<u>(231,810)</u>	<u>(2)</u>	<u>(1,248,601)</u>	<u>(11)</u>	<u>1,390,098</u>	<u>10</u>
Other equity						
Exchange differences from translating the financial statements of foreign operations	162,508	1	149,454	1	117,807	1
Unrealized gain (loss) on financial assets at fair value through other comprehensive income	1,642	-	(2,290)	-	(4,321)	-
Total other equity	<u>164,150</u>	<u>1</u>	<u>147,164</u>	<u>1</u>	<u>113,486</u>	<u>1</u>
Treasury shares	(268,656)	(2)	(393,203)	(3)	(353,718)	(2)
Equity attributable to owners of the parent	<u>7,821,939</u>	<u>72</u>	<u>8,044,273</u>	<u>71</u>	<u>10,683,337</u>	<u>75</u>
NON-CONTROLLING INTERESTS	<u>9,254</u>	<u>-</u>	<u>33,342</u>	<u>-</u>	<u>45,294</u>	<u>-</u>
Total equity	<u>7,831,193</u>	<u>72</u>	<u>8,077,615</u>	<u>71</u>	<u>10,728,631</u>	<u>75</u>
TOTAL	<u>\$ 10,949,413</u>	<u>100</u>	<u>\$ 11,300,121</u>	<u>100</u>	<u>\$ 14,331,278</u>	<u>100</u>

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 September 30				For the Nine Months Ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
NET REVENUE (Note 21)	\$ 2,573,411	100	\$ 2,530,459	100	\$ 6,352,830	100	\$ 7,875,850	100
COST OF REVENUE (Note 11 and 22)	(1,976,946)	(77)	(1,912,057)	(76)	(4,922,274)	(77)	(6,143,002)	(78)
GROSS PROFIT	596,465	23	618,402	24	1,430,556	23	1,732,848	22
OPERATING EXPENSES (Note 19, 22, 26 and 28)								
Selling and marketing expenses	(107,165)	(4)	(111,077)	(4)	(369,821)	(6)	(319,039)	(4)
General and administrative expenses	(78,763)	(3)	(79,963)	(3)	(235,420)	(4)	(249,219)	(3)
Research and development expenses	(385,634)	(15)	(395,135)	(16)	(1,172,331)	(18)	(1,090,709)	(14)
Total operating expenses	(571,562)	(22)	(586,175)	(23)	(1,777,572)	(28)	(1,658,967)	(21)
OPERATING INCOME (LOSS)	24,903	1	32,227	1	(347,016)	(5)	73,881	1
NON-OPERATING INCOME AND EXPENSES								
Finance costs (Note 22)	(2)	-	(120)	-	(1,152)	-	(690)	-
Interest income	28,052	1	29,289	1	82,840	1	69,429	-
Other gains and losses - net	31,529	1	19,150	1	30,590	-	45,920	1
Gain (Loss) on foreign exchange	(3,947)	-	(9,845)	-	5,506	-	11,125	-
Total non-operating income and expenses	55,632	2	38,474	2	117,784	1	125,784	1
INCOME (LOSS) BEFORE INCOME TAX	80,535	3	70,701	3	(229,232)	(4)	199,665	2
INCOME TAX EXPENSE (Note 4 and 23)	(7,599)	-	5,514	-	(27,025)	-	(33,928)	-
NET INCOME (LOSS)	72,936	3	76,215	3	(256,257)	(4)	165,737	2
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified subsequently to profit or loss and Income tax relating to items that will not be reclassified to profit or loss (Notes 23)	-	-	-	-	-	-	(276)	-
Items that may be reclassified subsequently to profit or loss:								
Exchange differences from translating the financial statements of foreign operations	(43,542)	(2)	(38,013)	(1)	13,671	-	72,542	1
Unrealized gains (losses) from debt instrument investments measured at fair value through other comprehensive income	79	-	(249)	-	3,932	-	(1,530)	-
Items that may be reclassified subsequently to profit or loss	(43,463)	(2)	(38,262)	(1)	17,603	-	71,012	1
Total other comprehensive income	(43,463)	(2)	(38,262)	(1)	17,603	-	70,736	1
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	\$ 29,473	1	\$ 37,953	2	(\$ 238,654)	(4)	\$ 236,473	3
NET INCOME (LOSS) ATTRIBUTABLE TO:								
Owners of the Parent	\$ 79,983	3	\$ 85,284	3	(\$ 231,810)	(4)	\$ 189,875	2
Non-controlling interests	(7,047)	-	(9,069)	-	(24,447)	-	(24,138)	-
	\$ 72,936	3	\$ 76,215	3	(\$ 256,257)	(4)	\$ 165,737	2
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:								
Owners of the Parent	\$ 36,553	1	\$ 46,891	2	(\$ 214,824)	(3)	\$ 258,722	3
Non-controlling interests	(7,080)	-	(8,938)	-	(23,830)	(1)	(22,249)	-
	\$ 29,473	1	\$ 37,953	2	(\$ 238,654)	(4)	\$ 236,473	3
EARNINGS (LOSSES) PER SHARE (Note 24)								
Basic	\$ 0.29		\$ 0.30		(\$ 0.84)		\$ 0.66	
Diluted	\$ 0.28		\$ 0.30				\$ 0.66	

