
FocalTech Systems Co., Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2019 and 2018**

REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of FocalTech Systems Co., Ltd. as of and for the year ended December 31, 2019, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, “Consolidated Financial Statements.” In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, FocalTech Systems Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,
FocalTech Systems Co., Ltd.
By
Genda James Hu
Chairman
March 27, 2020

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated balance sheets of FocalTech Systems Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years ended December 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements in the current period are stated as follows:

Goodwill Impairment Assessment

The goodwill amounted to 11% (NT\$1,237,268 thousand) of the Group's consolidated total assets as of December 31, 2019; therefore, goodwill is material to the consolidated financial statements. The reverse merger was triggered by FocalTech Systems Co., Ltd. on resulting the goodwill. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The decision making of future cash flow operations by the management involves subjective judgement and may be affected by future market or economic conditions including the sales growth rates, profit margin and discount rate from above-mentioned cash generating units. Then, the goodwill impairment assessment was listed as one key item in the year of 2019.

Please refer to Note4, 5, 14 for the accounting policy, accounting estimation and disclosure information.

We performed the following audit procedures :

1. We obtained an understanding touch and display driver integration the process and control activities of the Group in its evaluation of goodwill for impairment.
2. We assessed that the future market growth rate, sales growth rates, and profit margin of the touch and display driver integration, and analysis of the future trend of external industries, evaluate the market growth rate and other assumptions reasonably made by management.

Other Matter

We have also audited the parent company only financial statements of FocalTech Systems Co., Ltd. as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance For 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 the IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 27, 2020

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 4 and 6)	\$ 3,461,503	30	\$ 2,355,926	21
Financial asset at fair value through other comprehensive income-current(Note 4 and 8)	120,475	1	130,716	1
Trade receivables, net (Note 4 and 10)	1,420,459	12	983,496	9
Inventories (Note 4 and 11)	1,570,753	14	2,120,600	19
Other financial assets (Note 4 and 9)	1,596,292	14	2,283,900	20
Other current assets (Note 22)	<u>361,925</u>	<u>3</u>	<u>158,385</u>	<u>1</u>
Total current assets	<u>8,531,407</u>	<u>74</u>	<u>8,033,023</u>	<u>71</u>
NON-CURRENT ASSETS				
Financial asset at fair value through profit or loss - non-current (Note 4 and 7)	56,354	-	112,063	1
Financial asset at fair value through other comprehensive income - non-current (Note 4 and 8)	60,898	1	183,253	2
Property, plant and equipment (Note 4 and 13)	1,361,478	11	1,394,372	13
Goodwill (Notes 4 , 5 and 14)	1,237,268	11	1,237,268	11
Other intangible assets (Notes 4 and 15)	99,189	1	148,998	1
Deferred income tax assets (Notes 4 and 22)	120,782	1	134,858	1
Other non-current assets (Note 30)	<u>135,593</u>	<u>1</u>	<u>56,286</u>	<u>-</u>
Total non-current assets	<u>3,071,562</u>	<u>26</u>	<u>3,267,098</u>	<u>29</u>
TOTAL	<u>\$ 11,602,969</u>	<u>100</u>	<u>\$ 11,300,121</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade payables (Note 16)	\$ 1,986,219	17	\$ 1,625,756	15
Other payables (Note 17)	954,449	8	794,104	7
Current tax liabilities (Notes 4 and 22)	363,172	3	394,493	3
Other current liabilities(Note 20)	<u>108,584</u>	<u>1</u>	<u>64,875</u>	<u>1</u>
Total current liabilities	<u>3,412,424</u>	<u>29</u>	<u>2,879,228</u>	<u>26</u>
NON-CURRENT LIABILITIES				
Deferred income tax liabilities (Notes 4 and 22)	33,537	-	30,998	-
Net defined benefit liabilities - non-current (Notes 4 and 18)	24,078	-	26,096	-
Guarantee deposits received	394,360	4	275,784	3
Other non-current liabilities	<u>10,400</u>	<u>-</u>	<u>10,400</u>	<u>-</u>
Total non-current liabilities	<u>462,375</u>	<u>4</u>	<u>343,278</u>	<u>3</u>
Total liabilities	<u>3,874,799</u>	<u>33</u>	<u>3,222,506</u>	<u>29</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 , 19 and 24)				
Share capital				
Ordinary shares	<u>2,996,759</u>	<u>26</u>	<u>2,987,432</u>	<u>26</u>
Capital surplus				
Additional paid-in capital	5,037,671	44	6,422,355	58
Treasury shares	48,662	1	40,868	-
Changes in ownership interests in subsidiaries	-	-	20,448	-
Employee share options	25,510	-	47,476	-
Employee share options - expired	<u>33,534</u>	<u>-</u>	<u>20,334</u>	<u>-</u>
Total capital surplus	<u>5,145,377</u>	<u>45</u>	<u>6,551,481</u>	<u>58</u>
Accumulated deficits				
Legal reserve	-	-	186,154	2
Deficits to be offset	<u>(183,307)</u>	<u>(2)</u>	<u>(1,434,755)</u>	<u>(13)</u>
Total Accumulated deficits	<u>(183,307)</u>	<u>(2)</u>	<u>(1,248,601)</u>	<u>(11)</u>
Other equity				
Exchange differences from translating the financial statements of foreign operations	4,057	-	149,454	1
Unrealized loss on financial assets at fair value through other comprehensive income	<u>1,750</u>	<u>-</u>	<u>(2,290)</u>	<u>-</u>
Total other equity	<u>5,807</u>	<u>-</u>	<u>147,164</u>	<u>1</u>
Treasury shares	<u>(267,158)</u>	<u>(2)</u>	<u>(393,203)</u>	<u>(3)</u>
Equity attributable to owners of the company	<u>7,697,478</u>	<u>67</u>	<u>8,044,273</u>	<u>71</u>
NON-CONTROLLING INTERESTS	<u>30,692</u>	<u>-</u>	<u>33,342</u>	<u>-</u>
Total equity	<u>7,728,170</u>	<u>67</u>	<u>8,077,615</u>	<u>71</u>
TOTAL	<u>\$ 11,602,969</u>	<u>100</u>	<u>\$ 11,300,121</u>	<u>100</u>

