

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

**Consolidated Financial Statements for the  
Nine Months Ended September 30, 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 September 30, 2020 and 2019, the related consolidated statements of comprehensive income for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, the consolidated statements of changes in equity and of cash flows for the nine months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). 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 September 30, 2020 and 2019, combined total assets of these non-significant subsidiaries were NT\$547,314 thousand and NT\$593,613 thousand, respectively, representing 5% and 5%, respectively, of the consolidated total assets, and combined total liabilities of these subsidiaries were NT\$173,810 thousand and NT\$243,488 thousand, respectively, representing 4% and 8%, respectively, of the consolidated total liabilities; for the three months and nine months ended September 30, 2020 and 2019, the amounts of combined comprehensive income(loss) of these subsidiaries were NT\$(51,964) thousand, NT\$8,963 thousand, NT\$(136,016) thousand and NT\$(57,246) thousand, respectively, representing (22%), 30%, (41%) and 24%.

## **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 September 30, 2020 and 2019, its consolidated financial performance and its consolidated cash flows for the three months ended September 30, 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  
November 10, 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	September 30, 2020		December 31, 2019		September 30, 2019	
	Amount	%	Amount	%	Amount	%
<b>CURRENT ASSETS</b>						
Cash and cash equivalents (Note 6)	\$ 3,535,594	30	\$ 3,461,503	30	\$ 2,910,374	26
Financial assets at fair value through other comprehensive income - current (Note 8)	17,587	-	120,475	1	180,055	2
Trade receivables, net (Note 10)	1,486,527	12	1,420,459	12	1,076,818	10
Inventories (Note 11)	2,266,684	19	1,570,753	14	1,406,039	13
Other financial assets (Note 9)	1,260,351	11	1,596,292	14	2,054,943	19
Other current assets	246,938	2	361,925	3	230,771	2
Total current assets	8,813,681	74	8,531,407	74	7,859,000	72
<b>NON-CURRENT ASSETS</b>						
Financial assets at fair value through profit or loss - non-current (Note 7)	55,481	-	56,354	-	87,007	1
Financial assets at fair value through other comprehensive income - non-current (Note 8)	197,314	2	60,898	1	82,144	1
Investments accounted for using equity method (Note 4 and 13)	4,970	-	-	-	-	-
Property, plant and equipment (Note 14)	1,310,337	11	1,361,478	11	1,402,938	13
Goodwill (Notes 15)	1,237,268	10	1,237,268	11	1,237,268	11
Other intangible assets (Note 16)	67,117	1	99,189	1	108,593	1
Deferred tax assets	105,947	1	120,782	1	118,503	1
Other non-current assets (Note 29)	150,602	1	135,593	1	53,960	-
Total non-current assets	3,129,036	26	3,071,562	26	3,090,413	28
<b>TOTAL</b>	<b>\$ 11,942,717</b>	<b>100</b>	<b>\$ 11,602,969</b>	<b>100</b>	<b>\$ 10,949,413</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Trade payables (Note 17)	\$ 1,832,027	15	\$ 1,986,219	17	\$ 1,290,051	12
Other payables (Note 18 and 20)	1,836,772	16	954,449	8	920,010	8
Current tax liabilities (Notes 4)	399,501	3	363,172	3	380,628	3
Other current liabilities (Notes 21)	144,672	1	108,584	1	193,505	2
Total current liabilities	4,212,972	35	3,412,424	29	2,784,194	25
<b>NON-CURRENT LIABILITIES</b>						
Deferred tax liabilities	30,897	-	33,537	-	31,672	-
Net defined benefit liabilities - non-current (Note 4)	23,796	-	24,078	-	25,836	-
Guarantee deposits received	407,754	4	394,360	4	266,118	3
Other non-current liabilities	10,400	-	10,400	-	10,400	-
Total non-current liabilities	472,847	4	462,375	4	334,026	3
Total liabilities	4,685,819	39	3,874,799	33	3,118,220	28
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Notes 20 and 25)</b>						
Share capital						
Ordinary shares	2,100,456	18	2,996,759	26	2,994,857	27
Capital surplus						
Additional paid-in capital	4,714,996	39	5,037,671	44	5,034,044	47
Treasury shares	68,133	1	48,662	1	48,662	1
Changes in ownership interests in subsidiaries	-	-	-	-	20,295	-
Employee share options	15,249	-	25,510	-	28,709	-
Employee share options - expired	33,933	-	33,534	-	31,688	-
Total capital surplus	4,832,311	40	5,145,377	45	5,163,398	48
Undistributed earnings (deficits to be offset)	448,132	4	(183,307)	(2)	(231,810)	(2)
Other equity						
Exchange differences from translating the financial statements of foreign operations	(90,032)	(1)	4,057	-	162,508	1
Unrealized gain (loss) on financial assets at fair value through other comprehensive income	497	-	1,750	-	1,642	-
Total other equity	(89,535)	(1)	5,807	-	164,150	1
Treasury shares	(43,074)	-	(267,158)	(2)	(268,656)	(2)
Equity attributable to owners of the parent	7,248,290	61	7,697,478	67	7,821,939	72
<b>NON-CONTROLLING INTERESTS</b>	<b>8,608</b>	<b>-</b>	<b>30,692</b>	<b>-</b>	<b>9,254</b>	<b>-</b>
Total equity	7,256,898	61	7,728,170	67	7,831,193	72
<b>TOTAL</b>	<b>\$ 11,942,717</b>	<b>100</b>	<b>\$ 11,602,969</b>	<b>100</b>	<b>\$ 10,949,413</b>	<b>100</b>