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

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 (Accumulated Deficits)		Other Equity			Treasury Shares	Total	Non-controlling Interests	Total 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				
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 nine months ended September 30, 2018	-	-	-	189,875	-	-	-	-	189,875	(24,138)	165,737
Other comprehensive income (loss) for the nine months ended September 30, 2018, net of income tax	-	-	-	(276)	70,653	-	(1,530)	-	68,847	1,889	70,736
Total comprehensive income (loss) for the nine months ended September 30, 2018	-	-	-	189,599	70,653	-	(1,530)	-	258,722	(22,249)	236,473
Treasury shares buyback (Note 20)	-	-	-	-	-	-	-	(345,421)	(345,421)	-	(345,421)
Treasury shares transferred to employees (Note 20 and 25)	-	-	-	-	-	-	-	183,701	183,701	-	183,701
Changes in ownership interests in subsidiaries	-	19,222	-	-	-	-	-	-	19,222	(19,222)	-
Compensation cost of employee share options (Note 20 and 25)	-	22,305	-	-	-	-	-	-	22,305	-	22,305
Issuance of ordinary shares from exercise of employee share options (Note 20 and 25)	2,707	661	-	-	-	-	-	-	3,368	-	3,368
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	79,481	79,481
BALANCE, SEPTEMBER 30, 2018	\$ 2,986,407	\$ 6,547,064	\$ 186,154	\$ 1,203,944	\$ 117,807	\$ -	(\$ 4,321)	(\$ 353,718)	\$ 10,683,337	\$ 45,294	\$ 10,728,631
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 nine months ended September 30, 2019	-	-	-	(231,810)	-	-	-	-	(231,810)	(24,447)	(256,257)
Other comprehensive income for the nine months ended September 30, 2019, net of income tax	-	-	-	-	13,054	-	3,932	-	16,986	617	17,603
Total comprehensive income (loss) for the nine months ended September 30, 2019	-	-	-	(231,810)	13,054	-	3,932	-	(214,824)	(23,830)	(238,654)
Compensation cost of employee share options (Note 20 and 25)	-	8,083	-	-	-	-	-	-	8,083	-	8,083
Treasury shares transferred to employees (Note 20 and 25)	-	-	-	-	-	-	-	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 20 and 25)	7,425	2,588	-	-	-	-	-	-	10,013	-	10,013
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	(411)	(411)
BALANCE, SEPTEMBER 30, 2019	\$ 2,994,857	\$ 5,163,398	\$ -	(\$ 231,810)	\$ 162,508	\$ -	\$ 1,642	(\$ 268,656)	\$ 7,821,939	\$ 9,254	\$ 7,831,193

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

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) income before income tax	(\$ 229,232)	\$ 199,665
Adjustments for:		
Depreciation expenses	61,317	48,425
Amortization expenses	40,920	52,372
Gain from reversal of expected credit impairment	-	(6,084)
Net (gain) loss on financial assets at fair value through profit or loss	(384)	2,236
Finance costs	1,152	690
Interest income	(82,840)	(69,429)
Compensation costs of employee share options	8,083	22,305
(Reversal gain) loss from write-off of inventories	(38,418)	119,789
Unrealized loss on foreign exchange	4,589	14,205
Changes in operating assets and liabilities		
Financial assets mandatorily measured at fair value through profit or loss	26,405	(48,644)
Trade receivables	(89,605)	94,402
Inventories	769,387	216,064
Other current assets	(9,717)	19,341
Trade payables	(349,640)	520,208
Other payables	120,988	78,961
Other current liabilities	129,610	(10,614)
Net defined benefit liabilities	(260)	(189)
Cash generated from operations	362,355	1,253,703
Interest paid	(1,152)	(677)
Income tax paid	(27,998)	(30,238)
Net cash inflow(outflow) from operating activities	<u>333,205</u>	<u>1,222,788</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial asset at fair value through other comprehensive income	-	(58,671)
Proceeds from disposal of financial asset at fair value through other comprehensive income	6,211	20,981
Acquisition of property, plant and equipment	(94,707)	(70,935)
Acquisition of intangible assets	-	(2,198)
Decrease (increase) in other financial assets	247,508	(765,369)
Decrease (increase) in other non-current assets	2,004	946
Interest received	73,508	47,511
Net cash inflow(outflow) from investing activities	<u>234,524</u>	<u>(827,735)</u>

(Continued)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	\$ -	\$ 100,000
(Decrease) increase in guarantee deposits	(11,376)	40,835
Dividends paid to owners of the Company	(150,000)	(150,000)
Proceeds from exercise of employee share options	10,013	3,368
Payments for treasury shares buyback	-	(345,421)
Treasury shares transferred to employees	124,547	183,701
(Decrease) increase in non-controlling interests	(411)	79,481
Net cash inflow(outflow) from financing activities	(27,227)	(88,036)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>13,946</u>	<u>51,091</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	554,448	358,108
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>2,355,926</u>	<u>2,596,128</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 2,910,374</u>	<u>\$ 2,954,236</u>

(Concluded)

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 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 November 8, 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

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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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Announced by IASB</u>
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.

