

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

**Consolidated Financial Statements for the
Three Months Ended March 31, 2020 and 2019**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
FocalTech Systems Co., Ltd.

Introduction

We have reviewed the accompanying consolidated balance sheets of FocalTech Systems Co., Ltd. and its subsidiaries (collectively, the "Company") as of March 31, 2020 and 2019, the related consolidated statements of comprehensive income, of consolidated statements of changes in equity and of cash flows for the three months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As disclosed in Note 12 to the consolidated financial statements, the financial statements of non-significant subsidiaries included in the consolidated financial statements referred to in the first paragraph were not reviewed. As of March 31, 2020 and 2019, combined total assets of these non-significant subsidiaries were NT\$588,619 thousand and NT\$394,441 thousand, respectively, representing 5% and 4%, respectively, of the consolidated total assets, and combined total liabilities of these subsidiaries were NT\$98,299 thousand and NT\$42,116 thousand, respectively, representing 2% and 2%, respectively, of the consolidated total liabilities; for the three months ended March 31, 2020 and 2019, the amounts of combined comprehensive loss of these subsidiaries were NT\$25,489 thousand and NT\$55,298 thousand, respectively, representing (33%) and (38%).

Qualified Conclusion

Based on our reviews, except for the adjustments, if any, as might have been determined to be necessary had the financial statements of the non-significant subsidiaries and as described in the preceding paragraph been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not give a true and fair view of the consolidated financial position of the Group as of March 31, 2020 and 2019, its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors' review report are Shio-Ming Shue and Chih-Ming Shao.

Deloitte & Touche
Taipei, Taiwan
Republic of China

May 12, 2020

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	March 31, 2020		December 31, 2019		March 31, 2019	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 3,559,430	29	\$ 3,461,503	30	\$ 2,416,264	24
Financial assets at fair value through other comprehensive income - current (Note 8)	112,347	1	120,475	1	140,911	1
Trade receivables, net (Note 10)	1,527,095	13	1,420,459	12	678,286	6
Inventories (Note 11)	2,347,041	19	1,570,753	14	2,413,696	23
Other financial assets (Note 9)	1,281,055	11	1,596,292	14	1,533,892	14
Other current assets	261,628	2	361,925	3	155,099	1
Total current assets	9,088,596	75	8,531,407	74	7,338,148	69
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss - non-current (Note 7)	54,182	-	56,354	-	114,216	1
Financial assets at fair value through other comprehensive income - non-current (Note 8)	62,560	-	60,898	1	175,945	2
Property, plant and equipment (Note 13)	1,337,986	11	1,361,478	11	1,495,532	14
Goodwill (Notes 14)	1,237,268	10	1,237,268	11	1,237,268	12
Other intangible assets (Note 15)	76,406	1	99,189	1	134,293	1
Deferred tax assets	107,145	1	120,782	1	136,858	1
Other non-current assets (Note 28)	131,631	2	135,593	1	53,047	-
Total non-current assets	3,007,178	25	3,071,562	26	3,347,159	31
TOTAL	\$ 12,095,774	100	\$ 11,602,969	100	\$ 10,685,307	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Trade payables (Note 16)	\$ 2,212,002	19	\$ 1,986,219	17	\$ 1,323,691	12
Other payables (Note 17)	828,816	7	954,449	8	701,467	7
Current tax liabilities (Notes 4)	395,188	3	363,172	3	394,869	4
Other current liabilities (Notes 20)	180,040	1	108,584	1	139,049	1
Total current liabilities	3,616,046	30	3,412,424	29	2,559,076	24
NON-CURRENT LIABILITIES						
Deferred tax liabilities	32,331	-	33,537	-	30,799	-
Net defined benefit liabilities - non-current (Note 4)	23,976	-	24,078	-	26,008	-
Guarantee deposits received	375,637	4	394,360	4	124,362	2
Other non-current liabilities	10,400	-	10,400	-	10,400	-
Total non-current liabilities	442,344	4	462,375	4	191,569	2
Total liabilities	4,058,390	34	3,874,799	33	2,750,645	26
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 19 and 24)						
Share capital						
Ordinary shares	2,999,069	25	2,996,759	26	2,987,924	28
Capital surplus						
Additional paid-in capital	5,045,484	42	5,037,671	44	6,423,295	61
Treasury shares	48,662	-	48,662	1	40,868	-
Changes in ownership interests in subsidiaries	-	-	-	-	20,448	-
Employee share options	24,096	-	25,510	-	49,135	-
Employee share options - expired	33,534	-	33,534	-	20,731	-
Total capital surplus	5,151,776	42	5,145,377	45	6,554,477	61
Accumulated deficits						
Legal reserve	-	-	-	-	186,154	2
Deficits to be offset	(117,121)	(1)	(183,307)	(2)	(1,618,106)	(15)
Total Accumulated deficits	(117,121)	(1)	(183,307)	(2)	(1,431,952)	(13)
Other equity						
Exchange differences from translating the financial statements of foreign operations	19,292	-	4,057	-	194,812	2
Unrealized loss on financial assets at fair value through other comprehensive income	2,915	-	1,750	-	(461)	-
Total other equity	22,207	-	5,807	-	194,351	2
Treasury shares	(43,074)	-	(267,158)	(2)	(393,203)	(4)
Equity attributable to owners of the company	8,012,857	66	7,697,478	67	7,911,597	74
NON-CONTROLLING INTERESTS	24,527	-	30,692	-	23,065	-
Total equity	8,037,384	66	7,728,170	67	7,934,662	74
TOTAL	\$ 12,095,774	100	\$ 11,602,969	100	\$ 10,685,307	100