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			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
NET REVENUE (Note 21)	\$ 3,815,809	100	\$ 2,573,411	100	\$ 9,493,042	100	\$ 6,352,830	100
COST OF REVENUE (Note 11 and 22)	<u>(3,001,044)</u>	<u>(79)</u>	<u>(1,976,946)</u>	<u>(77)</u>	<u>(7,425,266)</u>	<u>(78)</u>	<u>(4,922,274)</u>	<u>(77)</u>
GROSS PROFIT	<u>814,765</u>	<u>21</u>	<u>596,465</u>	<u>23</u>	<u>2,067,776</u>	<u>22</u>	<u>1,430,556</u>	<u>23</u>
OPERATING EXPENSES (Note 19, 22, 27 and 29)								
Selling and marketing expenses	(87,234)	(2)	(107,165)	(4)	(257,800)	(3)	(369,821)	(6)
General and administrative expenses	(97,449)	(3)	(78,763)	(3)	(267,130)	(3)	(235,420)	(4)
Research and development expenses	<u>(391,046)</u>	<u>(10)</u>	<u>(385,634)</u>	<u>(15)</u>	<u>(1,125,648)</u>	<u>(12)</u>	<u>(1,172,331)</u>	<u>(18)</u>
Total operating expenses	<u>(575,729)</u>	<u>(15)</u>	<u>(571,562)</u>	<u>(22)</u>	<u>(1,650,578)</u>	<u>(18)</u>	<u>(1,777,572)</u>	<u>(28)</u>
OPERATING INCOME (LOSS)	<u>239,036</u>	<u>6</u>	<u>24,903</u>	<u>1</u>	<u>417,198</u>	<u>4</u>	<u>(347,016)</u>	<u>(5)</u>
NON-OPERATING INCOME AND EXPENSES								
Finance costs	-	-	(2)	-	(1,078)	-	(1,152)	-
Interest income	8,980	-	28,052	1	44,658	1	82,840	1
(Loss) gain on financial assets and liabilities at fair value through profit or loss	2,973	-	52	-	(1,619)	-	384	-
Other gains and losses - net	24,273	1	31,477	1	43,594	-	30,206	-
Gain (Loss) on foreign exchange	<u>2,461</u>	<u>-</u>	<u>(3,947)</u>	<u>-</u>	<u>13,738</u>	<u>-</u>	<u>5,506</u>	<u>-</u>
Total non-operating income and expenses	<u>38,687</u>	<u>1</u>	<u>55,632</u>	<u>2</u>	<u>99,293</u>	<u>1</u>	<u>117,784</u>	<u>1</u>
INCOME (LOSS) BEFORE INCOME TAX	277,723	7	80,535	3	516,491	5	(229,232)	(4)
INCOME TAX EXPENSE (Note 4 and 23)	<u>(10,014)</u>	<u>-</u>	<u>(7,599)</u>	<u>-</u>	<u>(88,300)</u>	<u>(1)</u>	<u>(27,025)</u>	<u>-</u>
NET INCOME (LOSS)	<u>267,709</u>	<u>7</u>	<u>72,936</u>	<u>3</u>	<u>428,191</u>	<u>4</u>	<u>(256,257)</u>	<u>(4)</u>
OTHER COMPREHENSIVE INCOME								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences from translating the financial statements of foreign operations	(26,216)	(1)	43,542	(2)	(96,232)	(1)	13,671	-

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## 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 September 30				For the Nine Months Ended September 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
Unrealized (losses) gains from debt instrument investments measured at fair value through other comprehensive income	(1,793)	-	79	-	(1,253)	-	3,932	-
Items that may be reclassified subsequently to profit or loss	(28,009)	(1)	(43,463)	(2)	(97,485)	(1)	17,603	-
Total other comprehensive income	(28,009)	(1)	(43,463)	(2)	(97,485)	(1)	17,603	-
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	<u>\$ 239,700</u>	<u>6</u>	<u>\$ 29,473</u>	<u>1</u>	<u>\$ 330,706</u>	<u>3</u>	<u>\$ (238,654)</u>	<u>(4)</u>
<b>NET INCOME (LOSS) ATTRIBUTABLE TO:</b>								
Owners of the Parent	\$ 275,308	7	\$ 79,983	3	\$ 448,132	4	\$ (231,810)	(4)
Non-controlling interests	(7,599)	-	(7,047)	-	(19,941)	-	(24,447)	-
	<u>\$ 267,709</u>	<u>7</u>	<u>\$ 72,936</u>	<u>3</u>	<u>\$ 428,191</u>	<u>4</u>	<u>\$ (256,257)</u>	<u>(4)</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:</b>								
Owners of the Parent	\$ 248,577	6	\$ 36,553	1	\$ 352,790	3	\$ (214,824)	(3)
Non-controlling interests	(8,877)	-	(7,080)	-	(22,084)	-	(23,830)	(1)
	<u>\$ 239,700</u>	<u>6</u>	<u>\$ 29,473</u>	<u>1</u>	<u>\$ 330,706</u>	<u>3</u>	<u>\$ (238,654)</u>	<u>(4)</u>
<b>EARNINGS (LOSSES) PER SHARE (Note 24)</b>								
Basic	<u>\$ 1.06</u>		<u>\$ 0.29</u>		<u>\$ 1.64</u>		<u>\$ (0.84)</u>	
Diluted	<u>\$ 1.00</u>		<u>\$ 0.28</u>		<u>\$ 1.55</u>			