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

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when the assessment is completed.

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
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

2019

The Company assesses whether the contract is, or contains a lease at the inception of a contract.

The Company as lessee

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.

2018

The Company as lessee

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

	September 30, 2019	December 31, 2018	September 30, 2018
Cash on hand	\$ 6,913	\$ 2,344	\$ 2,564
Checking accounts and demand deposits	1,189,194	840,827	1,434,648
Cash equivalent (time deposits with original maturities within three months)	<u>1,714,267</u>	<u>1,512,755</u>	<u>1,517,024</u>
	<u>\$ 2,910,374</u>	<u>\$ 2,355,926</u>	<u>\$ 2,954,236</u>

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Demand deposits	0.001% ~ 0.43%	0.001% ~ 0.48%	0.001% ~ 0.43%
Time deposits	0.9% ~ 3.06%	0.6% ~ 3.37%	0.9% ~ 3.08%

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Mandatorily measured at fair value through profit or loss (FVTPL)			
Listed preferred shares	\$ 10,863	\$ 10,540	\$ 10,370
Private Funds	45,709	41,023	37,593
Structured Investments	<u>30,435</u>	<u>60,500</u>	<u>29,533</u>
	<u>\$ 87,007</u>	<u>\$ 112,063</u>	<u>\$ 77,496</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in debt instruments

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
<u>Current</u>			
Foreign investments			
Fixed income bonds	<u>\$ 180,055</u>	<u>\$ 130,716</u>	<u>\$ 72,339</u>
<u>Non – Current</u>			
Foreign investments			
Fixed income bonds	<u>\$ 82,144</u>	<u>\$ 183,253</u>	<u>\$ 252,897</u>
Yield rates	2.201% ~ 4.117%	1.963% ~ 4.117%	1.963% ~ 4.117%

9. OTHER FINANCIAL ASSETS

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Time deposits with original maturities more than three months	<u>\$ 2,054,943</u>	<u>\$ 2,283,900</u>	<u>\$ 2,196,333</u>
Interest rate intervals	1.1% ~ 4.18%	1.75% ~ 4.18%	1.55% ~ 3.90%

10. TRADE RECEIVABLES, NET

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Trade receivables	\$ 1,076,818	\$ 983,496	\$ 1,274,858
Less: Allowance for doubtful accounts	<u>-</u>	<u>-</u>	<u>(97,680)</u>
Trade receivables, net	<u>\$ 1,076,818</u>	<u>\$ 983,496</u>	<u>\$ 1,177,178</u>

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'

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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.

September 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	<u>\$1,063,638</u>	<u>\$ 13,180</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,076,818</u>

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	<u>\$ 884,692</u>	<u>\$ 77,795</u>	<u>\$ 1,937</u>	<u>\$ 19,072</u>	<u>\$ 983,496</u>

September 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%	84%
Gross carrying amount	\$1,070,361	\$ 88,127	\$ -	\$ 116,370	\$1,274,858
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(97,680)</u>	<u>(97,680)</u>
Amortized cost	<u>\$1,070,361</u>	<u>\$ 88,127</u>	<u>\$ -</u>	<u>\$ 18,690</u>	<u>\$1,177,178</u>

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

	For the Nine Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018
Beginning balance	\$ -	\$ 101,184
Less: Impairment loss reversed	-	(6,084)
Difference from foreign exchange translation	<u>-</u>	<u>2,580</u>
Ending balance	<u>\$ -</u>	<u>\$ 97,680</u>

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Finished goods	\$ 451,689	\$ 537,585	\$ 642,829
Work in process	717,871	921,944	1,064,093
Raw materials and supplies	<u>236,479</u>	<u>661,071</u>	<u>677,852</u>
	<u>\$ 1,406,039</u>	<u>\$ 2,120,600</u>	<u>\$ 2,384,774</u>

The cost of goods sold are including the reversal of write-down of inventories which respectively are NT\$15,843 thousand and NT\$38,318 thousand for the three months and nine months ended September 30, 2019. The above-mentioned reversal was mainly attributed from the sales of slow-moving inventories. The cost of goods sold includes the write-down of inventories which respectively are NT\$63,206 thousand and NT\$119,789 thousand for the three months and nine months ended September 30, 2018.

12. SUBSIDIARIES

Details of the Company's subsidiaries included in the consolidated financial statements are as follows:

Investor	Investee	Main Businesses	Percentage of Ownership		
			September 30, 2019	December 31, 2018	September 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%	61.88%
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%
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%

Note: The change in the Company's direct and indirect holding percentage of FocalTech Smart Sensors, Ltd. was due to the purchase of unvested shares from resigned employees.