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
REVENUE (Note 4 and 20)	\$ 9,160,261	100	\$ 9,919,368	100
COSTS OF SALES (Notes 4,11 and 21)	<u>(7,167,061)</u>	<u>(79)</u>	<u>(8,357,068)</u>	<u>(84)</u>
GROSS PROFIT	<u>1,993,200</u>	<u>21</u>	<u>1,562,300</u>	<u>16</u>
OPERATING EXPENSES (Notes 23, 24 and 29)				
Selling and marketing expenses	(469,272)	(5)	(429,499)	(4)
General and administrative expenses	(312,638)	(3)	(326,676)	(4)
Research and development expenses	<u>(1,551,946)</u>	<u>(17)</u>	<u>(1,481,181)</u>	<u>(15)</u>
Total operating expenses	<u>(2,333,856)</u>	<u>(25)</u>	<u>(2,237,356)</u>	<u>(23)</u>
OPERATIONS LOSS	<u>(340,656)</u>	<u>(4)</u>	<u>(675,056)</u>	<u>(7)</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Note 21)	(1,152)	-	(786)	-
Interest income (Note 4)	111,144	1	96,737	1
Gain (loss) on financial assets and liabilities at fair value through profit or loss (Notes 4)	1,077	-	(1,415)	-
Impairment losses of goodwill (Note 4,5 and 14)	-	-	(2,000,000)	(20)
Other gains and losses, net	71,949	1	59,449	1
(Loss) gain on foreign currency exchange(Note 4)	<u>(22,723)</u>	<u>-</u>	<u>17,422</u>	<u>-</u>
Total non-operating income and expenses	<u>160,295</u>	<u>2</u>	<u>(1,828,593)</u>	<u>(18)</u>
LOSS BEFORE INCOME TAX	(180,361)	(2)	(2,503,649)	(25)
INCOME TAX EXPENSE (Notes 4 and 22)	<u>(25,319)</u>	<u>-</u>	<u>15,531</u>	<u>-</u>
NET LOSS	<u>(205,680)</u>	<u>(2)</u>	<u>(2,488,118)</u>	<u>(25)</u>
OTHER COMPREHENSIVE (LOSS) INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 18)	1,677	-	3,275	-
Income tax related to items that will not be reclassified subsequently to profit or loss (Notes 4 and 22)	<u>(235)</u>	<u>-</u>	<u>(733)</u>	<u>-</u>
	<u>1,442</u>	<u>-</u>	<u>2,542</u>	<u>-</u>

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences from translating the financial statements of foreign operations (Notes 4)	\$ (147,153)	(2)	\$ 104,532	1
Unrealized gains from debt instrument investments measured at fair value through other comprehensive income (Notes 4)	<u>4,040</u>	<u>-</u>	<u>501</u>	<u>-</u>
	<u>(143,113)</u>	<u>(2)</u>	<u>105,033</u>	<u>1</u>
Total other comprehensive (Loss) income (net of income tax)	<u>(141,671)</u>	<u>(2)</u>	<u>107,575</u>	<u>1</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ (347,351)</u>	<u>(4)</u>	<u>\$ (2,380,543)</u>	<u>(24)</u>
NET LOSS ATTRIBUTABLE TO:				
Owners of the Company	\$ (175,249)	(2)	\$ (2,451,642)	(25)
Non-controlling interests	<u>(30,431)</u>	<u>-</u>	<u>(36,476)</u>	<u>-</u>
	<u>\$ (205,680)</u>	<u>(2)</u>	<u>\$ (2,488,118)</u>	<u>(25)</u>
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:				
Owners of the Company	\$ (315,164)	(3)	\$ (2,346,299)	(24)
Non-controlling interests	<u>(32,187)</u>	<u>(1)</u>	<u>(34,244)</u>	<u>-</u>
	<u>\$ (347,351)</u>	<u>(4)</u>	<u>\$ (2,380,543)</u>	<u>(24)</u>
LOSS PER SHARE (Note 23)				
Basic	<u>\$ (0.63)</u>		<u>\$ (8.66)</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
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company										
	Accumulated deficits				Other Equity						
	Share Capital Ordinary Shares	Capital Surplus	Legal Reserve	Deficits to be offset	Exchange Differences from Translating Financial Statement of Foreign Operations	Equity Directly Associated with Non-current Assets Held for Sale	Unrealized gains(losses) from financial assets measured at fair value through other comprehensive income	Treasury Shares	Total	Non-controlling Interests	Total Equity
BALANCE, JANUARY 1, 2018	\$ 2,983,700	\$ 6,654,876	\$ 186,154	\$ 1,058,985	\$ 47,154	\$ (2,791)	\$ -	\$ (191,998)	\$ 10,736,080	\$ 7,284	\$ 10,743,364
Effects of retrospective application and restatement	-	-	-	(44,640)	-	2,791	(2,791)	-	(44,640)	-	(44,640)
Restated balance as of January 1, 2018	2,983,700	6,654,876	186,154	1,014,345	47,154	-	(2,791)	(191,998)	10,691,440	7,284	10,698,724
Cash distribution from additional paid-in capital	-	(150,000)	-	-	-	-	-	-	(150,000)	-	(150,000)
Net loss for the year ended December 31, 2018	-	-	-	(2,451,642)	-	-	-	-	(2,451,642)	(36,476)	(2,488,118)
Other comprehensive income for the year ended December 31, 2018, net of income tax	-	-	-	2,542	102,300	-	501	-	105,343	2,232	107,575
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	(2,449,100)	102,300	-	501	-	(2,346,299)	(34,244)	(2,380,543)
Buy-back of ordinary shares (Note 19)	-	-	-	-	-	-	-	(384,906)	(384,906)	-	(384,906)
Treasury stock transferred to employees (Note 19 and 24)	-	-	-	-	-	-	-	183,701	183,701	-	183,701
Changes in ownership interests in subsidiaries (Note 25)	-	19,179	-	-	-	-	-	-	19,179	(19,179)	-
Compensation cost of employee share options (Note 19 and 24)	-	26,474	-	-	-	-	-	-	26,474	-	26,474
Issue of ordinary shares under employee share options (Note 19 and 24)	3,732	952	-	-	-	-	-	-	4,684	-	4,684
Increase in non-controlling interests (Note 25)	-	-	-	-	-	-	-	-	-	79,481	79,481
BALANCE AT DECEMBER 31, 2018	2,987,432	6,551,481	186,154	(1,434,755)	149,454	-	(2,290)	(393,203)	8,044,273	33,342	8,077,615
Legal reserve used to cover accumulated deficits	-	-	(186,154)	186,154	-	-	-	-	-	-	-
Capital surplus used to cover 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 year ended December 31, 2019	-	-	-	(175,249)	-	-	-	-	(175,249)	(30,431)	(205,680)
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	1,442	(145,397)	-	4,040	-	(139,915)	(1,756)	(141,671)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	(173,807)	(145,397)	-	4,040	-	(315,164)	(32,187)	(347,351)
Treasury stock transferred to employees (Note 19 and 24)	-	-	-	-	-	-	-	126,045	126,045	-	126,045
Changes in ownership interests in subsidiaries (Note 25)	-	(20,448)	-	(9,500)	-	-	-	-	(29,948)	29,948	-
Compensation cost of employee share options (Note 19 and 24)	-	9,787	-	-	-	-	-	-	9,787	-	9,787
Issue of ordinary shares under employee share options(Note 19 and 24)	9,327	3,158	-	-	-	-	-	-	12,485	-	12,485
Decrease in non-controlling interests (Note 25)	-	-	-	-	-	-	-	-	-	(411)	(411)
BALANCE AT DECEMBER 31, 2019	<u>\$ 2,996,759</u>	<u>\$ 5,145,377</u>	<u>\$ -</u>	<u>\$ (183,307)</u>	<u>\$ 4,057</u>	<u>\$ -</u>	<u>\$ 1,750</u>	<u>\$ (267,158)</u>	<u>\$ 7,697,478</u>	<u>\$ 30,692</u>	<u>\$ 7,728,170</u>