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

(Concluded)

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

	Equity Attributable to Owners of the 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 (Deficits to be offset)	Exchange Differences from Translating the Financial Statement of Foreign Operations	Unrealized Gains (Losses) on Financial Assets at Fair Value through Other Comprehensive Income					
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 (loss) 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	<u>\$ 2,994,857</u>	<u>\$ 5,163,398</u>	<u>\$ -</u>	<u>\$ (231,810)</u>	<u>\$ 162,508</u>	<u>\$ 1,642</u>	<u>\$ (268,656)</u>	<u>\$ 7,821,939</u>	<u>\$ 9,254</u>	<u>\$ 7,831,193</u>	
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	
Reduction on capital surplus to offset accumulated deficits	-	(183,307)	-	183,307	-	-	-	-	-	-	
Cash distribution from additional paid-in capital	-	(150,000)	-	-	-	-	-	(150,000)	-	(150,000)	
Net income for the nine months ended September 30, 2020	-	-	-	448,132	-	-	-	448,132	(19,941)	428,191	
Other comprehensive income (loss) for the nine months ended September 30, 2020, net of income tax	-	-	-	-	(94,089)	(1,253)	-	(95,342)	(2,143)	(97,485)	
Total comprehensive income (loss) for the nine months ended September 30, 2020	-	-	-	448,132	(94,089)	(1,253)	-	352,790	(22,084)	330,706	
Reduction of capital (Note 20)	(899,721)	-	-	-	-	-	-	(899,721)	-	(899,721)	
Compensation cost of employee share options (Note 20 and 25)	-	16,049	-	-	-	-	-	16,049	-	16,049	
Treasury shares transferred to employees (Note 20 and 25)	-	-	-	-	-	-	224,084	224,084	-	224,084	
Issuance of ordinary shares from exercise of employee share options (Note 20 and 25)	3,418	4,192	-	-	-	-	-	7,610	-	7,610	
BALANCE, SEPTEMBER 30, 2020	<u>\$ 2,100,456</u>	<u>\$ 4,832,311</u>	<u>\$ -</u>	<u>\$ 448,132</u>	<u>\$ (90,032)</u>	<u>\$ 497</u>	<u>\$ (43,074)</u>	<u>\$ 7,248,290</u>	<u>\$ 8,608</u>	<u>\$ 7,256,898</u>	

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 CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) before income tax	\$ 516,491	\$ (229,232)
Adjustments for:		
Depreciation expenses	58,368	61,317
Amortization expenses	32,087	40,920
Net loss (gain) on financial assets at fair value through profit or loss	1,619	(384)
Finance costs	1,078	1,152
Interest income	(44,658)	(82,840)
Compensation costs of employee share options	16,049	8,083
Loss on disposal of investments	40,928	-
Reversal gain on write-off of inventories	-	(38,418)
Unrealized (gain) loss on foreign exchange	(26,705)	4,589
Changes in operating assets and liabilities		
Financial assets mandatorily measured at fair value through profit or loss	(42,487)	26,405
Trade receivables	(72,688)	(89,605)
Inventories	(711,684)	769,387
Other current assets	105,715	(9,717)
Trade payables	(142,024)	(349,640)
Other payables	4,680	120,988
Other current liabilities	38,068	129,610
Net defined benefit liabilities	(282)	(260)
Cash generated from operations	(225,445)	362,355
Interest paid	(1,078)	(1,152)
Income tax paid	(29,919)	(27,998)
Net cash (outflow) inflow from operating activities	<u>(256,442)</u>	<u>333,205</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial asset at fair value through other comprehensive income	(142,888)	-
Proceeds from disposal of financial asset at fair value through other comprehensive income	101,378	6,211
Acquisition of investments accounted for using equity method	(4,970)	-
Acquisition of property, plant and equipment	(15,907)	(94,707)
Acquisition of intangible assets	(147)	-
Decrease in other financial assets	302,476	247,508
(Increase) decrease in other non-current assets	(15,648)	2,004
Interest received	52,540	73,508
Net cash inflow from investing activities	<u>276,834</u>	<u>234,524</u>

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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	
	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in guarantee deposits	\$ 14,959	\$ (11,376)
Dividends paid to owners of the Company	(150,000)	(150,000)
Exercise of employee share options	7,610	10,013
Treasury shares transferred to employees	224,084	124,547
Decrease in non-controlling interests	<u>-</u>	<u>(411)</u>
Net cash inflow (outflow) financing activities	<u>96,653</u>	<u>(27,227)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(42,954)</u>	<u>13,946</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	74,091	554,448
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>3,461,503</u>	<u>2,355,926</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 3,535,594</u>	<u>\$ 2,910,374</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 NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 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 6, 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>
Annual Improvements to IFRS Standards 2018–2020	January 1, 2022
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”	January 1, 2021
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, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”	January 1, 2022
Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”	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.

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

As of the date the consolidated financial statements were authorized for issue, 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 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 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 these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2019.

##### 1) 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.

##### 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.

### 3) Investment in joint ventures

A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group uses the equity method to account for its investments in joint ventures.