As of September 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 September 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 September 30, 2019 and 2018, the total amounts of assets of the immaterial subsidiaries were NT\$593,613

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thousand, and NT\$588,627 thousand, respectively, accounted for 5% and 4% of total consolidated assets, respectively. The total amounts of liabilities were NT\$243,488 thousand, and NT\$157,311 thousand, respectively, accounted for 8% and 4% of total consolidated liabilities, respectively. For the three months ended September 30, 2019 and 2018, and for the nine months ended September 30, 2019 and 2018, the total immaterial subsidiaries comprehensive income (loss) has been recognized at NT\$8,963 thousand, NT\$(35,829) thousand, NT\$(57,246) thousand and NT\$(59,293) thousand, respectively, accounted for 30%, (94%), 24% and (25%) of the comprehensive income (loss), respectively.

13. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u>	<u>Development Equipment</u>	<u>Office Equipment</u>	<u>Information Equipment</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Cost						
Balance, January 1, 2018	\$ 1,358,019	\$ 165,491	\$ 14,479	\$ 42,437	\$ 39,209	\$ 1,619,635
Additions	41,325	27,801	1,226	583	-	70,935
Disposals	-	(3,841)	-	-	-	(3,841)
Effect of foreign currency exchange differences	(35,396)	(75)	(311)	(994)	(374)	(37,150)
Balance, September 30, 2018	<u>\$ 1,363,948</u>	<u>\$ 189,376</u>	<u>\$ 15,394</u>	<u>\$ 42,026</u>	<u>\$ 38,835</u>	<u>\$ 1,649,579</u>
Accumulated depreciation						
Balance, January 1, 2018	\$ 16,029	\$ 121,011	\$ 10,236	\$ 27,331	\$ 36,554	\$ 211,161
Depreciation	27,405	14,544	1,186	3,688	1,602	48,425
Disposals	-	(3,841)	-	-	-	(3,841)
Effect of foreign currency exchange differences	(1,258)	646	(203)	(712)	(373)	(1,900)
Balance, September 30, 2018	<u>\$ 42,176</u>	<u>\$ 132,360</u>	<u>\$ 11,219</u>	<u>\$ 30,307</u>	<u>\$ 37,783</u>	<u>\$ 253,845</u>
Carrying amounts as of September 30, 2018	<u>\$ 1,321,772</u>	<u>\$ 57,016</u>	<u>\$ 4,175</u>	<u>\$ 11,719</u>	<u>\$ 1,052</u>	<u>\$ 1,395,734</u>
Cost						
Balance, January 1, 2019	\$ 1,375,563	\$ 192,558	\$ 15,970	\$ 42,675	\$ 38,956	\$ 1,665,722
Additions	-	93,461	32	1,214	-	94,707
Effect of foreign currency exchange differences	(25,920)	(579)	(231)	(776)	(277)	(27,783)
Balance, September 30, 2019	<u>\$ 1,349,643</u>	<u>\$ 285,440</u>	<u>\$ 15,771</u>	<u>\$ 43,113</u>	<u>\$ 38,679</u>	<u>\$ 1,732,646</u>
Accumulated depreciation						
Balance, January 1, 2019	\$ 51,610	\$ 138,166	\$ 11,635	\$ 31,508	\$ 38,431	\$ 271,350
Depreciation	27,683	29,518	931	2,659	526	61,317
Effect of foreign currency exchange differences	(1,787)	(116)	(173)	(605)	(278)	(2,959)
Balance, September 30, 2019	<u>\$ 77,506</u>	<u>\$ 167,568</u>	<u>\$ 12,393</u>	<u>\$ 33,562</u>	<u>\$ 38,679</u>	<u>\$ 329,708</u>
Carrying amounts as of December 31, 2018 and January 1, 2019	<u>\$ 1,323,953</u>	<u>\$ 54,392</u>	<u>\$ 4,335</u>	<u>\$ 11,167</u>	<u>\$ 525</u>	<u>\$ 1,394,372</u>
Carrying amounts as of September 30, 2019	<u>\$ 1,272,137</u>	<u>\$ 117,872</u>	<u>\$ 3,378</u>	<u>\$ 9,551</u>	<u>\$ -</u>	<u>\$ 1,402,938</u>

Property, plant and equipment depreciated on a straight-line basis over the estimated useful lives are 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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Ending balance	<u>\$ 1,237,268</u>	<u>\$ 1,237,268</u>	<u>\$ 3,237,268</u>

Considering the synergy of integration of LCD driver and touch controller under the industry trend, the

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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