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31			
	2020		2019	
	Amount	%	Amount	%
REVENUE (Note 20)	\$ 2,909,637	100	\$ 1,639,942	100
COSTS OF SALES (Notes 11 and 21)	<u>(2,269,808)</u>	<u>(78)</u>	<u>(1,296,244)</u>	<u>(79)</u>
GROSS MARGIN	<u>639,829</u>	<u>22</u>	<u>343,698</u>	<u>21</u>
OPERATING EXPENSES (Notes 18, 21, 25 and 27)				
Selling and marketing expenses	(94,154)	(4)	(97,594)	(6)
General and administrative expenses	(87,317)	(3)	(82,504)	(5)
Research and development expenses	<u>(387,653)</u>	<u>(13)</u>	<u>(388,407)</u>	<u>(24)</u>
Total operating expenses	<u>(569,124)</u>	<u>(20)</u>	<u>(568,505)</u>	<u>(35)</u>
OPERATIONS INCOME (LOSS)	<u>70,705</u>	<u>2</u>	<u>(224,807)</u>	<u>(14)</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs	(1,078)	-	(1,150)	-
Interest income	19,520	1	27,007	1
Loss on financial assets and liabilities at fair value through profit or loss	(2,762)	-	(110)	-
Other gains and losses - net	13,652	-	(5,627)	-
Gain on foreign currency exchange	<u>2,771</u>	<u>-</u>	<u>9,541</u>	<u>1</u>
Total non-operating income and expenses	<u>32,103</u>	<u>1</u>	<u>29,661</u>	<u>2</u>
INCOME (LOSS) BEFORE INCOME TAX	102,808	3	(195,146)	(12)
INCOME TAX EXPENSE (Notes 4 and 22)	<u>(43,410)</u>	<u>(1)</u>	<u>1,312</u>	<u>-</u>
NET INCOME (LOSS)	<u>59,398</u>	<u>2</u>	<u>(193,834)</u>	<u>(12)</u>
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences from translating the financial statements of foreign operations	15,858	1	45,564	3
Unrealized gain from debt instrument investments measured at fair value through other comprehensive loss	<u>1,165</u>	<u>-</u>	<u>1,829</u>	<u>-</u>

(Continued)

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

	For the Three Months Ended March 31			
	2020		2019	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss	\$ 17,023	1	\$ 47,393	3
Other comprehensive income for the period, net of income tax	17,023	1	47,393	3
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 76,421	3	\$ (146,441)	(9)
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 66,186	2	\$ (183,351)	(11)
Non-controlling interests	(6,788)	-	(10,483)	(1)
	<u>\$ 59,398</u>	<u>2</u>	<u>\$ (193,834)</u>	<u>(12)</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 82,586	3	\$ (136,164)	(8)
Non-controlling interests	(6,165)	-	(10,277)	(1)
	<u>\$ 76,421</u>	<u>3</u>	<u>\$ (146,441)</u>	<u>(9)</u>
EARNINGS (LOSS) PER SHARE (Note 23)				
Basic	\$ 0.24		\$ (0.67)	
Diluted	\$ 0.23			

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

(Concluded)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company									
					Other Equity		Treasury Shares	Total	Non-controlling Interests	Total Equity
	Share Capital	Capital Surplus	Accumulated deficits		Differences from Translating Financial Statement of Foreign Operations	Unrealized gain (loss) from financial asset measured at fair value through other comprehensive income				
Ordinary Shares	Legal Reserve		Deficits to be offset							
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
Net loss for the three months ended March 31, 2019	-	-	-	(183,351)	-	-	-	(183,351)	(10,483)	(193,834)
Other comprehensive income for the three months ended March 31, 2019, net of income tax	-	-	-	-	45,358	1,829	-	47,187	206	47,393
Total comprehensive income (loss) for the three months ended March 31, 2019	-	-	-	(183,351)	45,358	1,829	-	(136,164)	(10,277)	(146,441)
Compensation cost of employee share options (Note 19 and 24)	-	2,856	-	-	-	-	-	2,856	-	2,856
Issue of ordinary shares under employee share options (Note 19 and 24)	492	140	-	-	-	-	-	632	-	632
BALANCE AT MARCH 31, 2019	\$ 2,987,924	\$ 6,554,477	\$ 186,154	\$ (1,618,106)	\$ 194,812	\$ (461)	\$ (393,203)	\$ 7,911,597	\$ 23,065	\$ 7,934,662
BALANCE, JANUARY 1, 2020	\$ 2,996,759	\$ 5,145,377	\$ -	\$ (183,307)	\$ 4,057	\$ 1,750	\$ (267,158)	\$ 7,697,478	\$ 30,692	\$ 7,728,170
Net income for the three months ended March 31, 2020	-	-	-	66,186	-	-	-	66,186	(6,788)	59,398
Other comprehensive income for the three months ended March 31, 2020, net of income tax	-	-	-	-	15,235	1,165	-	16,400	623	17,023
Total comprehensive income (loss) for the three months ended March 31, 2020	-	-	-	66,186	15,235	1,165	-	82,586	(6,165)	76,421
Compensation cost of employee share options (Note 19 and 24)	-	2,978	-	-	-	-	-	2,978	-	2,978
Treasury stock transferred to employees (Note 19 and 24)	-	-	-	-	-	-	224,084	224,084	-	224,084
Issue of ordinary shares under employee share options (Note 19 and 24)	2,310	3,421	-	-	-	-	-	5,731	-	5,731
BALANCE AT MARCH 31, 2020	\$ 2,999,069	\$ 5,151,776	\$ -	\$ (117,121)	\$ 19,292	\$ 2,915	\$ (43,074)	\$ 8,012,857	\$ 24,527	\$ 8,037,384

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 CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Three Months Ended March 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax from continuing operation	\$ 102,808	\$ (195,146)
Adjustments for:		
Depreciation expenses	19,659	18,848
Amortization expenses	22,991	14,984
Loss on financial assets and liabilities at fair value through profit or loss	2,762	110
Finance costs	1,078	1,150
Interest income	(19,520)	(27,007)
Compensation cost of employee share options	2,978	2,856
Loss on disposal of investments	40,928	-
Unrealized loss (gain) on foreign currency exchange	5,216	(4,713)
Changes in operating assets and liabilities		
Increase in financial assets mandatorily classified as at fair value through profit or loss	(41,290)	(1,955)
Trade receivables	(102,534)	306,514
Inventories	(770,588)	(287,201)
Other current assets	101,592	7,028
Trade payables	219,745	(309,196)
Other payables	(130,782)	(95,995)
Other current liabilities	71,277	73,212
Net defined benefit liabilities	(102)	(88)
Cash generated from operations	(473,782)	(496,599)
Interest paid	(1,078)	(1,150)
Income tax paid	(1,913)	(1,689)
Net cash used from operating activities	<u>(476,773)</u>	<u>(499,438)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial asset at fair value through other comprehensive income	9,032	-
Purchase for property, plant and equipment	(4,620)	(89,805)
Purchase of intangible assets	(149)	-
Decrease in other financial assets	324,028	761,217
Decrease in other non-current assets	3,901	4,070
Interest received	18,539	24,585
Net cash generated from investing activities	<u>350,731</u>	<u>700,067</u>

