FocalTech Systems Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Par Value)

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Note 4 and 6)	$ 2,596,128	19	$ 3,265,779	22
Available-for-sale financial assets - current (Note 4 and 7)	35,814	-	-	-
Trade receivables, net (Note 4 and 8)	1,257,525	9	1,334,499	9
Inventories (Note 4, 5 and 9)	2,685,765	20	2,537,657	17
Other financial assets (Note 4 and 10)	1,385,904	10	2,304,897	15
Other current assets (Note 23)	212,037	2	123,117	1
Total current assets	8,173,173	60	9,565,949	64
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Note 4 and 7)	245,640	2	175,839	1
Financial assets measured at cost (Note 4 and 11)	74,400	-	80,625	-
Property, plant and equipment (Note 4 and 13))	1,408,474	10	112,096	1
Goodwill (Notes 4 , 5 and 14)	3,237,268	24	3,237,268	22
Other intangible assets (Notes 4 , 5 and 15)	210,714	2	202,982	1
Deferred income tax assets (Notes 4 and 23)	104,501	1	136,369	1
Other non-current assets (Note 13and 31)	89,898	1	1,446,203	10
Total non-current assets	5,370,895	40	5,391,382	36
TOTAL	$ 13,544,068	100	$ 14,957,331	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 4 and 16)	$ -	-	$ 645,000	4
Trade payables (Note 17)	1,310,390	10	1,540,640	10
Other payables (Note 18)	738,870	5	905,327	6
Current tax liabilities (Notes 4 and 23)	411,977	3	8,858	-
Other current liabilities	82,620	1	63,080	1
Total current liabilities	2,543,857	19	3,162,905	21
NON-CURRENT LIABILITIES				
Deferred income tax liabilities (Notes 4 , 5 and 23)	15,876	-	185,983	1
Net defined benefit liabilities - non-current (Notes 4 and 19)	29,620	-	46,386	1
Guarantee deposits received	200,951	2	113,275	1
Other non-current liabilities	10,400	-	10,400	-
Total non-current liabilities	256,847	2	356,044	3
Total liabilities	2,800,704	21	3,518,949	24
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 , 20 and 25)				
Share capital				
Ordinary shares	2,983,700	22	2,965,344	20
Capital surplus				
Additional paid-in capital	6,565,204	49	6,468,819	43
Treasury shares	40,868	-	40,305	-
Changes in ownership interests in subsidiaries	1,269	-	582	-
Employee share options	30,179	-	27,578	-
Employee restricted shares	-	-	73,797	1
Employee share options - expired	17,356	-	14,765	-
Total capital surplus	6,654,876	49	6,625,846	44
Retained earnings				
Legal reserve	186,154	1	165,045	1
Undistributed earnings	1,058,985	8	1,335,160	9
Total retained earnings	1,245,139	9	1,500,205	10
Other equity				
Exchange differences from translating the financial statements of foreign operations	47,154	-	433,584	3
Equity directly associated with non-current assets held for sale	(2,791)	-	(1,498)	-
Unearned employee compensation	-	-	(36,040)	-
Total other equity	44,363	-	396,046	3
Treasury shares	(191,998)	(1)	(62,992)	(1)
Equity attributable to owners of the company	10,736,080	79	11,424,449	76
NON-CONTROLLING INTERESTS	7,284	-	13,933	-
Total equity	10,743,364	79	11,438,382	76
TOTAL	$ 13,544,068	100	$ 14,957,331	100

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
REVENUE (Note 4 and 21)	$ 10,798,334	100	$ 11,018,225	100
COSTS OF SALES (Notes 9 and 22)	(8,528,149)	(79)	(8,751,788)	(79)
GROSS PROFIT	2,270,185	21	2,266,437	21
OPERATING EXPENSES (Notes 19, 22, 25 and 30)				
Selling and marketing expenses	(468,590)	(4)	(469,917)	(4)
General and administrative expenses	(314,478)	(3)	(288,932)	(3)
Research and development expenses	(1,324,902)	(12)	(1,300,104)	(12)
Total operating expenses	(2,107,970)	(19)	(2,058,953)	(19)
OPERATIONS INCOME	162,215	2	207,484	2
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Note 22)	(9,676)	-	(8,564)	-
Interest income (Note 4)	65,475	-	56,738	-
Loss on foreign currency exchange	(42,443)	-	(26,723)	-
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4)	-	-	20,886	-
Other gains and losses, net (Note 22)	28,162	-	(7,926)	-
Total non-operating income and expenses	41,518	-	34,411	-
INCOME BEFORE INCOME TAX	203,733	2	241,895	2
INCOME TAX EXPENSE (Notes 4 and 23)	(306,943)	(3)	(31,786)	-
NET INCOME	(103,210)	(1)	210,109	2
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 19)	16,581	-	1,433	-
Income tax related to items that will not be reclassified subsequently to profit or loss (Notes 4 and 23)	(1,990)	-	(386)	-
	14,591	-	1,047	-