	<u>Licenses and Franchises</u>	<u>Software</u>	<u>Patents</u>	<u>Trademark</u>	<u>Total</u>
<u>Cost</u>					
Balance, January 1, 2018	\$ 126,919	\$ 149,951	\$ 76,718	\$ 74,000	\$ 427,588
Additions	-	2,198	-	-	2,198
Effect of foreign currency exchange differences	<u>2,782</u>	<u>3,431</u>	<u>(6)</u>	<u>-</u>	<u>6,207</u>
Balance, September 30, 2018	<u>\$ 129,701</u>	<u>\$ 155,580</u>	<u>\$ 76,712</u>	<u>\$ 74,000</u>	<u>\$ 435,993</u>
<u>Accumulated amortization</u>					
Balance, January 1, 2018	\$ 72,394	\$ 98,685	\$ 23,595	\$ 22,200	\$ 216,874
Amortization expenses	16,950	24,033	5,839	5,550	52,372
Effect of foreign currency exchange differences	<u>1,799</u>	<u>2,726</u>	<u>(6)</u>	<u>-</u>	<u>4,519</u>
Balance, September 30, 2018	<u>\$ 91,143</u>	<u>\$ 125,444</u>	<u>\$ 29,428</u>	<u>\$ 27,750</u>	<u>\$ 273,765</u>
Carrying amounts as of September 30, 2018	<u>\$ 38,558</u>	<u>\$ 30,136</u>	<u>\$ 47,284</u>	<u>\$ 46,250</u>	<u>\$ 162,228</u>
<u>Cost</u>					
Balance, January 1, 2019	\$ 130,393	\$ 157,801	\$ 76,714	\$ 74,000	\$ 438,908
Effect of foreign currency exchange differences	<u>1,182</u>	<u>1,408</u>	<u>(5)</u>	<u>-</u>	<u>2,585</u>
Balance, September 30, 2019	<u>\$ 131,575</u>	<u>\$ 159,209</u>	<u>\$ 76,709</u>	<u>\$ 74,000</u>	<u>\$ 441,493</u>
<u>Accumulated amortization</u>					
Balance, January 1, 2019	\$ 95,724	\$ 133,210	\$ 31,376	\$ 29,600	\$ 289,910
Amortization expenses	12,357	17,174	5,839	5,550	40,920
Effect of foreign currency exchange differences	<u>825</u>	<u>1,250</u>	<u>(5)</u>	<u>-</u>	<u>2,070</u>
Balance, September 30, 2019	<u>\$ 108,906</u>	<u>\$ 151,634</u>	<u>\$ 37,210</u>	<u>\$ 35,150</u>	<u>\$ 332,900</u>
Carrying amounts as of December 31, 2018 and January 1, 2019	<u>\$ 34,669</u>	<u>\$ 24,591</u>	<u>\$ 45,338</u>	<u>\$ 44,400</u>	<u>\$ 148,998</u>
Carrying amounts as of September 30, 2019	<u>\$ 22,669</u>	<u>\$ 7,575</u>	<u>\$ 39,499</u>	<u>\$ 38,850</u>	<u>\$ 108,593</u>

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

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

16. SHORT-TERM BORROWINGS

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Unsecured bank loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,000</u>
Interest rates	-	-	1.25%

17. TRADE PAYABLES

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Trade payables	<u>\$ 1,290,051</u>	<u>\$ 1,625,756</u>	<u>\$ 1,859,493</u>

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.

18. OTHER PAYABLES

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Payable for rebates	\$ 399,641	\$ 337,581	\$ 462,796
Payable for salaries and bonuses	395,095	336,145	244,562
Payable for labor, health and social insurance	14,808	15,475	14,626
Reserve for litigations	52,653	52,101	54,931
Payable for professional services and others	57,813	52,802	54,758
	<u>\$ 920,010</u>	<u>\$ 794,104</u>	<u>\$ 831,673</u>

19. 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\$112 thousand, NT\$139 thousand, NT\$335 thousand and NT\$419 thousand for the three months ended September 30, 2019 and 2018, and nine months ended September 30, 2019 and 2018, respectively.

20. EQUITY

a. Share capital

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Numbers of shares authorized (in thousands)	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Shares authorized	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>299,486</u>	<u>298,743</u>	<u>298,641</u>
Shares issued	<u>\$ 2,994,857</u>	<u>\$ 2,987,432</u>	<u>\$ 2,986,407</u>

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	-	-	19,222	-	-	19,222
Compensation cost of employee share options	-	-	-	22,305	-	22,305
Issuance of ordinary shares from exercise of employee share options	5,125	-	-	(4,464)	-	661

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	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
Expiration of employee share options	-	-	-	(2,362)	2,362	-
BALANCE, SEPTEMBER 30, 2018	<u>\$ 6,420,329</u>	<u>\$ 40,868</u>	<u>\$ 20,491</u>	<u>\$ 45,658</u>	<u>\$ 19,718</u>	<u>\$ 6,547,064</u>
	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, 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)
Treasury shares transferred to employees	-	7,794	-	(7,794)	-	-
Compensation cost of employee share options	-	-	-	8,083	-	8,083
Issuance of ordinary shares from exercise of employee share options	10,290	-	-	(7,702)	-	2,588
Expiration of employee share options	-	-	-	(11,354)	11,354	-
BALANCE, SEPTEMBER 30, 2019	<u>\$ 5,034,044</u>	<u>\$ 48,662</u>	<u>\$ 20,295</u>	<u>\$ 28,709</u>	<u>\$ 31,688</u>	<u>\$ 5,163,398</u>

1) This type of capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or 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

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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 22(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 share

	Shares (In Thousands)
Number of shares on January 1, 2018	5,936
Increase during the period	13,953
Decrease during the period	(5,655)
Number of shares as of September 30, 2018	<u>14,234</u>
Number of shares on January 1, 2019	15,970
Decrease during the period	(4,932)
Number of shares as of September 30, 2019	<u>11,038</u>

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.