Under the equity method, investments in a joint venture is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive of the equity of joint venture. The Group recognizes the changes of the equity of the joint venture by the Group's share percentage.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group has considered the economic influences of COVID-19 on critical accounting estimates and will continue evaluating the impact on its financial position and financial performance as a result of the pandemic. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the periods the revision affects, in the current period or future periods. Other 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, 2019.

## 6. CASH AND CASH EQUIVALENTS

	September 30, 2020	December 31, 2019	September 30, 2019
Cash on hand	\$ 6,727	\$ 4,381	\$ 6,913
Checking accounts and demand deposits	2,847,233	2,103,526	1,189,194
Cash equivalent (time deposits with original maturities within three months)	<u>681,634</u>	<u>1,353,596</u>	<u>1,714,267</u>
	<u>\$ 3,535,594</u>	<u>\$ 3,461,503</u>	<u>\$ 2,910,374</u>

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

	September 30, 2020	December 31, 2019	September 30, 2019
Demand deposits	0.001%-0.35%	0.001%-0.35%	0.001%-0.43%
Time deposits	0.12%-1.095%	1.56%-2.32%	0.9%-3.06%

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

	September 30, 2020	December 31, 2019	September 30, 2019
Mandatorily measured at fair value through profit or loss (FVTPL)			
Listed preferred shares	\$ 10,625	\$ 10,931	\$ 10,863
Private Funds	44,856	45,423	45,709
Structured Investments	<u>-</u>	<u>-</u>	<u>30,435</u>
	<u>\$ 55,481</u>	<u>\$ 56,354</u>	<u>\$ 87,007</u>

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## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	September 30, 2020	December 31, 2019	September 30, 2019
Investments in debt instruments			
<u>Current</u>			
Foreign investments			
Fixed income bonds	<u>\$ 17,587</u>	<u>\$120,475</u>	<u>\$180,055</u>
<u>Non – Current</u>			
Foreign investments			
Fixed income bonds	<u>\$197,314</u>	<u>\$ 60,898</u>	<u>\$ 82,144</u>
Yield rates	1.82%-4.117%	2.307%-4.117%	2.201%-4.117%

## 9. OTHER FINANCIAL ASSETS

	September 30, 2020	December 31, 2019	September 30, 2019
Time deposits with original maturities more than three months	<u>\$ 1,260,351</u>	<u>\$ 1,596,292</u>	<u>\$ 2,054,943</u>
Interest rate intervals	0.4%-4.18%	1.5%-4.18%	1.1%-4.18%

## 10. TRADE RECEIVABLES, NET

	September 30, 2020	December 31, 2019	September 30, 2019
Trade receivables	<u>\$ 1,486,527</u>	<u>\$ 1,420,459</u>	<u>\$ 1,076,818</u>

The average credit term for sales of goods was 60-120 days. In order to minimize credit risk, management of the Group 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 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.  
September 30, 2020

	<u>Non Past Due</u>	<u>Overdue 1-60 Days</u>	<u>Overdue 61-180 Days</u>	<u>Overdue Over 180 Days</u>	<u>Total</u>
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	<u>\$ 1,476,532</u>	<u>\$ 9,980</u>	<u>\$ 15</u>	<u>\$ -</u>	<u>\$ 1,486,527</u>
<u>December 31, 2019</u>					
	<u>Non Past Due</u>	<u>Overdue 1-60 Days</u>	<u>Overdue 61-180 Days</u>	<u>Overdue Over 180 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>
<u>September 30, 2019</u>					
	<u>Non Past Due</u>	<u>Overdue 1-60 Days</u>	<u>Overdue 61-180 Days</u>	<u>Overdue Over 180 Days</u>	<u>Total</u>
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>

## 11. INVENTORIES

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Finished goods	\$ 481,383	\$ 476,430	\$ 451,689
Work in process	1,201,434	775,899	717,871
Raw materials and supplies	<u>583,867</u>	<u>318,424</u>	<u>236,479</u>
	<u>\$ 2,266,684</u>	<u>\$ 1,570,753</u>	<u>\$ 1,406,039</u>

The cost of goods sold were NT\$3,001,044 thousand and NT\$1,976,946 thousand, including reverse of write-off of inventories of NT\$15,843 thousand for the three months ended September 30, 2020 and 2019, respectively. The cost of goods sold were NT\$7,425,266 thousand and NT\$4,922,274 thousand, including the reverse of write-off of inventories of NT\$38,318 thousand for the nine months ended September 30, 2020 and 2019, respectively. Abovementioned reversals are resulted from sales of slow moving inventory.

## 12. SUBSIDIARIES

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

Investor	Investee	Main Businesses	Percentage of Ownership		
			September 30, 2020	December 31, 2019	September 30, 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% (Note)	62.07%
FocalTech Smart Sensors, Ltd.	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 September 30, 2020 and 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.

The financial statements of the immaterial subsidiaries had not been reviewed by auditors. As of September 30, 2020 and 2019, the total amounts of assets of the immaterial subsidiaries were NT\$547,314 thousand, and NT\$593,613 thousand, respectively, accounted for 5% and 5% of total consolidated assets, respectively. The total amounts of liabilities were NT\$173,810 thousand, and NT\$243,488 thousand, respectively, accounted for 4% and 8% of total consolidated liabilities, respectively. For the three months ended September 30, 2020 and 2019, and for the nine months ended September 30, 2020 and 2019, the total immaterial subsidiaries comprehensive income (loss) has been recognized at NT\$(51,964) thousand, NT\$8,963 thousand, NT\$(136,016) thousand and NT\$(57,246) thousand, respectively, accounted for (22%), 30%, (41%) and 24% of the comprehensive income (loss), respectively.