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences from translating the financial statements of foreign operations (Notes 4)	$ (386,430)	(3)	$ (175,939)	(2)
Unrealized loss on available-for-sale financial assets (Notes 4)	(1,293)	-	(1,498)	-
	(387,723)	(3)	(177,437)	(2)
Total other comprehensive loss (net of income tax)	(373,132)	(3)	(176,390)	(2)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ (476,342)	(4)	$ 33,719	-
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	$ (79,680)	(1)	$ 211,094	2
Non-controlling interests	(23,530)	-	(985)	-
	$ (103,210)	(1)	$ 210,109	2
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	$ (452,812)	(4)	$ 34,704	-
Non-controlling interests	(23,530)	-	(985)	-
	$ (476,342)	(4)	$ 33,719	-
EARNINGS PER SHARE (Note 24)				
Basic	$(0.28)		$0.73	
Diluted	$(0.28)		$0.71	

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company										
			Retained Earnings		Other Equity						
	Share Capital Ordinary Shares	Capital Surplus	Legal Reserve	Undistributed Earnings	Exchange Differences from Translating Financial Statement of Foreign Operations	Equity Directly Associated with Non-current Assets Held for Sale	Unearned Employee Compensation	Treasury Shares	Total	Non-controlling Interests	Total Equity
BALANCE, JANUARY 1, 2016	$ 2,933,299	$ 6,592,641	$ 141,463	$ 1,358,815	$ 609,523	$ -	$ (62,974)	$ -	$ 11,572,767	$ -	$ 11,572,767
Appropriation of 2015 earnings											
Legal reserve	-	-	23,582	(23,582)	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	(212,240)	-	-	-	-	(212,240)	-	(212,240)
Net income for the year ended December 31, 2016	-	-	-	211,094	-	-	-	-	211,094	(985)	210,109
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	1,047	(175,939)	(1,498)	-	-	(176,390)	-	(176,390)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	212,141	(175,939)	(1,498)	-	-	34,704	(985)	33,719
Buy-back of ordinary shares (Note 20)	-	-	-	-	-	-	-	(132,607)	(132,607)	-	(132,607)
Treasury stock transferred to employees (Note 20 and 25)	-	-	-	-	-	-	-	69,615	69,615	-	69,615
Changes in ownership interests in subsidiaries (Note 26)	-	582	-	-	-	-	-	-	582	(582)	-
Compensation cost of employee share options (Note 20 and 25)	-	18,687	-	-	-	-	-	-	18,687	-	18,687
Issue of ordinary shares under employee share options (Note 20 and 25)	33,566	14,981	-	-	-	-	-	-	48,547	-	48,547
Compensation cost of employee restricted shares (Note 20 and 25)	-	-	-	-	-	-	24,460	-	24,460	-	24,460
Cancellation of employee restricted shares (Note 20)	(1,521)	(1,045)	-	-	-	-	2,474	-	(92)	-	(92)
Dividend return on unvested employee restricted stock	-	-	-	26	-	-	-	-	26	-	26
Increase in non-controlling interests (Note 26)	-	-	-	-	-	-	-	-	-	15,500	15,500
BALANCE AT DECEMBER 31, 2016	2,965,344	6,625,846	165,045	1,335,160	433,584	(1,498)	(36,040)	(62,992)	11,424,449	13,933	11,438,382
Appropriation of 2016 earnings											
Legal reserve	-	-	21,109	(21,109)	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	(189,985)	-	-	-	-	(189,985)	-	(189,985)
Net income for the year ended December 31, 2017	-	-	-	(79,680)	-	-	-	-	(79,680)	(23,530)	(103,210)
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	14,591	(386,430)	(1,293)	-	-	(373,132)	-	(373,132)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	(65,089)	(386,430)	(1,293)	-	-	(452,812)	(23,530)	(476,342)
Buy-back of ordinary shares (Note 20)	-	-	-	-	-	-	-	(245,812)	(245,812)	-	(245,812)
Treasury stock transferred to employees (Note 20 and 25)	-	-	-	-	-	-	-	116,806	116,806	-	116,806
Changes in ownership interests in subsidiaries (Note 26)	-	687	-	-	-	-	-	-	687	(687)	-
Compensation cost of employee share options (Note 20 and 25)	-	36,339	-	-	-	-	-	-	36,339	-	36,339
Issue of ordinary shares under employee share options (Note 20 and 25)	18,619	20,762	-	-	-	-	-	-	39,381	-	39,381
Vested employee restricted stock (Note 20 and 25)		(28,972)					28,972				-
Compensation cost of employee restricted shares (Note 20 and 25)	-	-	-	-	-	-	7,068	-	7,068	-	7,068
Cancellation of employee restricted shares (Note 20)	(263)	214	-	-	-	-	-	-	(49)	-	(49)
Dividend return on unvested employee restricted stock	-	-	-	8	-	-	-	-	8	-	8
Increase in non-controlling interests (Note 26)	-	-	-	-	-	-	-	-	-	17,568	17,568
BALANCE AT DECEMBER 31, 2017	$ 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