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax from continuing operation	\$ (180,361)	\$(2,503,649)
Adjustments for:		
Depreciation expenses	81,185	64,564
Amortization expenses	50,186	67,402
Gains from reversal of impairment loss on expected credit	-	(6,084)
(Gain) loss on financial assets and liabilities at fair value through profit or loss	(1,077)	1,415
Finance costs	1,152	786
Interest income	(111,144)	(96,737)
Compensation cost of employee share options	9,787	26,474
Write-down of inventories	(115,912)	750,433
Impairment losses of goodwill	-	2,000,000
Unrealized (gain) loss on foreign currency exchange	(8,917)	15,856
Changes in operating assets and liabilities		
Increase in financial assets mandatorily classified as at fair value through profit or loss	56,476	(81,672)
Trade receivables	(461,962)	290,765
Inventories	646,063	(134,052)
Other current assets	(209,611)	65,080
Trade payables	394,137	286,289
Other payables	181,302	41,828
Other current liabilities	47,295	(17,680)
Net defined benefit liabilities	(341)	(249)
Cash generated from operations	378,258	770,769
Interest paid	(1,152)	(786)
Income tax paid	(31,938)	(30,348)
Net cash generated from operating activities	345,168	739,635
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial asset at fair value through other comprehensive income	-	(59,090)
Proceeds from disposal of financial asset at fair value through other comprehensive income	132,921	36,179
Purchase for property, plant and equipment	(101,704)	(73,996)
Purchase of intangible assets	(825)	(3,512)
Decrease in other financial assets	651,819	(846,904)
(Increases) decrease in other non-current assets	(80,012)	33,026
Interest received	114,389	86,828
Net cash generated (used) from investing activities	716,588	(827,469)

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in guarantee deposits received	\$ 126,134	\$ 70,539
Cash dividends	(150,000)	(150,000)
Proceeds from issuance ordinary shares under employee share options	12,485	4,684
Buy -back of ordinary shares	-	(384,906)
Treasury stock transferred to employees	126,045	183,701
(Decrease) increase in non-controlling interests	<u>(411)</u>	<u>79,481</u>
Net cash generated (used) in financing activities	<u>114,253</u>	<u>(196,501)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(70,432)</u>	<u>44,133</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,105,577	(240,202)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>2,355,926</u>	<u>2,596,128</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 3,461,503</u>	<u>\$ 2,355,926</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 YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on February 7, 2020.

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

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC).

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

1) IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether and Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The group elects to apply the guidance of IFRS 16 in Determining Whether contracts are or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The group as lessee

Except for the leases of low-value asset or short-term leases recognized as expenses on a straight-line basis, the Group recognizes right-of-use assets and lease liabilities for all leases on the

consolidated balance sheets. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, cash payments under operating leases were classified within operating activities in the consolidated statements of cash flows and the operating leases are recognized as expenses on a straight-line basis.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities. The Group applies IAS 36 to all right-of-use assets.

The Group also applies practical expedients and accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

There is no impact on the assets, liabilities and equity on January 1, 2019 by first-time application of IFRS 16.

2) IFRIC 23 "Uncertainty over Income Tax Treatments"

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept the Company declaration, the Company's financial statements should reflect consistently with its income tax filing, using the same assumptions regarding the taxable income, tax bases, unused loss credits, unused tax credits or tax rates. If it is not probable to be accepted by the taxation authority, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method could come out the better prediction to the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

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

The amendment provides that when the plan is amended, curtailed or settled, the current service cost and net interest for the remainder of the year shall be determined on the basis of the actuarial assumptions used to re-measure the net defined benefit liabilities (assets). In addition, the amendment clarifies the impact of the plan's amendment, curtailment or settlement on rules applied to the asset cap. The aforementioned amendments will be applied prospectively.

b. The IFRSs recognized by FSC with effective date starting 2020.

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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

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

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

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

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New, Revised or Amended Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	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 issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have 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 present Consolidated Financial Report has been duly worked out in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by Financial Supervisory Commission.

- b. Basis of preparation

The consolidated financial statements are prepared on the historical cost basis, except for the financial instruments measured at fair value and the net defined benefit liabilities recognized in the fair value of the estimated assets, and explained in the accounting policies below.

The evaluation of fair value could be classified into level 1 to level 3 based on the degree of the observable intensity and importance of related input value:

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

c. Standards in differentiating current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Assets expected to be realized within 12 months after the reporting period; and
- 2) Cash and cash equivalents (excluding those restricted for exchanging or liquidating liabilities over 12 months after the balance sheet date)

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

d. Basis of consolidation

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

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

e. Foreign currencies

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

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

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

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

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

The resulting currency translation differences are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

f. Inventories

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

g. Property, plant and equipment

Property, plant and equipment are initially measured at cost, and subsequently measured at cost less accumulated depreciation.

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

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

h. Goodwill

Goodwill arising from the acquisition of a business is carried at cost, and subsequently measured at cost less accumulated impairment loss.

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

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

i. Intangible assets

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

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

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

j. Impairment of tangible and intangible assets other than goodwill

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

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

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

k. Financial instruments

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

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

1) Financial assets

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

i) Measurement category

The Group's financial assets include those measured at FVTPL, at amortized cost and investments in debt instruments measured at FVTOCI.

A. Financial asset at FVTPL

The equity instruments that are not specified as FVTOCI and debt instruments that do not meet the criteria of amortized cost or FVTOCI are mandatorily required to be measured at FVTPL.

Any dividends, interest earned and gain or loss arising from the remeasurement is recognized in profit or loss at fair value. The determination methodology of fair value of financial instruments states in Note 28.

B. Financial assets at amortized cost

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

- (1) The objective of the business model to hold the financial asset is to collect

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contractual cash flows; and

- (2) The cash flows from contractual terms of the financial asset on specified dates are solely matched for payments of principal and interests on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, account receivables at amortized cost, other financial assets, and refundable deposits, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method, subtracting any impairment loss. Foreign exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Cash equivalents include time deposits with original maturities within 3 months from obtaining date, high liquidation level, readily convertible to a known amount of cash at any time, and low risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

C. Investments in debt instruments at FVTOCI

Investments in debt instruments that meet both the following conditions are subsequently measured at FVTOCI:

- (1) The objective of the business model to hold the financial asset is to collect contractual cash flows and sell financial assets; and
- (2) The cash flows from contractual terms of the financial asset on specified dates are solely matched for payments of principal and interests on the principal amount outstanding.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses or reversed gains on investments in debt instruments at FVTOCI are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when these debt instruments are disposed.

ii) Impairment of financial assets

At the end of each reporting period, the impairment loss is recognized by expected credit loss method for financial assets at amortized cost (including trade receivables) and for investments in debt instruments in FVTOCI.