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### 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investment in joint venture

	September 30, 2020	December 31, 2019	September 30, 2019
Vitrio Technology Corporation	\$ <u>4,970</u>	\$ <u>-</u>	\$ <u>-</u>

The Company and non-related party invested and founded Vitrio Technology Corporation. As of September 30, 2020, the Group's holding percentage is 50%.

The financial statements of the joint venture had not been reviewed by auditors and were accounted in the Company financial statements. The management of the Group considers the un-reviewed financial statements of joint venture will not result in significant influence to Group's consolidated financial statements.

### 14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improve- ments	Total
<u>Cost</u>						
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	<u>(25,920)</u>	<u>(579)</u>	<u>(231)</u>	<u>(776)</u>	<u>(277)</u>	<u>(27,783)</u>
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>
<u>Accumulated depreciation</u>						
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	<u>(1,787)</u>	<u>(116)</u>	<u>(173)</u>	<u>(605)</u>	<u>(278)</u>	<u>(2,959)</u>
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 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>
<u>Cost</u>						
Balance, January 1, 2020	\$ 1,322,961	\$ 285,660	\$ 15,548	\$ 42,621	\$ 38,388	\$ 1,705,178
Additions	-	12,769	2,154	984	-	15,907
Reclassification	-	(258)	(76)	334	-	-
Effect of foreign currency exchange differences	<u>(7,298)</u>	<u>(4,438)</u>	<u>(61)</u>	<u>(215)</u>	<u>(77)</u>	<u>(12,089)</u>
Balance, September 30, 2020	<u>\$ 1,315,663</u>	<u>\$ 293,733</u>	<u>\$ 17,565</u>	<u>\$ 43,724</u>	<u>\$ 38,311</u>	<u>\$ 1,708,996</u>
<u>Accumulated depreciation</u>						
Balance, January 1, 2020	\$ 84,761	\$ 174,368	\$ 12,431	\$ 33,752	\$ 38,388	\$ 343,700
Depreciation	26,155	29,624	727	1,862	-	58,368
Reclassification	-	-	10	(10)	-	-
Effect of foreign currency exchange differences	<u>(402)</u>	<u>(2,726)</u>	<u>(43)</u>	<u>(161)</u>	<u>(77)</u>	<u>(3,409)</u>
Balance, September 30, 2020	<u>\$ 110,514</u>	<u>\$ 201,266</u>	<u>\$ 13,125</u>	<u>\$ 35,443</u>	<u>\$ 38,311</u>	<u>\$ 398,659</u>
Carrying amounts as of 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 as of September 30, 2020	<u>\$ 1,205,149</u>	<u>\$ 92,467</u>	<u>\$ 4,440</u>	<u>\$ 8,281</u>	<u>\$ -</u>	<u>\$ 1,310,337</u>

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

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

Property, plant and equipment were not pledged as collateral.

## 15. GOODWILL

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
<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, it's 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 .

## 16. OTHER INTANGIBLE ASSETS

	<b>Licenses and Franchises</b>	<b>Software</b>	<b>Patents</b>	<b>Trademark</b>	<b>Total</b>
<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 September 30, 2019	<u>\$ 22,669</u>	<u>\$ 7,575</u>	<u>\$ 39,499</u>	<u>\$ 38,850</u>	<u>\$ 108,593</u>
<u>Cost</u>					
Balance, January 1, 2020	\$ 127,719	\$ 154,970	\$ 76,704	\$ 74,000	\$ 433,393
Additions	-	147	-	-	147
Effect of foreign currency exchange differences	<u>(3,201)</u>	<u>(4,121)</u>	<u>-</u>	<u>-</u>	<u>(7,322)</u>
Balance, September 30, 2020	<u>\$ 124,518</u>	<u>\$ 150,996</u>	<u>\$ 76,704</u>	<u>\$ 74,000</u>	<u>\$ 426,218</u>
<u>Accumulated amortization</u>					
Balance, January 1, 2020	\$ 109,676	\$ 148,376	\$ 39,152	\$ 37,000	\$ 334,204
Amortization expenses	17,778	2,920	5,839	5,550	32,087
Effect of foreign currency exchange differences	<u>(3,107)</u>	<u>(4,083)</u>	<u>-</u>	<u>-</u>	<u>(7,190)</u>
Balance, September 30, 2020	<u>\$ 124,347</u>	<u>\$ 147,213</u>	<u>\$ 44,991</u>	<u>\$ 42,550</u>	<u>\$ 359,101</u>
Carrying amounts as of 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 as of September 30, 2020	<u>\$ 171</u>	<u>\$ 3,783</u>	<u>\$ 31,713</u>	<u>\$ 31,450</u>	<u>\$ 67,117</u>

(concluded)

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

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

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## 17. TRADE PAYABLES

	September 30, 2020	December 31, 2019	September 30, 2019
Trade payables	<u>\$ 1,832,027</u>	<u>\$ 1,986,219</u>	<u>\$ 1,290,051</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.