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operation	$ 203,733	$ 241,895
Adjustments for:		
Depreciation expenses	46,616	53,022
Amortization expenses	70,096	56,726
Gain on financial assets and liabilities at fair value through profit or loss	-	(20,886)
Finance costs	9,676	8,564
Interest income	(65,475)	(56,738)
Compensation cost of employee share options	36,339	18,687
Compensation cost of employee restricted shares	7,068	24,460
Loss on disposal of property, plant and equipment	27	1,974
Write-down of inventories	51,120	214,038
Net (gain) loss on foreign currency exchange	(13,905)	21,625
Loss on buy-back of bonds payable	-	32,888
Changes in operating assets and liabilities		
Trade receivables	46,223	252,558
Inventories	(322,093)	(222,690)
Other current assets	(87,563)	17,649
Trade payables	(169,037)	572,039
Other payables	(128,262)	(50,969)
Other current liabilities	22,305	(3,525)
Net defined benefit liabilities	(185)	(349)
Cash generated from operations	(293,317)	1,160,968
Interest paid	(9,721)	(2,313)
Income tax paid	(24,635)	(11,149)
Net cash generated from operating activities	(327,673)	1,147,506
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of financial assets at fair value through profit or loss	-	129,051
Purchase of available-for-sale financial assets	(123,620)	(161,207)
Purchase of held-to-maturity financial assets	-	(16,271)
Purchase of financial assets measured at cost	-	(32,262)
Purchase for property, plant and equipment	(75,208)	(22,993)
Proceeds from disposal of property, plant and equipment	-	532
Purchase of intangible assets	(84,203)	(87,390)
Decrease in other financial assets	768,087	2,879,609
Decrease (increases) in other non-current assets	58,273	(1,454,527)
Interest received	60,945	65,129
Net cash generated from investing activities	604,274	1,299,671

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increases in short-term borrowings	$ (608,630)	$ 379,415
Repayment of bonds payable	-	(1,025,216)
Increase in guarantee deposits received	89,858	25,425
Cash dividends	(189,985)	(212,240)
Proceeds from issuance ordinary shares under employee share options	39,381	48,547
Buy -back of ordinary shares	(245,812)	(132,607)
Treasury stock transferred to employees	116,806	69,615
Increase in non-controlling interests	17,568	15,500
Payment for cancellation of employee restricted shares	(77)	(391)
Proceeds from dividend returned by unvested employee restricted shares	8	26
Net cash used in financing activities	(780,883)	(831,926)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(165,369)	(39,913)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(669,651)	1,575,338
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3,265,779	1,690,441
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 2,596,128	$ 3,265,779

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

FocalTech Systems Co., Ltd. (the "FocalTech" or the "Company") was incorporated in the Republic of China ("ROC") in January 2006 and moved to Hsinchu Science Park in April of the same year. The Company was formerly known as Orise Technology Co., Ltd. and renamed on January 17, 2015. The Company is mainly engaged in research, development, design, and sale of LCD Drive IC, and also provision of the related hardware and software application design, manufacturing, repairs and consulting service.

The shareholders' meeting of the Company resolved to acquire FocalTech Corporation, Ltd. through a share swap, with the reference date of the acquisition and share swap on January 2, 2015. This Acquisition was comprehensively considered as a reverse merger, where FocalTech Corporation, Ltd. was treated as the acquirer and the Company as the acquire.

The Company's shares have been listed on the Taiwan Stock Exchange ("TSE") since July 2007.

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 8, 2018.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS 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) endorsed and issued into effect by the Financial Supervisory Commission (FSC)(collectively, "IFRSs").

Except the following items, the initial adoption in 2017 of the IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers above would not result in material impact on the Company's accounting policies:

1) Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

In issuing IFRS 13 "Fair Value Measurement", the IASB made consequential amendment to the disclosure requirements in IAS 36 "Impairment of Assets", introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amounts is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Group is required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

2) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards including IFRS 2 "Share-based Payment", IFRS 3 "Business Combinations" and

IFRS 8 “Operating Segments” were amended in this annual improvement.

The amended IFRS 8 requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker.