(Continued)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31	
	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in guarantee deposits	\$ (20,123)	\$ (152,088)
Issue of ordinary shares under employee share options	5,731	632
Treasury stock transferred to employees	<u>224,084</u>	<u>-</u>
Net cash generated (used) in financing activities	<u>209,692</u>	<u>(151,456)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>14,277</u>	<u>11,165</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	97,927	60,338
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>3,461,503</u>	<u>2,355,926</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 3,559,430</u>	<u>\$ 2,416,264</u>

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

(Concluded)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019 (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 is mainly engaged in research, development, design, manufacturing, and sales of solutions regarding to human and machine interface devices, such as Display Driver IC, Touch Control IC and so on.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on May 8, 2020.

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

- a. Initial application of 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).

The initial application of the amendments to the IFRSs endorsed and issued in to effect by the FSC did not have a significant impact on the Group’s accounting policies.

- b. New IFRSs in issue but not yet endorsed and issued into effect by the 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
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Definition of Materiality”	January 1, 2022

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 issuance, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have impact on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations

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

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 the financial instruments measured at fair value and the net defined benefit liabilities recognized in the fair value of the estimated assets, and explained in the accounting policies below.

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

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

c. Basis of consolidation

The detail information, holding percentages, and main business of the subsidiaries could be found in Note 12.

d. Other significant accounting policies

Except for the following, the accounting policies applied in the consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2019.

1) Retirement benefit costs

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

2) Taxation

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

5. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS

The uncertainty of critical accounting judgments, estimations and assumptions applied are consistent with those in the consolidated financial statements for the year ended December 31, 2019.

6. CASH AND CASH EQUIVALENTS

	March 31, 2020	December 31, 2019	March 31, 2019
Cash on hand	\$ 11,562	\$ 4,381	\$ 3,498
Checking accounts and demand deposits	2,198,323	2,103,526	827,044
Cash equivalent (fixed deposit with original maturities less than three months)	<u>1,349,545</u>	<u>1,353,596</u>	<u>1,585,722</u>
	<u>\$ 3,559,430</u>	<u>\$ 3,461,503</u>	<u>\$ 2,416,264</u>

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

	March 31, 2020	December 31, 2019	March 31, 2019
Demand deposits	0.001%-0.35%	0.001%-0.35%	0.001%-0.5%
Fixed deposits	0.7%-2.5%	1.56%-2.32%	1.1%-3%

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

	March 31, 2020	December 31, 2019	March 31, 2019
Mandatorily at fair value through profit or loss (FVTPL)			
Listed preferred shares	\$ 10,336	\$ 10,931	\$ 10,710
Private Funds	43,846	45,423	42,414
Structured Investments	<u>-</u>	<u>-</u>	<u>61,092</u>
	<u>\$ 54,182</u>	<u>\$ 56,354</u>	<u>\$ 114,216</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	March 31, 2020	December 31, 2019	March 31, 2019
Investments in debt instruments			
<u>Current</u>			
Foreign investments			
Fixed income bonds	<u>\$ 112,347</u>	<u>\$ 120,475</u>	<u>\$ 140,911</u>
<u>Non – Current</u>			
Foreign investments			
Fixed income bonds	<u>\$ 62,560</u>	<u>\$ 60,898</u>	<u>\$ 175,945</u>
Yield rates	2.307%-4.117%	2.307%-4.117%	1.963%-4.117%

9. OTHER FINANCIAL ASSETS

	March 31, 2020	December 31, 2019	March 31, 2019
Time deposits with original maturities more than three months	<u>\$ 1,281,055</u>	<u>\$ 1,596,292</u>	<u>\$ 1,533,892</u>
Market rate intervals	1.5%-4.18%	1.5%-4.18%	0.8%-4.18%

10. TRADE RECEIVABLES, NET

	March 31, 2020	December 31, 2019	March 31, 2019
Trade receivables	<u>\$ 1,527,095</u>	<u>\$ 1,420,459</u>	<u>\$ 678,286</u>

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

The Group applies the simplified approach prescribed by IFRS 9, which permits the use of allowances of expected credit losses over the lifetime for all trade receivables. The expected credit losses on trade receivables are estimated by using an allowance matrix with references to past customer default records, customer's current financial position, and general economic conditions of the industry. Due to the past experiences, there is no significant difference in the loss patterns of different customer groups. Therefore, the allowance matrix does not further distinguish the customer base, and only sets the expected credit loss rate based on the overdue days of trade receivable.

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

March 31, 2020

	<u>Non Past Due</u>	<u>Overdue 1-60 Days</u>	<u>Overdue 61-180 Days</u>	<u>Overdue Over 181 Days</u>	<u>Total</u>
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	<u>\$1,292,282</u>	<u>\$ 233,934</u>	<u>\$ 879</u>	<u>\$ -</u>	<u>\$ 1,527,095</u>

December 31, 2019

	<u>Non Past Due</u>	<u>Overdue 1-60 Days</u>	<u>Overdue 61-180 Days</u>	<u>Overdue Over 181 Days</u>	<u>Total</u>
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	<u>\$1,420,085</u>	<u>\$ 374</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,420,459</u>

March 31, 2019

	<u>Non Past Due</u>	<u>Overdue 1-60 Days</u>	<u>Overdue 61-180 Days</u>	<u>Overdue Over 181 Days</u>	<u>Total</u>
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	<u>\$ 665,432</u>	<u>\$ 12,854</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 678,286</u>

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

11. INVENTORIES

	March 31, 2020	December 31, 2019	March 31, 2019
Finished goods	\$ 790,604	\$ 476,430	\$ 391,799
Work in progress	1,054,133	775,899	1,276,618
Raw materials and supplies	<u>502,304</u>	<u>318,424</u>	<u>745,279</u>
	<u>\$ 2,347,041</u>	<u>\$ 1,570,753</u>	<u>\$ 2,413,696</u>

The cost of goods sold for the three months ended March 31, 2020 and 2019 was \$2,269,808 thousand and \$1,296,244 thousand.