The loss allowance for trade receivables is determined by the expected credit losses over the lifetime. For other financial assets at amortized cost and investments in debt instruments that are measured at FVTOCI, if the credit risk on the financial instrument has not increased significantly after initial recognition, a loss allowance is determined by the expected credit losses resulting from the possible default events within 12 months after the reporting date. If, on the other hand, there has been a significant increase in credit risk after initial recognition, a loss allowance is determined by the expected credit losses resulting from all possible default events over the expected life of a financial instrument.

Expected credit losses (ECLs) reflect the weighted average of credit losses with the respective risks of default occurring as the weights. 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. In contrast, Lifetime ECLs represent the expected credit losses that will result

from all possible default events over the expected life of a financial instrument.

All impairment loss of the financial instruments with a corresponding adjustment to their carrying amount are through an allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

iii) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

When a financial asset carried at amortized cost is derecognized in its entirety, the difference between the asset's carrying amount and the consideration is recognized in profit or loss. If the financial asset is an investment in debt instruments at FVTOCI and derecognized in its entirety, the difference between the asset's carrying amount and the sum of the consideration plus the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Equity instruments

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

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

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

3) Financial liabilities

i) Subsequent measurement

All the financial liabilities are measured by amortized cost using the effective interest method.

ii) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

1. Provisions

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

m. Revenue recognition

The Group recognizes revenue when customer's contract obligations are satisfied.

Revenue comes from sales of portable device ICs. Revenue is recognized when the ICs start to be shipped or are delivered to the specific locations instructed by customers, at which time the customer has full discretion over the ICs. Revenue and trade receivables are recognized concurrently.

The Group considers varying contractual terms to estimate sales returns and recognize refund liabilities, which is classified under other payables.

n. Lease

2019

The Group evaluates if the contract belongs to or includes the lease the commencement date.

The Group as lessee

Except for the leases of low-value asset or short-term leases recognized as expenses on a straight-line basis, the Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets from the commencement date.

2018

The Group as lessee

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

o. Government Grants

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

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

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

loss.

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

q. Share-based payment arrangements

Equity-settled and share-based payment arrangements granted to employees

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

r. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

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

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

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

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

3) Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand	\$ 4,381	\$ 2,344
Checking accounts and demand deposits	2,103,526	840,827
Cash equivalent (investments with original maturities less than three months)	<u>1,353,596</u>	<u>1,512,755</u>
	<u>\$ 3,461,503</u>	<u>\$ 2,355,926</u>

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

	December 31	
	2019	2018
Demand deposits	0.001%-0.35%	0.001%-0.48%
Time deposits	1.56%-2.32%	0.6%-3.37%

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

	December 31 2019	December 31 2018
Mandatorily at fair value through profit or loss (FVTPL)		
Listed preferred shares	\$ 10,931	\$ 10,540
Private Funds	45,423	41,023
Structured Investments	<u>-</u>	<u>60,500</u>
	<u>\$ 56,354</u>	<u>\$ 112,063</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31, 2019	December 31, 2018
Investments in debt instruments		
<u>Current</u>		
Foreign investments		
Fixed income bonds	<u>\$ 120,475</u>	<u>\$ 130,716</u>
<u>Non – Current</u>		
Foreign investments		
Fixed income bonds	<u>\$ 60,898</u>	<u>\$ 183,253</u>
Yield rates	2.307%~4.117%	1.963%~4.117%

9. OTHER FINANCIAL ASSETS

	December 31	
	2019	2018
Time deposits with original maturities more than three months	<u>\$ 1,596,292</u>	<u>\$ 2,283,900</u>
Market rate intervals	<u>1.5%~4.18%</u>	<u>1.75%~4.18%</u>

10. TRADE RECEIVABLES, NET

	December 31	
	2019	2018
Trade receivables	<u>\$ 1,420,459</u>	<u>\$ 983,496</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 debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The Group recognizes the allowance loss for accounts receivable based on expected credit losses during the duration. The expected credit losses on trade receivables are estimated by using an allowance matrix which references 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 among the loss patterns of different customer groups. Therefore, the allowance matrix does not further distinguish the customer groups, and only sets the expected credit loss rate based on the overdue days of trade receivable.

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

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

December 31, 2019

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

December 31, 2018

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

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

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

Wintek Corporation announced the following material information on October 13, 2014. Due to loss of continuous operation, the board of directors of Wintek Corporation approved to apply for court's ratification for reorganization and emergency disposal in accordance with the relevant rules of the Company Act. Until December 31, 2018, the reorganization plan had been approved and executed. The Group wrote off the allowance for doubtful accounts of 97,344 thousand and reversed it for \$6,084 thousand in 2018, and received of \$19,072 thousand and \$7,152 thousand in January and November, 2019, respectively.

11. INVENTORIES

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Finished goods	\$ 476,430	\$ 537,585
Work in progress	775,899	921,944
Raw materials and supplies	<u>318,424</u>	<u>661,071</u>
	<u>\$ 1,570,753</u>	<u>\$ 2,120,600</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was \$7,167,061 thousand and \$8,357,068 thousand, included gain from price recovery of inventory of \$115,912 thousand and the write-downs of inventories of \$750,433 thousand for the years ended December 31, 2019 and 2018, respectively.

12. SUBSIDIARIES

Subsidiaries included in the consolidated financial statement were as follows:

Investor	Investee	Nature of Activities	Proportion of Ownership	
			December 31 2019	December 31 2018
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd. FocalTech Electronics, Ltd.	Investment activity	100%	100%
		Research, development, manufacturing and sale of integrated circuits	100%	100%
FocalTech Systems Co., Ltd. and FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Investment activity	67.15% (a)	61.88%
FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	Research, development of integrated circuits	100%	100%
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	Investment activity	100%	100%
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%
FocalTech Systems, Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	Design and research of integrated circuits	100%	100%
	FocalTech Electronics Co., Ltd.	Import and export of integrated circuits	100%	100%
FocalTech Electronics, Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	Sales support and post-sales service for affiliates' IC products	100%	100%
	FocalTech Electronics (Shenzhen) Co., Ltd.	Design and research of integrated circuits	100%	100%
	Hefei PineTech Electronics Co., Ltd.	Research, development and sale of integrated circuits	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.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improve- ments	Total
<u>Cost</u>						
Balance at January 1, 2018	\$ 1,358,019	\$ 165,491	\$ 14,479	\$ 42,437	\$ 39,209	\$ 1,619,635
Additions	41,271	30,108	1,704	913	-	73,996
Disposals	-	(3,841)	-	-	-	(3,841)
Effect of foreign currency exchange differences	(23,727)	800	(213)	(675)	(253)	(24,068)
Balance at December 31, 2018	<u>\$ 1,375,563</u>	<u>\$ 192,558</u>	<u>\$ 15,970</u>	<u>\$ 42,675</u>	<u>\$ 38,956</u>	<u>\$ 1,665,722</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2018	\$ 16,029	\$ 121,011	\$ 10,236	\$ 27,331	\$ 36,554	\$ 211,161
Depreciation	36,472	19,767	1,536	4,660	2,129	64,564
Disposals	-	(3,841)	-	-	-	(3,841)
Effect of foreign currency exchange differences	(891)	1,229	(137)	(483)	(252)	(534)
Balance at December 31, 2018	<u>\$ 51,610</u>	<u>\$ 138,166</u>	<u>\$ 11,635</u>	<u>\$ 31,508</u>	<u>\$ 38,431</u>	<u>\$ 271,350</u>
Carrying amounts at December 31, 2018	<u>\$ 1,323,953</u>	<u>\$ 54,392</u>	<u>\$ 4,335</u>	<u>\$ 11,167</u>	<u>\$ 525</u>	<u>\$ 1,394,372</u>
<u>Cost</u>						
Balance at January 1, 2019	\$ 1,375,563	\$ 192,558	\$ 15,970	\$ 42,675	\$ 38,956	\$ 1,665,722
Additions	578	99,552	54	1,520	-	101,704
Effect of foreign currency exchange differences	(53,180)	(6,450)	(476)	(1,574)	(568)	(62,248)
Balance at December 31, 2019	<u>\$ 1,322,961</u>	<u>\$ 285,660</u>	<u>\$ 15,548</u>	<u>\$ 42,621</u>	<u>\$ 38,388</u>	<u>\$ 1,705,178</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2019	\$ 51,610	\$ 138,166	\$ 11,635	\$ 31,508	\$ 38,431	\$ 271,350
Depreciation	36,526	39,537	1,142	3,454	526	81,185
Effect of foreign currency exchange differences	(3,375)	(3,335)	(346)	(1,210)	(569)	(8,835)
Balance at December 31, 2019	<u>\$ 84,761</u>	<u>\$ 174,368</u>	<u>\$ 12,431</u>	<u>\$ 33,752</u>	<u>\$ 38,388</u>	<u>\$ 343,700</u>
Carrying amounts at December 31, 2019	<u>\$ 1,238,200</u>	<u>\$ 111,292</u>	<u>\$ 3,117</u>	<u>\$ 8,869</u>	<u>\$ -</u>	<u>\$ 1,361,478</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

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 1,237,268	\$ 3,237,268
Impairment loss	-	(2,000,000)
Ending balance	<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, resulting 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, 2018	\$ 126,919	\$ 149,951	\$ 76,718	\$ 74,000	\$ 427,588
Additions	-	3,512	-	-	3,512
Effect of foreign currency exchange differences	<u>3,474</u>	<u>4,338</u>	<u>(4)</u>	<u>-</u>	<u>7,808</u>
Balance at December 31, 2018	<u>\$ 130,393</u>	<u>\$ 157,801</u>	<u>\$ 76,714</u>	<u>\$ 74,000</u>	<u>\$ 438,908</u>
<u>Accumulated amortization</u>					
Balance at January 1, 2018	\$ 72,394	\$ 98,685	\$ 23,595	\$ 22,200	\$ 216,874
Amortization expense	21,085	31,132	7,785	\$ 7,400	67,402
Effect of foreign currency exchange differences	<u>2,245</u>	<u>3,393</u>	<u>(4)</u>	<u>-</u>	<u>5,634</u>
Balance at December 31, 2018	<u>\$ 95,724</u>	<u>\$ 133,210</u>	<u>\$ 31,376</u>	<u>\$ 29,600</u>	<u>\$ 289,910</u>
Carrying amounts at December 31, 2018	<u>\$ 34,669</u>	<u>\$ 24,591</u>	<u>\$ 45,338</u>	<u>\$ 44,400</u>	<u>\$ 148,998</u>
<u>Cost</u>					
Balance at January 1, 2019	\$ 130,393	\$ 157,801	\$ 76,714	\$ 74,000	\$ 438,908
Additions	-	825	-	-	825
Effect of foreign currency exchange differences	<u>(2,674)</u>	<u>(3,656)</u>	<u>(10)</u>	<u>-</u>	<u>(6,340)</u>
Balance at December 31, 2019	<u>\$ 127,719</u>	<u>\$ 154,970</u>	<u>\$ 76,704</u>	<u>\$ 74,000</u>	<u>\$ 433,393</u>
<u>Accumulated amortization</u>					
Balance at January 1, 2019	\$ 95,724	\$ 133,210	\$ 31,376	\$ 29,600	\$ 289,910
Amortization expense	16,296	18,704	7,786	7,400	50,186
Effect of foreign currency exchange differences	<u>(2,344)</u>	<u>(3,538)</u>	<u>(10)</u>	<u>-</u>	<u>(5,892)</u>
Balance at December 31, 2019	<u>\$ 109,676</u>	<u>\$ 148,376</u>	<u>\$ 39,152</u>	<u>\$ 37,000</u>	<u>\$ 334,204</u>
Carrying amounts at December 31, 2019	<u>\$ 18,043</u>	<u>\$ 6,594</u>	<u>\$ 37,552</u>	<u>\$ 37,000</u>	<u>\$ 99,189</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

	December 31	
	2019	2018
Trade payables	\$ 1,986,219	\$ 1,625,756

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

	December 31	
	2019	2018
Payable for rebates	\$ 408,291	\$ 337,581
Payable for salaries and bonus	411,236	336,145
Payable for labor, health and social insurance	12,367	15,475
Reserve for litigations	50,105	52,101
Payable for professional services and others	<u>72,450</u>	<u>52,802</u>
	<u>\$ 954,449</u>	<u>\$ 794,104</u>

18. RETIREMENT BENEFIT

a. Defined contribution plans

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

b. Defined benefit plans

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

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

	December 31	
	2019	2018
Present value of defined benefit obligation	\$ 45,235	\$ 45,590
Fair value of plan assets	(<u>21,157</u>)	(<u>19,494</u>)
Net defined benefit liability	<u>\$ 24,078</u>	<u>\$ 26,096</u>

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

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2018	\$ 47,526	(\$ 17,906)	\$ 29,620
Service cost			
Current service cost	122	-	122
Net interest expense (income)	<u>713</u>	<u>(276)</u>	<u>437</u>
Recognized in profit or loss	<u>835</u>	<u>(276)</u>	<u>559</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(504)	(504)
Actuarial loss - changes in financial assumptions	1,565	-	1,565
Actuarial loss - experience adjustments	<u>(4,336)</u>	<u>-</u>	<u>(4,336)</u>
Recognized in other comprehensive income	<u>(2,771)</u>	<u>(504)</u>	<u>(3,275)</u>
Contributions from the employer	<u>-</u>	<u>(808)</u>	<u>(808)</u>
Balance at December 31, 2018	<u>45,590</u>	<u>(19,494)</u>	<u>26,096</u>
Service cost			
Current service cost	125	-	125
Net interest expense (income)	<u>570</u>	<u>(248)</u>	<u>322</u>
Recognized in profit or loss	<u>695</u>	<u>(248)</u>	<u>447</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(627)	(627)
Actuarial loss - changes in financial assumptions	1,421	-	1,421
Actuarial loss - experience adjustments	<u>(2,471)</u>	<u>-</u>	<u>(2,471)</u>
Recognized in other comprehensive income	<u>(1,050)</u>	<u>(627)</u>	<u>(1,677)</u>
Contributions from the employer	<u>-</u>	<u>(788)</u>	<u>(788)</u>
Balance at December 31, 2019	<u>\$ 45,235</u>	<u>(\$ 21,157)</u>	<u>\$ 24,078</u>