IFRS 13 was amended to clarify that the insurance of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

3) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments append several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs recognized by the FSC and applied from 2017. In addition, as a result of the implementation review of IFRSs in Taiwan, the amendments emphasize certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second degree relatives of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship with the Group, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transactions. If the transaction or balance with a specific related party is 10% or more of the Group’s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The disclosure is required if there is a significant difference between the following operation result and the expectation set on acquisition date.

The disclosures of related impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017, please refer to Note 14.

b. The IFRSs recognized by FSC and the Regulations Governing the Preparation of Financial Reports by Securities Issuers with effective date starting from 2018.

New, Revised or Amended Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2 “Shared-Based Payment”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments under IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IFRS 15 “Clarifications to IFRS 15”	January 1, 2018
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017

Amendments to IAS 40 "Transfers of investment property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 "Financial Instruments" and related amendments

Recognition, measurement and impairment of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group's debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to measure an equity investment, which is not held for trading, at the fair value through other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

Based on the facts and circumstances on December 31, 2017, the classification and measurement of the following financial assets held by the Group on that date were adjusted due to the application of IFRS 9:

a) Unlisted stock investments measured at cost are reclassified as measured at fair value through profit or loss under IFRS 9.

b) Beneficiary certificates of funds measured at cost are equity instruments held for trading, and reclassified under IFRS 9 as measured at fair value through profit or loss.

c) The bond investments are classified as available-for-sale financial assets and measured at amortized cost, when the contractual cash flows at the time of the original recognition are solely for the payment of the principal and interest of the outstanding principal amount, and purpose of the business model could be achieved by receiving contractual cash flows and selling those financial assets. These bond investments are measured at fair value through other comprehensive income under IFRS 9.

IFRS 9 uses the "expected credit loss model" to recognize the impairment of financial assets. The financial assets measured by the amortized cost and the debt instrument investments measured at fair value through other comprehensive gains and losses should be recognized for allowance losses. If the credit risk of a financial asset does not increase significantly from the original recognition, the allowance loss is measured by the expected credit loss over the next 12 months. If the credit risk of a financial asset has increased significantly since the original recognition and is not a low credit risk, the allowance loss is measured by the expected credit loss over the remaining period. However, accounts receivable that do not include significant financial components must be offset against the expected credit losses for the duration of the period.

The Group simplifies the approach to recognize trade receivables allowance by expected credit losses before collection. The Group evaluates to adjust the allowance of the investment on debt instruments by 12-month or full lifetime expected credit losses, determined by whether if there is a significant increase in the credit risk. In general, the Group anticipates that the application of the expected credit loss model of IFRS 9 may result in earlier recognition of credit losses for financial assets.

The Company elects not to restate the comparing information in the reporting period of 2017 when applying IFRS 9 for the classification, measurement and impairment of financial assets. The cumulative effect would be initially recognized on the beginning of the reporting period in which the Company first applies IFRS9 and will disclose the difference and adjustment.

The impact of the IFRS 9 financial asset classification, measurement and impairment provisions on the assets, liabilities and equity of January 1, 2018 is estimated as below:

	Amounts on December 31, 2017	**Adjustments for first application**	**Amounts after Adjusted on January 1, 2018**
Impact on assets, liabilities and equity			
Available-for-sale financial assets - Current	$ 35,814	$ (35,814)	$ -
Financial assets at fair value through other comprehensive income – current	-	35,814	35,814
Available-for-sale financial assets - non-current	245,640	(245,640)	
Available-for-sale financial assets – non-current	-	29,760	29,760
Financial assets at fair value through other comprehensive income - non-current	-	245,640	245,640
Financial assets measured at amortized cost - non-current	74,400	(74,400)	-
Impact on assets	$ 355,854	$ (44,640)	$ 311,214
Undistributed earnings	$ 1,058,985	$ (44,640)	$ 1,014,345
Other equity			
Unrealized loss on available-for-sale	$ (2,791)	$ 2,791	$ -

financial assets			
Unrealized loss on financial assets at fair value through other comprehensive income	-	(2,791)	(2,791)
Impact on equity	$ 1,056,194	$ (44,640)	$ 1,011,554

2) IFRS 15 “Revenue from Contracts with Customers” and the related amendments

IFRS 15 specifies the recognition principle of income generated from the customer contracts; also, the guidelines will replace IAS 18 “Income,” IAS 11 “Construction Contracts,” and related interpretations.

The Consolidated Company after adopting IFRS 15 has income recognized according to the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognize revenue when the entity satisfies a performance obligation.

Retroactive application of IFRS 15 has no material impact on the assets, liabilities and equity of the Group on January 1, 2018.

3) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded in the functional currency by the spot exchange rate at the date of the transaction. IFRIC 22 further explains that the transaction date is the date on which an entity recognizes payment or receipt of advance consideration for a non-monetary asset or non-monetary liability. If there are multiple payments or receipts in advance, the entity shall discriminate the date of the transaction for each payment or receipt of advance consideration respectively.

The Company will first apply IFRIC 22 prospectively to all assets, expenses and income from and after the reporting period of January1,2018.

Except for the statements above, as of the date on that consolidated financial statements approved to issue, the amendments of other standards and interpretations do not have significant impacts on the Company’s financial position and financial performance.

c. New IFRSs in issue but not yet endorsed by the FSC

New, Revised or Amended Standards and Interpretations	Effective Date Announced by IASB (Note 1)
"Annual Improvements to IFRSs 2015-2017 Cycle"	January 1, 2019
Amendments for IFRS 9 “Prepayments Features with Negative Compensation”	January 1, 2019 (Note 2)
Amendments for IFRS 10 and IAS 28 “Sales or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined
IFRS 16 “Leases”	January 1, 2019 (Note 3)
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments for IFRS 19 “Employee Benefits - Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 4)
Amendments for IFRS 28 “Long-term Equity for Associated or Joint	January 1, 2019

Venture Companies ”	
IFRIC 23 “Treatment of Income Tax Uncertainty”	January 1, 2019

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

Note 2: The FSC allows the Group to select earlier adoption of the amendments from January 1, 2018.

Note 3: On December 19, 2017, the FSC announced that companies should apply IFRS 16 on January 1, 2019.

Note 4: This amendment applies to the amendment, curtailment or settlement of employee benefit plans that occurred after January 1, 2019.

1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Company as lessor.

When IFRS 16 becomes effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

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.

The Company shall either retrospectively apply IFRIC 23 and restate each prior reporting period presented, and, if this is possible without the use of hindsight, or retrospectively recognize the cumulative effect initially on the beginning of the reporting period in which the Company first applies IFRIC23.

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 is applied prospectively.

Except for the statements above, as of the date on that consolidated financial statements approved to issue, the Company is continuously assessing and evaluating the possible impacts that the application of other standards and interpretations will have on the Company’s financial position and financial performance, and will disclose the relevant impacts 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 Financial Supervisory Commission approved IFRSs.

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 Degree 1 to Degree 3 by the observable intensity and importance of related input value:

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

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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

c. 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 held primarily for the purposes of transactions

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents (excluding those restricted for exchanging or liquidating liabilities over 12 months after the balance sheet date)

Noncurrent assets include:

1) Liabilities held primarily for the purposes of transactions

2) The liabilities to be liquidated upon due within 12 months after the balance sheet date (those with long-term refinancing or payment term rearrangement completed from the balance sheet date to the financial reports approved and published date are also classified as current liabilities), and

3) Liabilities that cannot be with the liquidation date deferred unconditionally for at least 12 months after the balance sheet date

Those not as aforementioned current assets or current liabilities are classified into 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. The resulting currency translation differences are recognized in other comprehensive income.

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 stated at cost, less subsequent 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 as established at the date of acquisition of the business 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. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. 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.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal, and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

i. Intangible assets

1) Intangible assets acquired separately

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.

2) Intangible assets acquired in a business combination

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.

3) Derecognition of intangible assets

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. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

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.

a) Measurement category

The Group's financial assets are classified into available-for-sale financial assets, loans and receivables.

i. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity financial assets or (c) financial assets at fair value through profit or loss.
Available-for-sale financial assets are measured at fair value. Foreign exchange gains or losses from available-for-sale financial assets, interest incomes from the monetary available-for-sale financial assets by effective interest method and dividends from available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

Available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any identified impairment loss at the end of each reporting period. Such financial instruments are subsequently remeasured at fair value when they can be reliably measured, and the difference between the carrying amount and fair value is recognized in other comprehensive income. When the impairment is confirmed, the cumulative loss previously recognized in other comprehensive income should be reclassified to loss.

ii. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalent and other financial assets) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

The Group assesses whether other financial assets have deducted objective evidence at each balance sheet date. When there is objective evidence that the estimated future cash flows of the financial assets are attributable to the single or multiple events arising from the original recognition of the financial assets, then the financial asset has been impaired
.

For financial assets carried at amortized cost, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables (please specify) where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c) 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.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and 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

a) Subsequent measurement

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

b) 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.

l. 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

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowance for sales returns and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) The amount of revenue can be measured reliably;

d) It is probable that the economic benefits associated with the transaction will flow to the Group; and

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

n. Leasing

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

1) Equity-settled share-based payment arrangements granted to employee

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

When the Group issues employee restricted shares, other equity - unearned employee compensation are recognized on the grant date, with a corresponding increase in capital surplus - employee restricted shares. If employee restricted shares are granted for consideration, and should be returned, they are recognized as payables. Dividends paid to employees on the restricted shares that do not need to be returned if employees resign in the vesting period, are recognized as expenses when the dividends are declared with a corresponding adjustment in capital surplus - employee restricted shares.