12. SUBSIDIARIES

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

Investor	Investee	Main Businesses	Proportion of Ownership		
			March 31, 2020	December 31, 2019	March 31, 2019
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd.	Investment activity	100%	100%	100%
	FocalTech Electronics, Ltd.	Investment activity	100%	100%	100%
FocalTech Systems Co., Ltd. And FocalTech Electronics Co., Ltd. (a)	FocalTech Smart Sensors, Ltd.	Investment activity	67.15%	67.15%	61.88%
FocalTech Smart Sensors, Ltd. (a)	FocalTech Smart Sensors Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%	100%
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	Investment activity	100%	100%	100%
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%	100%
FocalTech Systems, Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	Design and research of integrated circuits	100%	100%	100%
	FocalTech Electronics Co., Ltd.	Import and export of integrated circuits	100%	100%	100%
FocalTech Electronics, Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	Sales support and post-sales service for affiliates' IC products	100%	100%	100%
	FocalTech Electronics (Shenzhen) Co., Ltd.	Design and research of integrated circuits	100%	100%	100%
	Hefei PineTech Electronics Co., Ltd.	Research, development and sale of integrated circuits	100%	100%	100%

- a. FocalTech Smart Sensors, Ltd. issued its ordinary shares but the Group did not subscribe according to the shareholding ratio causing changes in the shareholding ratio.

As of March 31, 2020 and 2019, the immaterial subsidiaries of the Group 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.

The financial statements of the immaterial subsidiaries had not been reviewed by the auditors. As of March 31, 2020 and 2019, the total amounts of assets of the immaterial subsidiaries were \$588,619 thousand, and \$394,441 thousand, 5% and 4% of total consolidated assets, respectively. The total amounts of liabilities were \$98,299 thousand, and \$42,116 thousand, 2% and 2% of total consolidated liabilities, respectively.

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

For the three months ended March 31, 2020 and 2019, the total immaterial subsidiaries comprehensive loss has been recognized \$(25,489) thousand, \$(55,298) thousand, that held (33%), and(38%) in the consolidated statements of comprehensive loss, respectively.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improvements	Total
<u>Cost</u>						
Balance at January 1, 2019	\$ 1,375,563	\$ 192,558	\$ 15,970	\$ 42,675	\$ 38,956	\$ 1,665,722
Additions	-	89,271	-	534	-	89,805
Effect of foreign currency exchange differences	30,435	1,373	272	866	326	33,272
Balance at March 31, 2019	<u>\$ 1,405,998</u>	<u>\$ 283,202</u>	<u>\$ 16,242</u>	<u>\$ 44,075</u>	<u>\$ 39,282</u>	<u>\$ 1,788,799</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2019	\$ 51,610	\$ 138,166	\$ 11,635	\$ 31,508	\$ 38,431	\$ 271,350
Depreciation	9,303	7,760	332	927	526	18,848
Effect of foreign currency exchange differences	1,105	848	175	616	325	3,069
Balance at March 31, 2019	<u>\$ 62,018</u>	<u>\$ 146,774</u>	<u>\$ 12,142</u>	<u>\$ 33,051</u>	<u>\$ 39,282</u>	<u>\$ 293,267</u>
Carrying amounts at March 31, 2019	<u>\$ 1,343,980</u>	<u>\$ 136,428</u>	<u>\$ 4,100</u>	<u>\$ 11,024</u>	<u>\$ -</u>	<u>\$ 1,495,532</u>
<u>Cost</u>						
Balance at January 1, 2020	\$ 1,322,961	\$ 285,660	\$ 15,548	\$ 42,621	\$ 38,388	\$ 1,705,178
Additions	-	4,442	-	178	-	4,620
Reclassification	-	(261)	-	261	-	-
Effect of foreign currency exchange differences	(9,422)	718	(84)	(284)	(100)	(9,172)
Balance at March 31, 2020	<u>\$ 1,313,539</u>	<u>\$ 290,559</u>	<u>\$ 15,464</u>	<u>\$ 42,776</u>	<u>\$ 38,288</u>	<u>\$ 1,700,626</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2020	\$ 84,761	\$ 174,368	\$ 12,431	\$ 33,752	\$ 38,388	\$ 343,700
Depreciation	8,824	9,936	232	667	-	19,659
Effect of foreign currency exchange differences	(689)	354	(63)	(221)	(100)	(719)
Balance at March 31, 2020	<u>\$ 92,896</u>	<u>\$ 184,658</u>	<u>\$ 12,600</u>	<u>\$ 34,198</u>	<u>\$ 38,288</u>	<u>\$ 362,640</u>
Carrying amounts at December 31, 2019 and January 1, 2020	<u>\$ 1,238,200</u>	<u>\$ 111,292</u>	<u>\$ 3,117</u>	<u>\$ 8,869</u>	<u>\$ -</u>	<u>\$ 1,361,478</u>
Carrying amounts at March 31, 2020	<u>\$ 1,220,643</u>	<u>\$ 105,901</u>	<u>\$ 2,864</u>	<u>\$ 8,578</u>	<u>\$ -</u>	<u>\$ 1,337,986</u>

Property, plant and equipment were depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings	45-50 years
Development equipment	3-5 years
Office equipment	3-5 years
Information equipment	3-5 years
Leasehold improvements	1-5 years

Property, plant and equipment were not been pledged as collateral.

14. GOODWILL

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Ending balance</u>	<u>\$ 1,237,268</u>	<u>\$ 1,237,268</u>	<u>\$ 1,237,268</u>

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, generating the goodwill of \$3,237,268 thousand. In 2018, the impacts of market improper competition and the shortage of wafer supply made the company a serious market share decline, which is expected to influence the market shares and gross margins in the future. Therefore, the recoverable amount from IDC (Integrated Driver Controller) less than the carrying value so the Company recognized the impairment loss of \$2,000,000 thousand. In 2019, based on the market growth and market share gain in smartphone market, the Group estimated cash flows from sales of IDC (Integrated Driver Controller), and the recoverable amount exceeded the carrying value. Therefore, the Group did not recognize any impairment on goodwill.