## 18. OTHER PAYABLES

	September 30, 2020	December 31, 2019	September 30, 2019
Payable for rebates	\$ 447,450	\$ 408,291	\$ 399,641
Payable for salaries and bonuses	356,477	411,236	395,095
Payable for labor, health and social insurance	14,613	12,367	14,808
Reserve for litigations	48,634	50,105	52,653
Payable for professional services and others	69,877	72,450	57,813
Payable for cash reduction of capital	<u>899,721</u>	<u>-</u>	<u>-</u>
	<u>\$1,836,772</u>	<u>\$ 954,449</u>	<u>\$ 920,010</u>

## 19. RETIREMENT BENEFIT

Pension expenses under the defined benefit plans, calculated using the actuarially determined pension cost rate as of December 31, 2019 and 2018, were NT\$90 thousand, NT\$112 thousand, NT\$272 thousand and NT\$335 thousand for the three months ended September 30, 2020 and 2019, and nine months ended September 30, 2020 and 2019, respectively.

## 20. EQUITY

### a. Share capital

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

	September 30, 2020	December 31, 2019	September 30, 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>210,046</u>	<u>299,676</u>	<u>299,486</u>
Shares issued	<u>\$ 2,100,456</u>	<u>\$ 2,996,759</u>	<u>\$ 2,994,857</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
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>
BALANCE, JANUARY 1, 2020	\$5,037,671	\$ 48,662	\$ -	\$ 25,510	\$ 33,534	\$5,145,377
Capital surplus used to offset accumulated deficits	(183,307)	-	-	-	-	(183,307)
Cash distribution from additional paid-in capital	(150,000)	-	-	-	-	(150,000)
Changes in ownership interests in subsidiaries	-	-	-	-	-	-
Treasury shares transferred to employees	-	19,471	-	(19,471)	-	-
Compensation cost of employee share options	-	-	-	16,049	-	16,049
Issuance of ordinary shares from exercise of employee share options	10,632	-	-	(6,440)	-	4,192
Expiration of employee share options	-	-	-	(399)	399	-
BALANCE, SEPTEMBER 30, 2020	<u>\$ 4,714,996</u>	<u>\$ 68,133</u>	<u>\$ -</u>	<u>\$ 15,249</u>	<u>\$ 33,933</u>	<u>\$ 4,832,311</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 (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

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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 June 20, 2020, the shareholders' meeting resolved that the Company's Articles of Incorporation amended on June 20, 2019 shall be revised back to the previous version.

See Note 21(c) for policy stipulated in the Articles of Incorporation regarding to the 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\$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. NT\$0.52010840 per share, from additional paid-in capital of share issue premium had been approved in the Company's shareholders' meeting on June 20, 2019.

NT\$183,307 thousand from additional paid-in capital for loss offsetting as well as the cash distribution of NT\$150,000 thousand, i.e. NT\$0.50291032 per share, from additional paid-in capital of share issue premium had been approved in the Company's shareholders' meeting on June 20, 2020.

To increase the return on shareholders' equity, it was approved for reduction of capital in the Company's shareholders' meeting on June 20, 2020. Company's share capital was reduced by \$899,721 thousand, and estimated to eliminate 89,972 thousand shares of the Company. Each share will be returned by \$3 and the ratio of capital reduction is 30%. The reduction of capital was approved by Financial Supervisory Commission on September 2, 2020. The record date of capital reduction was September 9, 2020, and the date of completion of capitalization change registration was on September 14, 2020. As of September 30, 2020, the payable for cash reduction of capital was accounted for other payables, and the cash was returned to shareholders on October 28, 2020. There was no impact on cash flow on September 30, 2020.

The Company's shareholders' meeting resolved to issue restricted stocks for employees up to 6,000 thousand shares at par value of \$10 on June 20, 2020. The restricted stocks plan was approved by Financial Supervisory Commission on August 12, 2020. As of September 30, 2020, there is no restricted shares under this plan issued yet.

d. Treasury stock

	<b>Shares (In Thousands)</b>
Number of shares on January 1, 2019	15,970
Decrease during the period	<u>(4,932)</u>
Number of shares on September 30, 2019	<u>11,038</u>
Number of shares on January 1, 2020	10,978
Decrease during the period	(9,247)
Decrease due to capital reduction	<u>(519)</u>
Number of shares on September 30, 2020	<u>1,212</u>

The detailed information for other Shares Buy Back Programs could be found in Note 25 (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

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
IC for mobile devices	<u>\$3,815,809</u>	<u>\$2,573,411</u>	<u>\$9,493,042</u>	<u>\$6,352,830</u>
<u>Contract balances</u>				
		<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Contract liabilities				
Sales of goods		<u>\$ 90,452</u>	<u>\$ 53,847</u>	<u>\$ 135,822</u>

## 22. NET INCOME

a. Depreciation and amortization

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Property, plant and equipment	\$ 19,379	\$ 21,488	\$ 58,368	\$ 61,317
Intangible assets	<u>3,959</u>	<u>11,249</u>	<u>32,087</u>	<u>40,920</u>
	<u>\$ 23,338</u>	<u>\$ 32,737</u>	<u>\$ 90,455</u>	<u>\$ 102,237</u>
An analysis of depreciation and amortization by function				
Operating costs	\$ 173	\$ 378	\$ 548	\$ 1,042
Operating expenses	<u>23,165</u>	<u>32,359</u>	<u>89,907</u>	<u>101,195</u>
	<u>\$ 23,338</u>	<u>\$ 32,737</u>	<u>\$ 90,455</u>	<u>\$ 102,237</u>

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b. Employee benefits expense