At the end of each reporting period, the Group revises its estimate of the number of employee share options and employee restricted shares expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options and capital surplus - employee restricted shares.

2) Share-based payment arrangements of the acquiree in a business combination

When the share-based payment awards held by the employees of an acquiree (acquiree awards) are replaced by the Group's share-based payment awards (replacement awards), both the acquiree awards and the replacement awards are measured in accordance with the market-based measure at the acquisition date. The portion of the replacement awards that is included in measuring the consideration transferred in a business combination equals the market-based measure of the acquiree awards multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The excess of the market-based measure of the replacement awards over the market-based measure of the acquiree awards included in measuring the consideration transferred is recognized as remuneration cost for post-combination service.

3) Modifications to the acquirer's equity-settled share-based payment arrangements

When the terms and conditions on which equity instruments were granted are modified, the Group recognizes, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition. In addition, the Group recognizes the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employees; if the Group modifies the terms or conditions of the equity instrument in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employees, the Group nevertheless continues to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.

If the modification increases the fair value of the equity instruments granted or increases the number of equity instruments granted, the Group includes the incremental fair value granted or the fair value of the additional equity instruments granted, measured at the date of the modification, in the measurement of the amount recognized for services received.

The incremental fair value granted or the fair value of the additional equity instruments granted is difference between the fair value of the modified equity and that of the original instrument, both estimated as at the date of modification. If the modification occurs during the vesting period, the incremental fair value granted or the fair value of the additional equity instruments granted is included in the measurement of the amount recognized for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period.

r. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from 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. If the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. 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 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.

a. Impairment of Goodwill and Other Intangible Assets

Determining whether goodwill and other intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and other intangible assets have 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.

b. Income taxes

As of December 31, 2017 and 2016, the deferred tax liabilities on earnings of the subsidiaries, FocalTech Corporation, Ltd. and FocalTech Electronics, Ltd., reporting at $3,385,197 thousand and $4,280,961 thousand, are not recognized respectively, due to the dividend policy of the subsidiaries and the reversal of temporary differences of earnings being able to be controlled by the Company. It's probable that the temporary differences will not be reversed in the foreseeable future. In addition, in response to the US tax law revised in December 2017, FocalTech Systems, Inc., a US subsidiary of the Company, has estimated the one-time income tax expense for the accumulated overseas undistributed surplus in 2017.

c. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31 2017	December 31 2016
Cash on hand	$ 1,870	$ 4,321
Checking accounts and demand deposits	762,436	1,343,883
Cash equivalent (investments with original maturities less than three months)	1,831,822	1,917,575
	$ 2,596,128	$ 3,265,779

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

	December 31 2017	December 31 2016
Demand deposits	0.001%-0.4%	0.001%-0.35%
Time deposits	0.6%-2.4%	0.2%-6%

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NON-CURRENT

	December 31 2017	December 31 2016
Current		
Foreign investments		
Fixed income bonds	$ 35,814	$ -
Non-current		
Foreign investments		
Fixed income bonds	$ 245,640	$ 175,839

In July 2016, the Group bought fixed income bonds, with the yield rates between 1.708 and 3.0168%. The maturity dates were of January 20, 2018 and November 30, 2020, respectively.

Available-for-sale financial assets were not been pledged as a collateral.

8. TRADE RECEIVABLES, NET

	December 31 2017	December 31 2016
Trade receivables	$ 1,358,709	$ 1,444,149
Less: Allowance for doubtful accounts	(101,184)	(109,650)
Trade receivables, net	$ 1,257,525	$ 1,334,499

The average credit period on sales of goods was 60-120 days. No interest was charged on trade receivables. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for impairment loss were recognized based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

For the trade receivables balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss, because there was not a significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

The aging of receivables that were past due but not impaired was as follows:

	December 31	
	2017	2016
Less than 60 days	$ 5,049	$ 3,053
61-180 days	-	-
More than 180 days	13,292	19,634
	$ 18,341	$ 22,687

The above aging schedule was based on the past due date from end of credit term..

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

	Individually Assessed for Impairment
Balance at January 1, 2016	$ 111,605
Foreign exchange translation	(1,955)
Balance at December 31, 2016	$ 109,650
Balance at January 1, 2017	$ 109,650
Foreign exchange translation	(8,466)
Balance at December 31, 2017	$ 101,184

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. As of December 31, 2017, the Group recognized allowance of doubtful trade receivables against Wintek Corporation of 101,184 thousand.