21. REVENUE

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
IC for mobile devices	<u>\$ 2,573,411</u>	<u>\$ 2,530,459</u>	<u>\$ 6,352,830</u>	<u>\$ 7,875,850</u>
<u>Contract balances</u>				
Contract liabilities	September 30, 2019	December 31, 2018	September 30, 2018	
Sales of goods	<u>\$ 135,822</u>	<u>\$ 13,895</u>	<u>\$ 17,429</u>	

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22. NET INCOME

a. Finance costs

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Interest on bank loans	\$ 2	\$ 120	\$ 2	\$ 126
Interest on deposits	-	-	1,150	471
Others	-	-	-	93
	<u>\$ 2</u>	<u>\$ 120</u>	<u>\$ 1,152</u>	<u>\$ 690</u>

b. Depreciation and amortization

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Property, plant and equipment	\$ 21,488	\$ 16,017	\$ 61,317	\$ 48,425
Intangible assets	11,249	15,446	40,920	52,372
	<u>\$ 32,737</u>	<u>\$ 31,463</u>	<u>\$ 102,237</u>	<u>\$ 100,797</u>
An analysis of depreciation and amortization by function				
Operating costs	\$ 378	\$ 581	\$ 1,042	\$ 1,745
Operating expenses	32,359	30,882	101,195	99,052
	<u>\$ 32,737</u>	<u>\$ 31,463</u>	<u>\$ 102,237</u>	<u>\$ 100,797</u>

c. Employee benefits expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Post-employment benefits				
Defined contribution plans	\$ 7,083	\$ 7,097	\$ 21,412	\$ 21,262
Defined benefit plans (Note 19)	112	139	335	419
Share-based payments (Note 25)	1,958	6,940	8,083	22,305
Other employee benefits	363,290	412,420	1,113,995	1,105,304
	<u>\$ 372,443</u>	<u>\$ 426,596</u>	<u>\$1,143,825</u>	<u>\$1,149,290</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 28,561	\$ 28,156	\$ 83,102	\$ 81,537
Operating expenses	343,882	398,440	1,060,723	1,067,753
	<u>\$ 372,443</u>	<u>\$ 426,596</u>	<u>\$1,143,825</u>	<u>\$1,149,290</u>

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 September 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 nine months ended September 30, 2018 are as follows:

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Accrual rate

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

Amount

	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2018
Employees' compensation	<u>\$ 17,522</u>	<u>\$ 49,468</u>
Remuneration to directors	<u>\$ 154</u>	<u>\$ 449</u>

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.

23. INCOME TAXES

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Current tax				
In respect of the current period	\$ 6,661	\$ 2,444	\$ 9,932	\$ 26,788
Adjustments on prior periods	(852)	(3,371)	346	(3,299)
	<u>5,809</u>	<u>(927)</u>	<u>10,278</u>	<u>23,489</u>
Deferred tax				
In respect of the current period	1,790	(4,587)	16,747	21,876
Effect of tax rate changes	-	-	-	(11,437)
	<u>1,790</u>	<u>(4,587)</u>	<u>16,747</u>	<u>10,439</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 7,599</u>	<u>(\$ 5,514)</u>	<u>\$ 27,025</u>	<u>\$ 33,928</u>

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 September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Deferred income tax				
Effect of tax rate change	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 276</u>

- c. Income tax assessments

Tax returns of the Company and FocalTech Smart Sensors Co., Ltd. through 2017, and that of

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FocalTech Electronics Co., Ltd. through 2016 had been assessed by the tax authorities.

24. EARNINGS (LOSS) PER SHARE

	Unit: NT\$ Per Share			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Basic earnings (loss) per share	\$ 0.29	\$ 0.30	(\$ 0.84)	\$ 0.66
Diluted earnings per share	\$ 0.28	\$ 0.30		\$ 0.66

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

Net Profit/ (loss) for the Period

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
	Earnings (loss) used in the computation of basic earnings (loss) per share	\$ 79,983	\$ 85,284	(\$ 231,810)

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
	Weighted average number of ordinary shares in computation of basic earnings (loss) per share	276,676	286,279	275,415
Effect of potentially dilutive ordinary shares:				
Employee share option	60	976	-	1,033
Employees' compensation issued	-	975	-	1,944
Treasury shares transferred to employees	11,419	-	-	-
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>288,155</u>	<u>288,230</u>	<u>275,415</u>	<u>289,194</u>

Note : The Company has a net loss after tax for the nine months ended September 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.

25. SHARE-BASED PAYMENT ARRANGEMENTS

The Company did not have new share option plan issued for employees for the nine months ended September 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.