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

- 1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by

qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2019	2018
Discount rate	1%	1.25%
Expected rate of salary increase	4.5%	4.5%

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

	December 31	
	2019	2018
Discount rate		
0.25% increase	(\$ 1,422)	(\$ 1,564)
0.25% decrease	\$ 1,481	\$ 1,633
Expected rate of salary increase		
1% increase	\$ 6,141	\$ 6,763
1% decrease	(\$ 5,334)	(\$ 5,817)

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

	December 31	
	2019	2018
The expected contributions to the plan for the next year	\$ 770	\$ 690
The average duration of the defined benefit obligation	14.9 years	16 years

19. EQUITY

a. Share capital

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

	December 31	
	2019	2018
Numbers of shares authorized (in thousands)	500,000	500,000
Shares authorized	\$ 5,000,000	\$ 5,000,000
Number of shares issued and fully paid (in thousands)	299,676	298,743
Shares issued	\$ 2,996,759	\$ 2,987,432

b. Capital surplus

	Additional Paid-in Capital (1)	Treasury Shares (1)	Changes in ownership interests in subsidiaries (2)	Employee Share Options (3)	Employee Share Options -Expired (2)	Total
BALANCE, JANUARY 1, 2018	\$ 6,565,204	\$ 40,868	\$ 1,269	\$ 30,179	\$ 17,356	\$ 6,654,876
Cash distribution from additional paid-in capital	(150,000)	-	-	-	-	(150,000)
Changes in ownership interests in subsidiaries	-	-	19,179	-	-	19,179
Compensation cost of employee share options	-	-	-	26,474	-	26,474
Issue of ordinary shares under employee share options	7,151	-	-	(6,199)	-	952
Employee share options expired	-	-	-	(2,978)	2,978	-
BALANCE AT DECEMBER 31, 2018	6,422,355	40,868	20,448	47,476	20,334	6,551,481
Capital surplus used to cover 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	-	-	(20,448)	-	-	(20,448)
Employee treasury share vested	-	7,794	-	(7,794)	-	-
Compensation cost of employee share options	-	-	-	9,787	-	9,787
Issue of ordinary shares under employee share options	13,917	-	-	(10,759)	-	3,158
Employee share options expired	-	-	-	(13,200)	13,200	-
BALANCE AT DECEMBER 31, 2019	<u>\$ 5,037,671</u>	<u>\$ 48,662</u>	<u>\$ -</u>	<u>\$ 25,510</u>	<u>\$ 33,534</u>	<u>\$ 5,145,377</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 provides that, when allocating 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 the way of stock dividends, it shall be approved by the Company's shareholders in its meeting; by the 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.

Under the Company's Articles of Incorporation before amended, in the allocation of the net profits for each fiscal year, the Company should first offset its deficits in previous years and then set aside a legal reserve at 10% of the remaining profits until the accumulated legal capital reserve equals total capital.

After deducting the legal reserve and any special reserve as required by laws or related regulations, the distribution of earnings is proposed by the board of directors for approval at the stockholders' meeting.

For the "Articles of Incorporation" about the accrual basis of the employees' compensation and remuneration to directors, please refer to Note 21 (d).

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 portion of cash 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 should be appropriated from earnings until the legal reserve equals the Company's paid-in capital. 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.

In the shareholders' meeting on June 20, 2019, the Company approved offsetting the deficits by legal reserve \$186,154 thousand and capital surplus \$1,248,601 thousand and the cash distribution from additional paid-in capital of \$150,000 thousand which comes from the premium over the par value when issuing, approximately \$0.5 per share.

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

d. Treasury stock

	Shares (In Thousands)
Number of shares at January 1, 2018	5,936
Increase during the period	15,689
Decrease during the period	(5,655)
Number of shares at December 31, 2018	<u>15,970</u>
Number of shares at January 1, 2019	15,970
Decrease during the period	(4,992)
Number of shares at December 31, 2019	<u>10,978</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.

e. Non - controlling interests

	December 31	
	2019	2018
Balance at the beginning of the year	\$ 33,342	\$ 7,284
Non - controlling interests: net loss for the year	(30,431)	(36,476)
Exchange differences from translating the financial statements of foreign operations	(1,756)	2,232
Non - controlling interests: capital injection to FocalTech Smart Sensors, Ltd.	-	79,481
Changes in ownership interests of subsidiaries	29,948	(19,179)
Other (Note 25)	(411)	-
Balance at the end of the year	<u>\$ 30,692</u>	<u>\$ 33,342</u>

20. REVENUE

	For the Year Ended December 31	
	2019	2018
IC for portable devices	<u>\$ 9,160,261</u>	<u>\$ 9,919,368</u>

Contract balances

	December 31	
	2019	2018
Contract liabilities (classified as current liabilities)		
Sales of goods	<u>\$ 53,847</u>	<u>\$ 13,895</u>

21. NET INCOME

a. Finance costs

	For the Year Ended December 31	
	2019	2018
Interest on deposits	\$ 1,150	\$ 471
Interest on bank loans	2	222
Others	<u>-</u>	<u>93</u>
	<u>\$ 1,152</u>	<u>\$ 786</u>

b. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
Property, plant and equipment	\$ 81,185	\$ 64,564
Intangible assets	<u>50,186</u>	<u>67,402</u>
	<u>\$ 131,371</u>	<u>\$ 131,966</u>
An analysis of depreciation and amortization by function		
Operating costs	\$ 1,299	\$ 1,916
Operating expenses	<u>130,072</u>	<u>130,050</u>
	<u>\$ 131,371</u>	<u>\$ 131,966</u>

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

c. Employee benefits expense

	For the Year Ended December 31	
	2019	2018
Post-employment benefits		
Defined contribution plans	\$ 28,771	\$ 28,493
Defined benefit plans (see Note 18)	447	559
Share-based payments (see Note 24)	9,787	26,474
Other employee benefits	<u>1,431,412</u>	<u>1,502,267</u>
Total employee benefits expense	<u>\$ 1,470,417</u>	<u>\$ 1,557,793</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 111,910	\$ 111,686
Operating expenses	<u>1,358,237</u>	<u>1,446,107</u>
	<u>\$ 1,470,147</u>	<u>\$ 1,557,793</u>

d. The remuneration to employees and directors

The Company stipulates to distribute employees' compensation and remuneration to directors at the rates no less than 1% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors. In 2019 and 2018, due to the net loss before tax, there was no accrual for any remuneration to employees and directors.