9. INVENTORIES

	December 31	
	2017	2016
Finished goods	$ 993,694	$ 920,412
Work in progress	916,087	874,762
Raw materials and supplies	775,984	742,483
	$ 2,685,765	$ 2,537,657

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was $8,528,149 thousand and $8,751,788 thousand, included the write-downs of inventories of $51,120 thousand and $214,038 thousand for the years ended December 31, 2017 and 2016, respectively.

10. OTHER FINANCIAL ASSETS

	December 31	
	2017	2016
Time deposits with original maturities more than three months	$ 1,385,904	$ 2,304,897

As of December 31, 2017 and 2016, the market rate intervals of time deposits with original maturities more than three months were 1.045%～3.74% and 0.40%-2.20%, respectively.

11. FINANCIAL ASSETS MEASURED AT COST- NON-CURRENT

	December 31	
	2017	2016
Foreign unlisted preferred shares	$ 44,640	$ 48,375
Private Funds	29,760	32,250
	$ 74,400	$ 80,625

Management believed that the above investments held by the Group, whose fair value cannot be reliably measured due to the range of reasonable fair value estimates was so significant; therefore they were measured at cost less impairment at the end of reporting period.

Financial assets measured at cost were not pledged as collateral.

12. SUBSIDIARIES

Subsidiaries included in the consolidated financial statement were as follows:

			Proportion of Ownership December 31	
Investor	Investee	Nature of Activities	2017	2016
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd.	Investment activity	100%	100%
	FocalTech Electronics, Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%
	FocalTech Smart Sensors, Ltd.	Investment activity	100%(c)	-
FocalTech Systems Co., Ltd. and FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	67.11% (a)	69% (a)
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, manufacturing and sale of integrated circuits	100%	(b)

a. FocalTech Smart Sensors Co., Ltd. was incorporated in July 2016, 100% owned by the Group. The Group's holding diluted to 69% and 67.11% after the capital injection in November 2016 and September 2017, respectively due to employee stock option plan and/or no pro rata subscription in new share.

b. The Group has the power to appoint and remove the majority of the board of directors and has the power to control the activities of Hefei PineTech Electronics Co., Ltd.; therefore, Hefei PineTech Electronics Co., Ltd. is identified as a subsidiary of the Group. Hefei PineTech Electronics Co., Ltd. was 100% owned by the Group after share acquisition in 2017.

c. FocalTech Smart Sensors, Ltd. was incorporated in December 2017.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improve-ments	Total
Cost						
Balance at January 1, 2016	$ 37,600	$ 195,807	$ 14,258	$ 37,443	$ 42,362	$ 327,470
Additions	-	18,047	814	4,132	-	22,993
Disposals	-	(49,144)	(71)	(33)	(5,108)	(54,356)
Effect of foreign currency exchange differences	-	(4,818)	(821)	(2,812)	(1,298)	(9,749)
Balance at December 31, 2016	$ 37,600	$ 159,892	$ 14,180	$ 38,730	$ 35,956	$ 286,358
Accumulated depreciation						
Balance at January 1, 2016	$ 1,184	$ 124,836	$ 7,243	$ 18,205	$ 27,814	$ 179,282
Depreciation	836	36,402	2,060	5,420	8,304	53,022
Disposals	-	(49,144)	(24)	(12)	(2,670)	(51,850)
Effect of foreign currency exchange differences	-	(3,038)	(440)	(1,471)	(1,243)	(6,192)
Balance at December 31, 2016	$ 2,020	$ 109,056	$ 8,839	$ 22,142	$ 32,205	$ 174,262
Carrying amounts at December 31, 2016	$ 35,580	$ 50,836	$ 5,341	$ 16,588	$ 3,751	$ 112,096
Cost						
Balance at January 1, 2017	$ 37,600	$ 159,892	$ 14,180	$ 38,730	$ 35,956	$ 286,358
Additions	51,548	15,040	888	4,353	3,555	75,384
Disposals	-	(4,179)	(398)	-	-	(4,577)
Effect of foreign currency exchange differences	14,283	(5,262)	(191)	(646)	(302)	7,882
Reclassification	1,254,588	-	-	-	-	1,254,588
Balance at December 31, 2017	$1,358,019	$ 165,491	$ 14,479	$ 42,437	$ 39,209	$1,619,635
Accumulated depreciation						
Balance at January 1, 2017	$ 2,020	$ 109,056	$ 8,839	$ 22,142	$ 32,205	$ 174,262
Depreciation	13,866	20,714	1,872	5,522	4,642	46,616
Disposals	-	(4,176)	(374)	-	-	(4,550)
Effect of foreign currency exchange differences	143	(4,583)	(101)	(333)	(293)	(5,167)
Balance at December 31, 2017	$ 16,029	$ 121,011	$ 10,236	$ 27,331	$ 36,554	$ 211,161
Carrying amounts at December 31, 2017	$1,341,990	$ 44,480	$ 4,243	$ 15,106	$ 2,655	$1,408,474

FocalTech Systems (Shenzhen) Co., Ltd. prepaid RMB 292,408 thousand (tax included) in 2016 for the office building, recorded as other non-current assets. The Group reclassified as Buildings and other non-current assets after obtaining official registration and related documents in the 2nd quarter of 2017.