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a. Employee share option plan

Information on outstanding options for the nine months ended September, 2019 and 2018 is as follows:

September 30, 2019

Employee Share Option Plan	Beginning Balance		Options unvested		Options exercised		Options expired		Ending Balance	
	Units of Option	Weighted-Average Exercise Price (N T \$)	Units of Option	Weighted-Average Exercise Price (N T \$)	Units of Option	Weighted-Average Exercise Price (N T \$)	Units of Option	Weighted-Average Exercise Price (N T \$)	Units of Option	Weighted-Average Exercise Price (N T \$)
2006	1,594,999	\$ 19.86	-	\$ -	(630,200)	\$ 13.72	(38,400)	\$ 25.93	926,399	\$ 23.79
2013	627,250	37.90	-	-	-	-	(627,250)	37.90	-	-
2015	985,750	12.20	(35,750)	12.20	(112,250)	12.20	-	-	837,750	12.20

September 30, 2018

Employee Share Option Plan	Beginning Balance		Options unvested		Options exercised		Options expired		Ending Balance	
	Units of Option	Weighted-Average Exercise Price (N T \$)	Units of Option	Weighted-Average Exercise Price (N T \$)	Units of Option	Weighted-Average Exercise Price (N T \$)	Units of Option	Weighted-Average Exercise Price (N T \$)	Units of Option	Weighted-Average Exercise Price (N T \$)
2006	1,637,199	\$ 19.84	(9,000)	\$ 17.24	(13,000)	\$ 17.24	-	\$ -	1,615,19	\$ 19.88
2013	768,750	37.90	-	-	-	-	(125,500)	37.90	643,250	37.90
2015	1,476,500	12.20	(116,500)	12.20	(257,750)	12.20	(15,000)	12.20	1,087,250	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 nine months ended September 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	2017/7/24	3,198	\$ 12.85	2019/5/7	4,651	\$ -
2017/2/24	50	11.26	2018/7/26	3,515	-		-	
2018/2/8	120	4.20	2019/5/7	95	-		-	
2018/4/24	255	4.30		-			-	
2018/7/26	1,765	-		-			-	
2019/5/7	186	-		-			-	
Total	<u>5,000</u>		Total	<u>6,808</u>		Total	<u>4,651</u>	

Compensation cost of aforementioned share-based payments for the nine months ended September 30, 2019 and 2018 is as follows:

	For the Nine Months Ended September 30	
	2019	2018
Employee share option plans	\$ 669	\$ 1,778
Shares buyback programs	7,414	20,527
	<u>\$ 8,083</u>	<u>\$ 22,305</u>
Adjustment account:		
Capital surplus - employee share options	<u>\$ 8,083</u>	<u>\$ 22,305</u>

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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 will expire by September 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 \$16,841 thousand as of September 30, 2019.

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

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Lease payments	<u>\$ 9,641</u>	<u>\$ 9,548</u>	<u>\$ 27,805</u>	<u>\$ 27,647</u>

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

	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Not later than 1 year	<u>\$ 22,573</u>	<u>\$ 17,089</u>
Later than 1 year and not later than 5 years	<u>240</u>	<u>2,670</u>
	<u>\$ 22,813</u>	<u>\$ 19,759</u>

27. FINANCIAL INSTRUMENTS

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

1) Fair value hierarchy

September 30, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets at FVTPL</u>				
Listed preferred shares	\$ 10,863	\$ -	\$ -	\$ 10,863
Private funds	-	-	45,709	45,709
Structured Investments	-	30,435	-	30,435
	<u>\$ 10,863</u>	<u>\$ 30,435</u>	<u>\$ 45,709</u>	<u>\$ 87,007</u>

Financial assets at FVTOCI

<u>Investments in debt instruments</u>				
Fixed income bonds	<u>\$ -</u>	<u>\$ 262,199</u>	<u>\$ -</u>	<u>\$ 262,199</u>

December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets at FVTPL</u>				
Listed preferred shares	\$ 10,540	\$ -	\$ -	\$ 10,540
Private funds	-	-	41,023	41,023
Structured Investments	-	60,500	-	60,500
	<u>\$ 10,540</u>	<u>\$ 60,500</u>	<u>\$ 41,023</u>	<u>\$ 112,063</u>

Financial assets at FVTOCI

<u>Investments in debt instruments</u>				
Fixed income bonds	<u>\$ -</u>	<u>\$ 313,969</u>	<u>\$ -</u>	<u>\$ 313,969</u>

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September 30, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets at FVTPL</u>				
Listed preferred shares	\$ 10,370	\$ -	\$ -	\$ 10,370
Private funds	-	-	37,593	37,593
Structured Investments	-	29,533	-	29,533
	<u>\$ 10,370</u>	<u>\$ 29,533</u>	<u>\$ 37,593</u>	<u>\$ 77,496</u>
<u>Financial assets at FVTOCI</u>				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 325,236</u>	<u>\$ -</u>	<u>\$ 325,236</u>

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

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

<u>Financial assets at FVTPL</u>	<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>
Balance, beginning of period	\$ 41,023	\$ 29,760
Purchases	4,649	8,530
Recognized in profit or loss (other income or loss)	(275)	(1,434)
Effect of foreign currency exchange differences	312	737
Balance, end of period	<u>\$ 45,709</u>	<u>\$ 37,593</u>