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Post-employment benefits				
Defined contribution plans	\$ 7,027	\$ 7,083	\$ 20,925	\$ 21,412
Defined benefit plans (Note 18)	90	112	272	335
Share-based payments (Note 24)	6,088	1,958	16,049	8,083
Other employee benefits	<u>357,837</u>	<u>363,290</u>	<u>1,029,532</u>	<u>1,113,995</u>
Total employee benefits expense	<u>\$ 371,042</u>	<u>\$ 372,443</u>	<u>\$1,066,778</u>	<u>\$1,143,825</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 31,390	\$ 28,561	\$ 90,547	\$ 83,102
Operating expenses	<u>339,652</u>	<u>343,882</u>	<u>976,231</u>	<u>1,060,723</u>
	<u>\$ 371,042</u>	<u>\$ 372,443</u>	<u>\$1,066,778</u>	<u>\$1,143,825</u>

c. 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. Due to the net loss before tax for the nine 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, 2020 are as follows:

Accrual rate

	<b>For the Three Months Ended September 30,2020</b>	<b>For the Nine Months Ended September 30,2020</b>
Employees' compensation	9%	9%
Remuneration to directors	1%	1%

Amount

	<b>For the Three Months Ended September 30,2020</b>	<b>For the Nine Months Ended September 30,2020</b>
	<b>Cash</b>	<b>Cash</b>
Employees' compensation	<u>\$ 28,371</u>	<u>\$ 52,873</u>
Remuneration to directors	<u>\$ 3,153</u>	<u>\$ 5,875</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.

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## 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	
	2020	2019	2020	2019
Current tax				
In respect of the current period	\$ 14,694	\$ 6,661	\$ 76,184	\$ 9,932
Adjustments on prior periods	<u>-</u>	<u>(852)</u>	<u>-</u>	<u>346</u>
	<u>14,694</u>	<u>5,809</u>	<u>76,184</u>	<u>10,278</u>
Deferred tax				
In respect of the current period	(4,680)	1,790	10,782	16,747
Effect of tax rate changes	<u>-</u>	<u>-</u>	<u>1,334</u>	<u>-</u>
	<u>(4,680)</u>	<u>1,790</u>	<u>12,116</u>	<u>16,747</u>
Income tax expense recognized in profit or loss	<u>\$ 10,014</u>	<u>\$ 7,599</u>	<u>\$ 88,300</u>	<u>\$ 27,025</u>

b. Income tax assessments

The Company, FocalTech Smart Sensors Co., Ltd., and FocalTech Electronics Co., Ltd.'s tax returns until 2018 have 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	
	2020	2019	2020	2019
Basic earnings (loss) per share	<u>\$ 1.06</u>	<u>\$ 0.29</u>	<u>\$ 1.64</u>	<u>\$ (0.84)</u>
Diluted earnings per share	<u>\$ 1.00</u>	<u>\$ 0.28</u>	<u>\$ 1.55</u>	

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

### Net Profit for the Period

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Earnings (loss) used in the computation of basic earnings (loss) per share	<u>\$ 275,308</u>	<u>\$ 79,983</u>	<u>\$ 448,132</u>	<u>\$ (231,810)</u>

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Weighted average number of ordinary shares in computation of basic earnings (loss) per share	260,614	276,676	273,253	275,415
Effect of potentially dilutive ordinary shares:				
Employee share option	15,153	11,419	14,687	-
Employees' compensation issued	<u>542</u>	<u>60</u>	<u>557</u>	<u>-</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>276,309</u>	<u>288,155</u>	<u>288,497</u>	<u>275,415</u>

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

## 25. SHARE-BASED PAYMENT ARRANGEMENTS

The Group did not have new share option plan issued for employees for the three months ended September 30, 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 share option plan

Information on outstanding options for the nine months ended September 30, 2020 and 2019 is as follows:

#### September 30, 2020

	Beginning Balance		Options unvested		Options exercised		Options expired		Ending Balance	
	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)
2014	805,599	\$ 23.49	-	\$ -	(238,800)	\$ 26.60	-	\$ -	566,799	\$ 22.18
2015	677,500	12.20	-	-	(103,000)	12.20	(24,000)	12.20	550,500	12.20

#### September 30, 2019

	Beginning Balance		Options unvested		Options exercised		Options expired		Ending Balance	
	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)
2014	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

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b. Shares Buyback Program

The Company's employee subscription base dates were March 20, 2020. The eligible employees newly 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 shares.

Information about Shares Buy Back Programs for the nine months ended September 30, 2020s as follows:

<u>The 2nd Shares Buy Back Program</u>			<u>The 3rd Shares Buy Back Program</u>		
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	-			
<b>Total</b>	<b>5,000</b>		<b>Total</b>	<b>6,808</b>	

  

<u>The 4th Shares Buy Back Program</u>			<u>The 5th Shares Buy Back Program</u>		
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
<b>Total</b>	<b>7,848</b>		<b>Total</b>	<b>6,110</b>	

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

	<b>For the Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
Employee share option plans	\$ -	\$ 669
Shares buyback programs	16,049	7,414
	<u>\$ 16,049</u>	<u>\$ 8,083</u>
Adjustment account:		
Capital surplus - employee share options	<u>\$ 16,049</u>	<u>\$ 8,083</u>

**26. OPERATING LEASE ARRANGEMENTS**

The Group as Lessee

The Company and its subsidiaries have lease contracts in relation to office, plant and part of office equipment, and they would expire by September 2021. 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 \$4,398 thousand and \$16,841 thousand as of September 30, 2020 and 2019.