The recoverable amount is calculated by IDC projected net cash flows, discounted at 10.66% and 9.95% for the years ended December 31, 2019 and 2018, under the assumptions of management team judgments and historical experiences with regard to future growth rates and gross margin .

15. OTHER INTANGIBLE ASSETS

	Licenses and Franchises	Software	Patents	Trademark	Total
<u>Cost</u>					
Balance at January 1, 2019	\$ 130,393	\$ 157,801	\$ 76,714	\$ 74,000	\$ 438,908
Effect of foreign currency exchange differences	<u>382</u>	<u>608</u>	<u>5</u>	<u>-</u>	<u>995</u>
Balance at March 31, 2019	<u>\$ 130,775</u>	<u>\$ 158,409</u>	<u>\$ 76,719</u>	<u>\$ 74,000</u>	<u>\$ 439,903</u>
<u>Accumulated amortization</u>					
Balance at January 1, 2019	\$ 95,724	\$ 133,210	\$ 31,376	\$ 29,600	\$ 289,910
Amortization expense	4,132	7,056	1,946	1,850	14,984
Effect of foreign currency exchange differences	<u>267</u>	<u>444</u>	<u>5</u>	<u>-</u>	<u>716</u>
Balance at March 31, 2019	<u>\$ 100,123</u>	<u>\$ 140,710</u>	<u>\$ 33,327</u>	<u>\$ 31,450</u>	<u>\$ 305,610</u>
Carrying amounts at March 31, 2019	<u>\$ 30,652</u>	<u>\$ 17,699</u>	<u>\$ 43,392</u>	<u>\$ 42,550</u>	<u>\$ 134,293</u>
<u>Cost</u>					
Balance at January 1, 2020	\$ 127,719	\$ 154,970	\$ 76,704	\$ 74,000	\$ 433,393
Additions	-	149	-	-	149
Effect of foreign currency exchange differences	<u>891</u>	<u>1,093</u>	<u>(1)</u>	<u>-</u>	<u>1,983</u>
Balance at March 31, 2020	<u>\$ 128,610</u>	<u>\$ 156,212</u>	<u>\$ 76,703</u>	<u>\$ 74,000</u>	<u>\$ 435,525</u>

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

Accumulated amortization

Balance at January 1, 2020	\$ 109,676	\$ 148,376	\$ 39,152	\$ 37,000	\$ 334,204
Amortization expense	17,690	1,505	1,946	1,850	22,991
Effect of foreign currency exchange differences	<u>817</u>	<u>1,108</u>	<u>(1)</u>	<u>-</u>	<u>1,924</u>
Balance at March 31, 2020	<u>\$ 128,183</u>	<u>\$ 150,989</u>	<u>\$ 41,097</u>	<u>\$ 38,850</u>	<u>\$ 359,119</u>
Carrying amounts at December 31, 2019 and January 1, 2020	<u>\$ 18,043</u>	<u>\$ 6,594</u>	<u>\$ 37,552</u>	<u>\$ 37,000</u>	<u>\$ 99,189</u>
Carrying amounts at March 31, 2020	<u>\$ 427</u>	<u>\$ 5,223</u>	<u>\$ 35,606</u>	<u>\$ 35,150</u>	<u>\$ 76,406</u>

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

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

16. TRADE PAYABLES

	March 31, 2020	December 31, 2019	March 31, 2019
Trade payables	<u>\$ 2,212,002</u>	<u>\$ 1,986,219</u>	<u>\$ 1,323,691</u>

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

17. OTHER PAYABLES

	March 31, 2020	December 31, 2019	March 31, 2019
Payable for rebates	\$ 406,112	\$ 408,291	\$ 267,003
Payable for salaries and bonus	285,137	411,236	308,173
Payable for labor, health and social insurance	25,901	12,367	15,158
Reserve for litigations	50,514	50,105	52,280
Payable for professional services and others	<u>61,152</u>	<u>72,450</u>	<u>58,853</u>
	<u>\$ 828,816</u>	<u>\$ 954,449</u>	<u>\$ 701,467</u>

18. RETIREMENT BENEFIT

Employee benefit expenses in respect of the Company's defined benefit retirement plans were \$91 thousand and \$112 thousand for the three months ended March 31, 2020 and 2019, respectively, and were calculated using the actuarially determined pension cost discount rate as of December 31, 2019 and 2018.

19. EQUITY

a. Share capital

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

	March 31, 2020	December 31, 2019	March 31, 2019
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>299,907</u>	<u>299,676</u>	<u>298,792</u>
Shares issued	<u>\$ 2,999,069</u>	<u>\$ 2,996,759</u>	<u>\$ 2,987,924</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, 2019	\$6,422,355	\$ 40,868	\$ 20,448	\$ 47,476	\$ 20,334	\$6,551,481
Compensation cost of employee share options	-	-	-	2,856	-	2,856
Issue of ordinary shares under employee share options	940	-	-	(800)	-	140
Employee share options expired	-	-	-	(397)	397	-
BALANCE AT MARCH 31, 2019	<u>\$ 6,423,295</u>	<u>\$ 40,868</u>	<u>\$ 20,448</u>	<u>\$ 49,135</u>	<u>\$ 20,731</u>	<u>\$ 6,554,477</u>
BALANCE, JANUARY 1, 2020	\$5,037,671	\$ 48,662	\$ -	\$ 25,510	\$ 33,534	\$5,145,377
Compensation cost of employee share options	-	-	-	2,978	-	2,978
Issue of ordinary shares under employee share options	7,813	-	-	(4,392)	-	3,421
BALANCE AT MARCH 31, 2020	<u>\$ 5,045,484</u>	<u>\$ 48,662</u>	<u>\$ -</u>	<u>\$ 24,096</u>	<u>\$ 33,534</u>	<u>\$5,151,776</u>

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

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

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

c. Retained earnings and dividend policy

The amendments to the Company's Articles of Incorporation had been approved by the Company's shareholders in its meeting held on June 20, 2019, which stipulate that earnings distribution may be made on a quarterly basis after the close of each quarter.