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

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

22. INCOME TAXES

a. Income tax expense (benefit) recognized in profit or loss

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current year	\$ 8,318	\$ 7,585
Adjustments for prior years	<u>1,199</u>	<u>(6,890)</u>
	<u>9,517</u>	<u>695</u>
Deferred tax		
In respect of the current year	16,654	(19,740)
Adjustments for prior years	<u>(852)</u>	<u>3,514</u>
	<u>15,802</u>	<u>(16,226)</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 25,319</u>	<u>\$(15,531)</u>

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

	For the Year Ended December 31	
	2019	2018
Loss before tax from continuing operations	<u>\$(180,361)</u>	<u>\$(2,503,649)</u>
Income tax expense (benefit) calculated at the statutory rate and the effective tax rate	\$ 3,775	\$(313,796)
Nondeductible expenses in determining taxable income	1,409	282,030
Tax-exempt income	-	(3,623)
Tax effect of earnings to be distributed by subsidiaries	4,597	18,650
Unrecognized temporary differences	-	(852)
Unrecognized loss carryforwards	13,591	18,513
Adjustments for prior years' tax	347	(3,376)
Effect of tax rate changes	-	(12,137)
Others	<u>1,600</u>	<u>(940)</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 25,319</u>	<u>\$(15,531)</u>

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

For other jurisdictions, taxes are calculated using the applicable tax rate for each individual jurisdiction.

b. Current tax assets and liabilities

	For the Year Ended December 31	
	2019	2018
Current tax assets(recorded as other current assets)		
Tax refund receivable	\$ 1,788	\$ 859
	For the Year Ended December 31	
	2019	2018
Current tax liabilities		
Income tax levied on accumulated overseas undistributed earnings (i)	\$ 354,833	\$ 386,137
Income tax payable	8,339	8,356
Total	<u>\$363,172</u>	<u>\$394,493</u>

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

c. Deferred tax assets and liabilities

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

2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Obsolete of inventory	\$ 109,571	\$ (19,872)	\$ -	\$ -	\$ 89,699
Employee share option	2,078	(1,149)	-	-	929
Others	<u>1,272</u>	<u>145</u>	<u>(235)</u>	<u>-</u>	<u>1,182</u>
	112,921	(20,876)	(235)	-	91,810
Loss carryforwards	<u>21,937</u>	<u>7,613</u>	<u>-</u>	<u>(578)</u>	<u>28,972</u>
	<u>\$ 134,858</u>	<u>\$ (13,263)</u>	<u>\$ (235)</u>	<u>\$ (578)</u>	<u>\$ 120,782</u>
<u>Deferred tax liabilities</u>					
Intangible assets	\$ 12,348	\$ (2,058)	\$ -	\$ -	\$ 10,290
Temporary differences					
Investment income recognized from foreign investees	<u>18,650</u>	<u>4,597</u>	<u>-</u>	<u>-</u>	<u>23,247</u>
	<u>\$ 30,998</u>	<u>\$ 2,539</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,537</u>

2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Obsolete of inventory	\$ 70,879	\$ 38,692	\$ -	\$ -	\$ 109,571
Allowance for receivables	11,138	(11,138)	-	-	-
Employee share option	3,147	(1,069)	-	-	2,078
Others	<u>1,307</u>	<u>698</u>	<u>(733)</u>	<u>-</u>	<u>1,272</u>
	86,471	27,183	(733)	-	112,921
Loss carryforwards	<u>18,030</u>	<u>4,165</u>	<u>-</u>	<u>(258)</u>	<u>21,937</u>
	<u>\$ 104,501</u>	<u>\$ 31,348</u>	<u>\$ (733)</u>	<u>\$ (258)</u>	<u>\$ 134,858</u>
<u>Deferred tax liabilities</u>					
Intangible assets	\$ 15,876	\$ (3,528)	\$ -	\$ -	\$ 12,348
Temporary differences					
Investment income recognized from foreign investees	<u>-</u>	<u>18,650</u>	<u>-</u>	<u>-</u>	<u>18,650</u>
	<u>\$ 15,876</u>	<u>\$ 15,122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,998</u>

d. Information about unused loss carryforwards and tax-exemption.

Loss carryforwards as of December 31, 2019 comprised of:

Unused Amount	Expiry Year
\$ 19,676	2020
5,662	2021
6,295	2022
8,493	2023
5,322	2024
56,196	2026
73,861	2027
92,564	2028
<u>117,812</u>	2029
<u>\$ 385,881</u>	

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

As of December 31, 2019 and 2018, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were \$2,742,072 thousand and \$3,037,751 thousand, respectively.

f. Income tax assessments

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

23. LOSS PER SHARE

Unit: NT\$ Per Share

	For the Year Ended December 31	
	2019	2018
Basic earnings per share	\$ (0.63)	\$ (8.66)

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

	For the Year Ended December 31	
	2019	2018
losses used in the computation of basic earnings per share	\$ (175,249)	\$ (2,451,642)

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

	For the Year Ended December 31	
	2019	2018
Weighted average number of ordinary shares used in the computation of diluted earnings per share	276,714	283,205

Note: The Group has a net loss after tax, so there is no dilutive effect in 2019 and 2018.

24. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee stock option plan

Information about vested options of 2019 and 2018 are as following:

Employee Stock Option Plan	December 31, 2019		December 31, 2018	
	Range of exercise price (NT\$)	Weighted-average age remaining contractual life (years)	Range of exercise price (NT\$)	Weighted-average age remaining contractual life (years)
2006	\$4.2~32.10	1.32~3.48	\$2.13~32.10	2.32~4.48
2013	-	-	37.9	0.5
2015	12.2	5.67	12.2	6.67

Information about outstanding options in 2019 and 2018 is as following:

Employee Stock Option Plan	2019									
	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	-	\$ -	(660,200)	\$ 13.86	(129,200)	\$ 27.80	805,599	\$ 23.49
2013	627,250	37.90	-	-	-	-	(627,250)	37.90	-	-
2015	985,750	12.2	(35,750)	12.2	(272,500)	12.2	-	-	677,500	12.2

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2018

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	1,637,199	\$ 19.84	-	\$ -	(26,000)	\$ 17.24	(16,200)	\$ 22.16	1,594,999	\$ 19.86
2013	768,750	37.90	-	-	-	-	(141,500)	37.90	627,250	37.90
2015	1,476,500	12.2	(116,500)	12.2	(347,250)	12.2	(27,000)	12.2	985,750	12.2

As of December 31, 2019, the valid and outstanding employee stock option plans are as following:

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

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

b. Shares Buy Back Program

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

Information about Shares Buy Back Programs is as follows:

The 2nd Shares Buy Back Program			The 3rd Shares Buy Back Program			The 5th Shares Buy Back Program		
Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)	Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)	Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)
2016/10/28	2,624	\$ 11.26	2017/07/24	3,198	\$ 12.85	2019/05/07	4,651	\$ -
2017/02/24	50	11.26	2018/07/26	3,515	-	2019/11/08	60	-
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		Total	4,711	

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

- 1) The employees cannot sell, pledge, transfer, donate, or dispose these shares.
- 2) The Company and the employees should enter into a trust agreement with a trust and custodian institution and authorize the institution to exercise the shareholders' rights including but not limited

- to attendance, proposing, speaking and voting in the shareholder meetings.
- 3) The unvested shares are entitled to receive cash and/or share dividends and the derivatives.