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Lease payments	\$ 8,363	\$ 9,641	\$ 26,079	\$ 27,805

## 27. FINANCIAL INSTRUMENTS

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

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

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

- 1) Fair value hierarchy  
September 30, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Listed preferred shares	\$ 10,625	\$ -	\$ -	\$ 10,625
Private funds	-	-	44,856	44,856
Total	<u>\$ 10,625</u>	<u>\$ -</u>	<u>\$ 44,856</u>	<u>\$ 55,481</u>

Financial assets at FVTOCI				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 214,901</u>	<u>\$ -</u>	<u>\$ 214,901</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				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 181,373</u>	<u>\$ -</u>	<u>\$ 181,373</u>

September 30, 2019

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

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

There were no transfers between Level 1 and Level 2 for the nine months ended September 30, 2020 and 2019.

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

For the nine Months ended September 30, 2020

<u>Financial assets at FVTPL</u>	<b>For the Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
Balance, beginning of period	\$ 45,423	\$ 41,023
Purchases	2,046	4,649
Recognized in profit or loss (other income or loss)	(1,800)	(275)
Effect of foreign currency exchange differences	(813)	312
Balance, end of period	<u>\$ 44,856</u>	<u>\$ 45,709</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 Group 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

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
<u>Financial assets</u>			
Fair value through profit or loss (FVTPL)			
Mandatorily at FVTPL	\$ 55,481	\$ 56,354	\$ 87,007
Amortized cost (Note 1)	6,420,106	6,597,902	6,072,497
<u>Financial assets at FVTOCI</u>			
Investments in debt instruments	214,901	181,373	262,199
<u>Financial liabilities</u>			
Amortized cost (Note 2)	4,076,553	3,335,028	2,476,179

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 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

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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 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 Group. The chairman is authorized by the board of directors to develop and monitor the risk management policy of the Group 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 established for identifying and analyzing the financial risks to the Group, 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 Group 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 Group's management oversees the Group 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 Group'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 Group'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 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 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 New Taiwan Dollar against the U.S. dollar.

	<b>USD Impact</b>	
	<b>For the Nine Months Ended</b>	
	<b>September 30</b>	
	<b>2020</b>	<b>2019</b>
Profit or loss/ equity	<u>\$ 17,065</u> (i)	<u>\$ 43,668</u> (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 Group 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 estimated profit or loss regarding to the financial instruments above.

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

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Fair value interest rate risk			
Financial assets	<u>\$ 2,156,886</u>	<u>\$ 3,131,261</u>	<u>\$ 4,031,409</u>
Cash flow interest rate risk			
Financial assets	<u>\$ 2,847,233</u>	<u>\$ 2,103,526</u>	<u>\$ 1,219,629</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, 2020 and 2019 would increase/ decrease by NT\$5,339 thousand and NT\$2,287 thousand, respectively.

2) Credit risk

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

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

As of September 30, 2020, trade receivables from top 5 customers represented 61% 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:

<b>Category</b>	<b>Description</b>	<b>Basis for Recognizing Expected Credit Loss</b>	<b>Expected Credit Loss Ratio</b>	<b>Carrying Amount as of September 30, 2020</b>
Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 214,901</u>

<b>Category</b>	<b>Description</b>	<b>Basis for Recognizing Expected Credit Loss</b>	<b>Expected Credit Loss Ratio</b>	<b>Carrying Amount as of December 31, 2019</b>
Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 181,373</u>

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

### 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.

As of September 30, 2020, December 31, 2019, and September 30, 2019, 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 Group's financial liabilities based on contractual undiscounted payments, including principal and interest.

September 30, 2020

	<b>On Demand or Less than 1 Year</b>	<b>1-5 Years</b>
Non-interest bearing	<u>\$ 3,668,799</u>	<u>\$ 407,754</u>

December 31, 2019

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

September 30, 2019

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

b) Financing credit line

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Unsecured bank overdraft line of credit	\$ 15,665	\$ -	\$ -
Amount unused	<u>784,335</u>	<u>800,000</u>	<u>408,640</u>
	<u>\$ 800,000</u>	<u>\$ 800,000</u>	<u>\$ 408,640</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

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Long-term employee benefits	\$ -	\$ -	\$ 21,870	\$ 20,001
Short-term employee benefits	10,910	9,767	34,270	30,505
Post-employment benefits	135	135	405	405
Share-based payments	<u>1,111</u>	<u>730</u>	<u>3,271</u>	<u>2,240</u>
	<u>\$ 12,156</u>	<u>\$ 10,632</u>	<u>\$ 59,816</u>	<u>\$ 53,151</u>

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

## 29. PLEDGED ASSETS

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

	September 30, 2020	December 31, 2019	September 30, 2019
Pledge deposits (categorized in other non-current assets)	\$ 4,000	\$ 4,000	\$ 4,000

## 30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

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

## 31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

### September 30, 2020

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 114,746	29.10 (USD:NTD)	\$ 3,339,118
USD	2,284	6.8101 (USD:RMB)	66,471
RMB	31,218	0.1468 (RMB:USD)	133,396
<u>Financial liabilities</u>			
Monetary items			
USD	102,331	29.10 (USD:NTD)	2,977,824
USD	2,971	6.8101 (USD:RMB)	86,465

### 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
<u>Financial liabilities</u>			
Monetary items			
USD	38,218	29.98 (USD:NTD)	1,145,788
USD	5,644	6.9762 (USD:RMB)	169,222

September 30, 2019

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<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

### **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.