The Company's amended Articles of Incorporation provide that, when distributing earnings belonging to the first three quarter, the Company shall first estimate and reserve taxes to be paid, offset its deficits, estimate and reserve employees' compensation and remuneration to directors, then set aside a legal capital reserve at 10% of the remaining earnings and set aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings at the beginning shall be used by the Company's board of directors as the basis for proposing a distribution plan after the Company's board of directors consider operational situation and retain proper amount. By way of stock dividends, it shall be approved by the Company's shareholders in its meeting; by way of cash dividends, it shall be approved by the Company's board of directors.

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 to a report of such distribution shall be submitted to the shareholders' meeting.

Before the amendment of the Company's Articles of Incorporation on shareholders' meeting on June 20, 2019, the earning distribution is only allowed after yearly closing by the approval of the shareholders' meeting. The rest retained earnings and dividends policy are consistent.

On May 8, 2020, the board of directors proposed that the Company's Articles of Incorporation amended on June 20, 2019 will be revised back to the previous version.

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

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

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

NT\$183,307 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 proposed in the board of directors meeting on May 8, 2020.

The proposals for 2019 deficit compensation and cash distribution from additional paid-in capital are subject to the resolution of the shareholders' meeting to be held in June 2020.

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, NT\$0.52010840 per share, from additional paid-in capital had been approved in the Company's shareholders' meeting on June 20, 2019.

d. Treasury stock

	Shares (In Thousands)
Number of shares on January 1 and March 31, 2019	<u>15,970</u>
Number of shares at January 1, 2020	10,978
Decrease during the period	<u>(9,247)</u>
Number of shares on March 31, 2020	<u>1,731</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.

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

20. REVENUE

	For the Three Months Ended March 31	
	2020	2019
IC for portable devices	<u>\$ 2,909,637</u>	<u>\$ 1,639,942</u>
<u>Contract balances</u>		
	March 31, 2020	December 31, 2019
		March 31, 2019
Contract liabilities		
Sales of goods	<u>\$ 128,154</u>	<u>\$ 53,847</u>
		<u>\$ 98,766</u>

21. NET INCOME

a. Depreciation and amortization

	For the Three Months Ended March 31	
	2020	2019
Property, plant and equipment	\$ 19,659	\$ 18,848
Intangible assets	<u>22,991</u>	<u>14,984</u>
	<u>\$ 42,650</u>	<u>\$ 33,832</u>
An analysis of deprecation by function		
Operating costs	\$ 196	\$ 382
Operating expenses	<u>42,454</u>	<u>33,450</u>
	<u>\$ 42,650</u>	<u>\$ 33,832</u>

b. Employee benefits expense

	For the Three Months Ended March 31	
	2020	2019
Post-employment benefits		
Defined contribution plans	\$ 7,013	\$ 7,171
Defined benefit plans (Note 18)	91	112
Share-based payments (Note 24)	2,978	2,856
Other employee benefits	<u>356,565</u>	<u>377,916</u>
Total employee benefits expense	<u>\$ 366,647</u>	<u>\$ 388,055</u>

	For the Three Months Ended March 31	
	2020	2019
An analysis of employee benefits expense by function		
Operating costs	\$ 29,245	\$ 27,048
Operating expenses	<u>337,402</u>	<u>361,007</u>
	<u>\$ 366,647</u>	<u>\$ 388,055</u>

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

c. The remuneration to employees and directors

The Company stipulates to distribute employees' compensation and remuneration to directors at the rates no less than 1% and no higher than 1.5%, respectively, of the profit before income tax, employees' compensation, and remuneration to directors. When the company still has accumulated losses, it shall reserve the compensation amount in advance, and then allocate the employees' compensation and remuneration to directors in proportion to the preceding paragraph. The Company's did not accrue employees' compensation and remuneration to directors resulting from the loss offsetting not approved by the shareholders' meeting yet. ; due to the net loss before tax from January 1 to March 31, 2019, there was no accrual for remuneration to employees and directors.

If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

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

22. INCOME TAXES

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

	For the Three Months Ended March 31	
	2020	2019
Current tax		
In respect of the current year	<u>\$ 31,081</u>	<u>\$ 556</u>
Deferred tax		
In respect of the current year	<u>12,329</u>	<u>(1,868)</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 43,410</u>	<u>(\$ 1,312)</u>

b. Income tax assessments

The Company's tax returns up to 2017, and FocalTech Electronics Co., Ltd. FocalTech Smart Sensors Co., Ltd.'s tax returns up to 2018 have been assessed by the tax authorities.

23. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Three Months Ended March 31	
	2020	2019
Basic earnings per share	\$ 0.24	\$ (0.67)
Diluted earnings per share	\$ 0.23	

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

Net profit (loss) for the year

	For the Three Months Ended March 31	
	2020	2019
Earnings used in the computation of basic earnings per share	\$ 66,186	\$(183,351)

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

	For the Three Months Ended March 31	
	2020	2019
Weighted average number of ordinary shares in computation of basic earnings per share	278,833	274,456
Effect of potentially dilutive ordinary shares:		
Employee share option (Note)	10,921	-
Employees' compensation or bonus issue to employees (Note)	484	-
Weighted average number of ordinary shares used in the computation of diluted earnings per share	290,238	-

Note : The Company has a net loss after tax, so there is no dilution effect in the calculation of earnings of shares for the three months ended March 31, 2019.

24. SHARE-BASED PAYMENT ARRANGEMENTS

The Company did not have new share option plan issued for employees for the three months ended March 31, 2020 and 2019. The detailed information could be found in Note 24 of the consolidated financial statements of the year ended December 31, 2019.

a. Employee stock option plan

Information about outstanding options for the three months ended March 31, 2020 and 2019 is as following:

March 31, 2020

Employee Stock Option Plan	Beginning	Balance	Options unvested		Options exercised		Options expired		Ending Balance	
	Quantity of Options	Weighted-average Exercise Price (NT\$)	Quantity of Options	Weighted-average Exercise Price (NT\$)	Quantity of Options	Weighted-average Exercise Price (NT\$)	Quantity of Options	Weighted-average Exercise Price (NT\$)	Quantity of Options	Weighted-average Exercise Price (NT\$)
2006	805,599	\$ 23.49	-	\$ -	(196,000)	\$ 27.06	-	\$ -	609,599	\$ 22.35
2015	677,500	12.20	-	-	(35,000)	12.20	-	-	642,500	12.20