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

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

Compensation cost recognized for share-based payments above in 2019 and 2018 were as follows:

	For the Year Ended December 31	
	2019	2018
Employee share option plans	\$ 669	\$ 2,255
Shares buy back program	<u>9,118</u>	<u>24,219</u>
	<u>\$ 9,787</u>	<u>\$ 26,474</u>

	For the Year Ended December 31	
	2019	2018
Capital surplus - employee share options	<u>\$ 9,787</u>	<u>\$ 26,474</u>

25. Equity transactions with non - controlling interests

In November 2019, the Group ownership interest over FocalTech Smart Sensors Co., Ltd. increase to 67.15% from 61.88% Due to capital injection and no pro rata subscription in new shares.

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

26. OPERATING LEASE ARRANGEMENTS

The Group is Lessee

The Company and its subsidiaries have lease contracts for office, plant and some office equipment, which would be expired before December2020. Above mentioned lease contracts are short-term lease agreement, and the Group applies practical expedients so the Group does not recognize right-of-use assets and lease liabilities. The amount of short-term commitment which the Group apply practical expedients is \$16,611 thousand.

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

	For the Year Ended December 31	
	2019	2018
lease payment	<u>\$ 36,524</u>	<u>\$ 36,243</u>

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

	December 31
	2018
Not later than 1 year	\$ 22,573
Later than 1 year and not later than 5 years	<u>240</u>
	<u>\$ 22,813</u>

27. CAPITAL MANAGEMENT

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

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

The Group was not restricted to other external capital requirements.

28. FINANCIAL INSTRUMENTS

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

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

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

1.) Fair value hierarchy

December 31, 2019

	Level 1	Level 2	Level 3	Total
<u>Financial asset at FVTPL</u>				
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>
<u>Financial assets at FVTOCI assets</u>				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 181,373</u>	<u>\$ -</u>	<u>\$ 181,373</u>

December 31, 2018

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

There were no transfers between Level 1 and Level 2 in 2019 and 2018.

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

	December 31	
	2019	2018
<u>Financial assets at FVTPL</u>		
Balance at January 1, 2019	\$ 41,023	\$ 29,760
Purchases	5,355	11,173
Disposals	(7)	-
Recognized in profit or loss(other income or loss)	(251)	(841)
Effect of foreign currency exchange differences	(697)	931
Balance at December 31, 2019	<u>\$ 45,423</u>	<u>\$ 41,023</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

	December 31	
	2019	2018
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Mandatorily at FVTPL	\$ 56,354	\$ 112,063
Amortized cost (Note 1)	6,597,902	5,661,319
Financial assets at FVTOCI		
Investments in debt instruments	181,373	313,969
<u>Financial liabilities</u>		
Amortized cost (Note 2)	3,335,028	2,695,644

1) The amounts include financial instruments 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 is periodically reviewed to reflect changes to the market and the operations. Through the internal controls, such as training and setting up managing requirements and procedures, the Group is engaged in developing a disciplined and constructive control environment, in order to have all employees understand own responsibilities.

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

1) Market risk

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

i) Foreign currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities which were not in the same functional currency with the Group entity at the end of the reporting period are shown in Note 32.

Sensitivity analysis

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

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

	USD Impact		RMB Impact	
	For the Year Ended December 31	For the Year Ended December 31	For the Year Ended December 31	For the Year Ended December 31
	2019	2018	2019	2018
Profit or loss/ equity	\$ <u>26,976</u> (1)	\$ <u>19,632</u> (1)	\$ <u>1,630</u> (2)	\$ <u>1,752</u> (2)

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

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

ii) Interest rate risk

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

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

	December 31	
	2019	2018
Fair value interest rate risk		
Financial assets	<u>\$ 3,131,261</u>	<u>\$ 4,110,624</u>
Cash flow interest rate risk		
Financial assets	<u>\$ 2,103,526</u>	<u>\$ 901,327</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 year ended December 31, 2019 and 2018 would decrease/increase by \$5,259 thousand and \$2,253 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 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 clients of trade receivables. Ongoing credit evaluation is performed on the financial condition of trade receivables.

As of December 31, 2019, the Group's five largest customers took 75% of total trade receivables, the remaining transactions with a large number of unrelated customers, thus, no significant concentration of credit risk was observed.

Credit risk management for investments in debt instruments

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

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

Category	Description	Basis for Recognizing Expected Credit Loss	Expected Credit Loss Ratio	Carrying Amount as of December 31, 2019
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>

Category	Description	Basis for Recognizing Expected Credit Loss	Expected Credit Loss Ratio	Carrying Amount as of December 31, 2018
Performing	The debtor with low credit risk and fully capable paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 374,469</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 December 31, 2019 and 2018, the available unutilized short-term bank loan facilities refer to (ii) Financing facilities.

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

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

December 31, 2019

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

December 31, 2018

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

ii) Financing facilities

	December 31, 2019	December 31, 2018
Unsecured bank overdraft facility, reviewed annually:		
Amount used	\$ -	\$ -
Amount unused	<u>800,000</u>	<u>1,300,000</u>
	<u>\$ 800,000</u>	<u>\$ 1,300,000</u>

29. TRANSACTIONS WITH RELATED PARTIES

- 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.
- Compensation of key management personnel

	For the Year Ended December 31 2019	2018
Long-term employee benefits	\$ 21,855	\$ 32,494
Short-term employee benefits	39,224	40,513
Post-employment benefits	540	467
Share-based payments	<u>2,921</u>	<u>6,367</u>
	<u>\$ 64,540</u>	<u>\$ 79,841</u>

30. ASSETS PLEDGED AS COLLATERAL

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

	December 31	
	2019	2018
Pledge deposits (classified as other non-current assets)	<u>\$ 4,000</u>	<u>\$ 4,000</u>

31. 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.

32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

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

December 31, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 55,218	29.980 (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	29.980 (USD:NTD)	1,145,788
USD	5,644	6.9762 (USD:RMB)	169,222

December 31, 2018

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

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33. SEGMENT INFORMATION

a. Operating segments

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

b. Revenue from major products and services

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

	For the Year Ended December 31	
	2019	2018
IC for portable devices	<u>\$ 9,160,261</u>	<u>\$ 9,919,368</u>

c. Geographical information

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

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

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2019	2018	2019	2018
China	\$ 7,848,830	\$ 7,806,528	\$ 1,339,365	\$ 1,411,145
Taiwan	1,007,669	961,843	240,950	170,222
Others	<u>303,762</u>	<u>1,150,997</u>	<u>-</u>	<u>-</u>
	<u>\$ 9,160,261</u>	<u>\$ 9,919,368</u>	<u>\$ 1,580,315</u>	<u>\$ 1,581,367</u>

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

d. Information about major customers

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

	For the Year Ended December 31	
	2019	2018
Custom A and subsidiaries	\$ 1,793,388	\$ 1,654,742
Custom B and subsidiaries	1,292,221	1,478,529
Custom C and subsidiaries	1,193,501	1,504,451
Custom D and subsidiaries	1,054,709	