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

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
<u>Financial assets</u>			
Fair value through profit or loss (FVTPL)			
Mandatorily at FVTPL	\$ 87,007	\$ 112,063	\$ 77,496
Amortized cost (Note 1)	6,072,497	5,661,319	6,365,462
Financial assets at FVTOCI			
Investments in debt instruments	262,199	313,969	325,236

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	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>September 30,</u> <u>2018</u>
<u>Financial liabilities</u>			
Amortized cost (Note 2)	\$ 2,476,179	\$ 2,695,644	\$ 3,036,029

- 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, 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)

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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 Nine Months Ended September 30	
	2019	2018
Profit or loss/ equity	<u>\$ 43,668</u>	<u>\$ 18,076</u>
	(i)	(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 are as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Fair value interest rate risk			
Financial assets	<u>\$ 4,031,409</u>	<u>\$ 4,110,624</u>	<u>\$ 4,038,593</u>
Cash flow interest rate risk			
Financial assets	<u>\$ 1,219,629</u>	<u>\$ 901,327</u>	<u>\$ 1,464,181</u>
Fair value interest rate risk			
Financial liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,000</u>

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 nine months ended September 30, 2019 and 2018 would increase/ decrease by NT\$2,287 thousand and NT\$2,745 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.

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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 September 30, 2019, trade receivables from top 5 customers represented 74% 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:

<u>Category</u>	<u>Description</u>	<u>Basis for Recognizing Expected Credit Loss</u>	<u>Expected Credit Loss Ratio</u>	<u>Carrying Amount as of September 30, 2019</u>
Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	\$ 292,634

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

<u>Category</u>	<u>Description</u>	<u>Basis for Recognizing Expected Credit Loss</u>	<u>Expected Credit Loss Ratio</u>	<u>Carrying Amount as of September 30, 2018</u>
Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	\$ 354,769

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.

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

As of September 30, 2019, December 31, 2018, and September 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.

September 30, 2019

	On Demand or Less than 1 Year	1-5 Years
Non-interest bearing	\$ <u>2,210,061</u>	\$ <u>266,118</u>

December 31, 2018

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

September 30, 2018

	On Demand or Less than 1 Year	1-5 Years
Fixed-rate instruments	\$ 100,014	\$ -
Non-interest bearing	<u>2,691,166</u>	<u>244,863</u>
	<u>\$ 2,791,180</u>	<u>\$ 244,863</u>

b) Financing credit line

	September 30, 2019	December 31, 2018	September 30, 2018
Unsecured bank overdraft line of credit			
Amount used	\$ -	\$ -	\$ 100,000
Amount unused	<u>408,640</u>	<u>1,300,000</u>	<u>1,310,500</u>
	<u>\$ 408,640</u>	<u>\$ 1,300,000</u>	<u>\$ 1,410,500</u>

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 September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Long-term employee benefits	\$ -	\$ 21,096	\$ 20,001	\$ 28,320
Short-term employee benefits	9,767	11,376	30,505	34,113
Post-employment benefits	135	135	405	332
Share-based payments	<u>730</u>	<u>1,491</u>	<u>2,240</u>	<u>4,680</u>
	<u>\$ 10,632</u>	<u>\$ 34,098</u>	<u>\$ 53,151</u>	<u>\$ 67,445</u>

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29. PLEDGED ASSETS

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Pledge deposits (categorized in other non-current assets)	\$ 4,000	\$ 4,000	\$ 35,061

30. SIGNIFICANT CONTINGENT LIABILITIES

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 are as follows:

September 30, 2019

	<u>Foreign Currencies</u>	<u>Exchange Rate</u>	<u>Carrying Amount</u>
<u>Financial assets</u>			
Monetary items			
USD	\$ 52,564	31.04 (USD:NTD)	\$ 1,631,580
USD	3,427	7.0729 (USD:RMB)	106,359
<u>Financial liabilities</u>			
Monetary items			
USD	21,253	31.04 (USD:NTD)	659,697
USD	6,600	7.0729 (USD:RMB)	204,875

December 31, 2018

	<u>Foreign Currencies</u>	<u>Exchange Rate</u>	<u>Carrying Amount</u>
<u>Financial assets</u>			
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
<u>Financial liabilities</u>			
Monetary items			
USD	16,911	30.715 (USD:NTD)	519,425
USD	16,024	6.8632 (USD:RMB)	492,173

September 30, 2018

	<u>Foreign Currencies</u>	<u>Exchange Rate</u>	<u>Carrying Amount</u>
<u>Financial assets</u>			
Monetary items			
USD	\$ 45,164	30.525 (USD:NTD)	\$ 1,378,646

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	<u>Foreign Currencies</u>	<u>Exchange Rate</u>	<u>Carrying Amount</u>
USD	3,081	6.8792 (USD:RMB)	94,050
<u>Financial liabilities</u>			
Monetary items			
USD	27,167	30.525 (USD:NTD)	829,277
USD	9,235	6.8792 (USD:RMB)	281,903

32. SEGMENT INFORMATION

Segment information is provided to business decision makers to allocate resources and assess 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.