March 31, 2019

Employee Stock Option Plan	Beginning	Balance	Options unvested		Options exercised		Options expired		Ending Balance	
	Quantity of Options	Weighted-average Exercise Price (NT\$)	Quantity of Options	Weighted-average Exercise Price (NT\$)	Quantity of Options	Weighted-average Exercise Price (NT\$)	Quantity of Options	Weighted-average Exercise Price (NT\$)	Quantity of Options	Weighted-average Exercise Price (NT\$)
2006	1,594,999	\$ 19.86	-	\$ -	(6,200)	\$ 17.24	(14,400)	\$ 28.30	1,574,399	\$ 19.79
2013	627,250	37.90	-	-	-	-	(7,000)	37.90	620,250	37.90
2015	985,750	12.20	(22,250)	12.20	(43,000)	12.20	-	-	920,500	12.20

b. Shares Buy Back Program

The Company's employee subscription base date was March 20, 2020. The eligible employees subscribed 7,848 thousand shares and 1,399 thousand shares at the price of 24.1 and 24.98 respectively, with total proceeds as 224,084 thousand NT dollars.

Information about Shares Buy Back Programs for the three months ended March 31, 2020 is as follows:

The 2nd Shares Buy Back Program			The 3rd Shares Buy Back Program		
Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)	Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)
2016/10/28	2,624	\$ 11.26	2017/07/24	3,198	\$ 12.85
2017/02/24	50	11.26	2018/07/26	3,515	-
2018/02/08	120	4.20	2019/05/07	95	-
2018/04/24	255	4.30			
2018/07/26	1,765	-			
2019/05/07	186	-			
Total	5,000		Total	6,808	

The 4th 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\$)
2020/03/20	7,848	\$ 3.30	2019/05/07	4,651	\$ -
			2019/11/08	60	-
			2020/03/20	1,399	3.70
Total	7,848		Total	6,110	

Compensation cost recognized for share-based payments above for the three months ended March 31, 2020 and 2019 were as follows:

	For the Three Months Ended March 31	
	2020	2019
Employee share option plans	\$ -	\$ 141
Shares buy back and transfer to employee program	<u>2,978</u>	<u>2,715</u>
	<u>\$ 2,978</u>	<u>\$ 2,856</u>

	For the Three Months Ended March 31	
	2020	2019
Capital surplus - employee share options	<u>\$ 2,978</u>	<u>\$ 2,856</u>

25. OPERATING LEASE ARRANGEMENTS

The Group is Lessee

The Company and its subsidiaries have lease contracts relate to office, plant and part of office equipment, and they would be expired around March 2021. Those agreements are short-term leases and qualified for the recognition exemption to leases so the Group does not recognize right-of-use assets and lease liabilities for these leases. The committed payments for the short-term leases were \$17,060 and \$17,466 thousand on March 31, 2020 and 2019.

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

	For the Three Months Ended March 31	
	2020	2019
lease payment	<u>\$ 8,743</u>	<u>\$ 9,333</u>

26. FINANCIAL INSTRUMENTS

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

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

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

1) Fair value hierarchy

March 31, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Listed preferred shares	\$ 10,336	\$ -	\$ -	\$ 10,336
Private funds	-	-	43,846	43,846
Total	<u>\$ 10,336</u>	<u>\$ -</u>	<u>\$ 43,846</u>	<u>\$ 54,182</u>
Financial assets at FVTOCI assets				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 174,907</u>	<u>\$ -</u>	<u>\$ 174,907</u>

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Listed preferred shares	\$ 10,931	\$ -	\$ -	\$ 10,931
Private funds	-	-	45,423	45,423
Total	<u>\$ 10,931</u>	<u>\$ -</u>	<u>\$ 45,423</u>	<u>\$ 56,354</u>
Financial assets at FVTOCI assets				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 181,373</u>	<u>\$ -</u>	<u>\$ 181,373</u>

March 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Listed preferred shares	\$ 10,710	\$ -	\$ -	\$ 10,710
Private funds	-	-	42,414	42,414
Structured Investments	-	61,092	-	61,092
Total	<u>\$ 10,710</u>	<u>\$ 61,092</u>	<u>\$ 42,414</u>	<u>\$ 114,216</u>
Financial assets at FVTOCI assets				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 316,856</u>	<u>\$ -</u>	<u>\$ 316,856</u>

There was no type transfer between Level 1 and Level 2 for the three months ended March 31, 2020 and 2019.

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

For the three months ended March 31, 2020

	For the Three Months Ended March 31	
	2020	2019
<u>Financial assets at FVTPL</u>		
Balance, beginning of period	\$ 45,423	\$ 41,023
Purchases	362	1,955
Recognized in profit or loss (other income or loss)	(2,166)	(665)
Effect of foreign currency exchange differences	<u>227</u>	<u>101</u>
Balance, end of period	<u>\$ 43,846</u>	<u>\$ 42,414</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 unlisted equity investment is measured by the market approach, which decides fair value by referring to the recent financing activities of investees or the market transaction prices and status of the similar companies. The Company had carefully evaluated and selected the suitable evaluation method, but the use of different evaluation models or fair values may result in different evaluation results.

c. Categories of financial instruments

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Financial assets</u>			
Fair value through profit or loss (FVTPL)			
Mandatorily at FVTPL	\$ 54,182	\$ 56,354	\$ 114,216
Amortized cost (Note 1)	6,487,846	6,597,902	4,658,683
Financial assets at FVTOCI			
Investments in debt instruments	174,907	181,373	316,856
<u>Financial liabilities</u>			
Amortized cost (Note 2)	3,416,455	3,335,028	2,149,520

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

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

d. Financial risk management objectives and policies

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

The board of directors is solely responsible for established and monitored the framework of risk management of the Group, the board of directors authorized the chairman develop and monitored the risk management policy of the Company with the operation center of the Group, and regularly reported the situation to the board of directors.

The Group's financial risk management policies are developed for identifying and analyzing the financial risks to the Group, evaluating the impacts of the financial risks, and executing the financial-risk aversion policies. The financial risk management are periodically reviewed to reflect changes to the market and the operations. Through the internal controls, such as training and setting up managing requirements and procedures, the Group is engaged in developing a disciplined and constructive control environment, in order to have all employees understand own responsibilities.

The Group's board of directors monitors the management on managing the compliance to the financial risk management policies and procedures and reviews the appropriateness of risk management structure. To assist the board of directors, the internal auditors perform period and exceptional reviews on the controls and procedures of financial risk management and report the result of reviews to the board of directors.

1) Market risk

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

a) Foreign currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities which were not in the same functional currency with the Group entity at the end of the reporting period are shown in Note 31.

Sensitivity analysis

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

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

	USD Impact	
	For the Three Months Ended	
	March 31	
	2020	2019
Profit or loss/ equity	<u>\$ 18,831</u> (i)	<u>\$ 26,192</u> (i)

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

b) Interest rate risk

The Group was exposed to interest risk arising from fixed rate time deposits, bond investments, and floating rate demand deposits and structured investments. The time deposits were at fixed interest rates, and bonds were at fixed rates or with guaranteed minimal interest rates and carried at amortized costs, and, therefore, the variations to interest rates did not affect future cash flows.

The carrying amount of the Group's financial assets with exposure to interest rates at the end of the reporting period were as follows.

	March 31, 2020	December 31, 2019	March 31, 2019
Fair value interest rate risk			
Financial assets	<u>\$ 2,805,507</u>	<u>\$ 3,131,261</u>	<u>\$ 3,436,470</u>
Cash flow interest rate risk			
Financial assets	<u>\$ 2,198,323</u>	<u>\$ 2,103,526</u>	<u>\$ 888,136</u>

Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate assets, the analysis was prepared assuming the amount of the assets outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the three months ended March, 2020 and 2019 would decrease/increase by \$1,374 thousand and \$555 thousand, respectively.

2) Credit risk

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

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

As of March 31, 2020, the Group's five largest customer took 65% of total trade receivables, the remaining transactions with a large number of unrelated customers, thus, no significant concentration of credit risk was observed.

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

Credit risk management for investments in debt instruments

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

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

<u>Category</u>	<u>Description</u>	<u>Basis for Recognizing Expected Credit Loss</u>	<u>Expected Credit Loss Ratio</u>	<u>Carrying Amount as of March 31, 2020</u>
Performing	The debtor with low credit risk and fully capable paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 174,907</u>

<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, 2019</u>
Performing	The debtor with low credit risk and fully capable paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 181,373</u>

<u>Category</u>	<u>Description</u>	<u>Basis for Recognizing Expected Credit Loss</u>	<u>Expected Credit Loss Ratio</u>	<u>Carrying Amount as of March 31, 2019</u>
Performing	The debtor with low credit risk and fully capable paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 377,948</u>

3) Liquidity risk

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

As of March 31, 2020, December 31, 2019, and March 31, 2019, the available unutilized short-term bank loan facilities refer to (b) Financing facilities.

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

The Group's remaining contractual maturity for its financial liabilities was based on the undiscounted cash flows, including interest and principal cash flow, of financial liabilities from the earliest date on which the Group can be required to pay.

March 31, 2020

	On Demand or Less than 1 Year	1-5 Years
Non-interest bearing	<u>\$ 3,040,818</u>	<u>\$ 375,637</u>

December 31, 2019

	On Demand or Less than 1 Year	1-5 Years
Non-interest bearing	<u>\$ 2,940,668</u>	<u>\$ 394,360</u>

March 31, 2019

	On Demand or Less than 1 Year	1-5 Years
Non-interest bearing	<u>\$ 2,025,158</u>	<u>\$ 124,362</u>

b) Financing facilities

	March 31, 2020	December 31, 2019	March 31, 2019
Unsecured bank overdraft facility, reviewed annually:			
Amount used	\$ -	\$ -	\$ -
Amount unused	<u>800,000</u>	<u>800,000</u>	<u>1,207,870</u>
	<u>\$ 800,000</u>	<u>\$ 800,000</u>	<u>\$ 1,207,870</u>

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

27. TRANSACTIONS WITH RELATED PARTIES

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

	For the Three Months Ended March 31	
	2020	2019
Long-term employee benefits	\$ 21,870	\$ 3,845
Short-term employee benefits	10,774	11,893
Post-employment benefits	135	45
Share-based payments	<u>777</u>	<u>755</u>
	<u>\$ 33,556</u>	<u>\$ 16,538</u>

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

28. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	March 31, 2020	December 31, 2019	March 31, 2019
Pledge deposits	\$ 4,000	\$ 4,000	\$ 4,000

29. 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.

30. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

To increase the return on equity, the board of directors approved the reduction of capital on May 8, 2020. It will reduce the Company's share capital by \$899,721 thousand NT dollars, and estimated 89,972 thousand shares of the Company. Each share will return \$3 and the ratio of capital reduction is 30%. The proposal will be resolved by the shareholders' meeting on June 20, 2020.

Except for above mentioned event, there is no other significant event after reporting period.

31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

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

March 31, 2020

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 87,902	30.225 (USD:NTD)	\$ 2,656,834
USD	5,246	7.0851 (USD:RMB)	158,562
<u>Financial liabilities</u>			
Monetary items			
USD	101,135	30.225 (USD:NTD)	3,056,805
USD	4,473	7.0851 (USD:RMB)	135,211

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

December 31, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 55,218	29.98 (USD:NTD)	\$ 1,655,432
USD	6,641	6.9762 (USD:RMB)	199,101
RMB	7,588	0.1433 (RMB:USD)	32,610

Financial liabilities

Monetary items			
USD	38,218	29.98 (USD:NTD)	1,145,788
USD	5,644	6.9762 (USD:RMB)	169,222

March 31, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 40,227	30.82 (USD:NTD)	\$ 1,239,795
USD	2,665	6.7335 (USD:RMB)	82,151
<u>Financial liabilities</u>			
Monetary items			
USD	15,759	30.82 (USD:NTD)	485,697
USD	10,137	6.7335 (USD:RMB)	312,417

32. SEGMENT INFORMATION

Segment information is provided to business decision makers to allocate resources and assess segment performance. The Company operates the business of the sales and development of human and machine interface devices related IC under a single operation unit. Thus, the information of separate operating segments is not applicable.