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	
	2017	2016
Cost	$ 3,237,268	$ 3,237,268

The reverse merger by FocalTech Corporation, Ltd. on January 2, 2015, with the goodwill of 3,237,268, could bring in the synergy of integration of LCD driver and touch controller under the industry trend. IDC (Integrated Driver Controller) revenue and profit was lower than expected due to longer design-in schedule in panel makers, more complicated verification items for Brand customers and more time to lean the process for the supply chain…etc,. The recoverable amount from IDC (Integrated Driver Controller) still exceeded the carrying value so the Company did not recognize any impairment for the goodwill.

The recoverable amount is calculated by IDC projected net cash flows, discounted at 10% and 9.57% for the years ended December 31, 2017 and 2016, under the assumptions of management team judgments and historical experiences with regard to future growth rates and market shares of smartphone, gross margins and forecasted operating expenses.

15. OTHER INTANGIBLE ASSETS

	Licenses and Franchises	Software	Patents	Trademark	Total
Cost					
Balance at January 1, 2016	$ 62,741	$ 60,367	$ 76,744	$ 74,000	$ 273,852
Additions	4,823	82,567	-	-	87,390
Effect of foreign currency exchange differences	(896)	(991)	(21)	-	(1,908)
Balance at December 31, 2016	$ 66,668	$ 141,943	$ 76,723	$ 74,000	$ 359,334
Accumulated amortization					
Balance at January 1, 2016	$ 50,675	$ 34,907	$ 8,051	$ 7,400	$ 101,033
Amortization expense	10,193	31,348	7,785	7,400	56,726
Effect of foreign currency exchange differences	(810)	(576)	(21)	-	(1,407)
Balance at December 31, 2016	$ 60,058	$ 65,679	$ 15,815	$ 14,800	$ 156,352
Carrying amounts at December 31, 2016	$ 6,610	$ 76,264	$ 60,908	$ 59,200	$ 202,982

Cost

Balance at January 1, 2017	$ 66,668	$ 141,943	$ 76,723	$ 74,000	$ 359,334
Additions	65,673	18,530	-	-	84,203
Effect of foreign currency exchange differences	(5,422)	(10,522)	(5)	-	(15,949)
Balance at December 31, 2017	$ 126,919	$ 149,951	$ 76,718	$ 74,000	$ 427,588

Accumulated amortization

Balance at January 1, 2017	$ 60,058	$ 65,679	$ 15,815	$ 14,800	$ 156,352
Amortization expense	16,628	38,283	7,785	7,400	70,096
Effect of foreign currency exchange differences	(4,292)	(5,277)	(5)	-	(9,574)
Balance at December 31, 2017	$ 72,394	$ 98,685	$ 23,595	$ 22,200	$ 216,874
Carrying amounts at December 31, 2017	$ 54,525	$ 51,266	$ 53,123	$ 51,800	$ 210,714

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. BORROWINGS

	December 31	
	2017	**2016**
Unsecured bank loans		
Amount	$ -	$ 645,000
Annual interest rate	-	1.80%-1.85%

17. TRADE PAYABLES

	December 31	
	2017	**2016**
Trade payables	$1,310,390	$1,540,640

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

18. OTHER PAYABLES

	December 31	
	2017	**2016**
Payable for rebates	$ 236,574	$ 367,744
Payable for salaries and bonus	349,166	384,011
Payable for labor, health and social insurance	15,463	14,601
Reserve for litigations	62,800	73,040
Payable for professional services and others	74,867	65,931
	$ 738,870	$ 905,327

19. 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 contribute 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	
	2017	2016
Present value of defined benefit obligation	$ 47,526	$ 63,114
Fair value of plan assets	(17,906)	(16,728)
Net defined benefit liability	$ 29,620	$ 46,386

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, 2016	$ 63,441	$ (15,273)	$ 48,168
Service cost			
Current service cost	116	-	116
Net interest expense (income)	1,110	(280)	830
Recognized in profit or loss	1,226	(280)	946
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	120	120
Actuarial loss - changes in financial assumptions	1,005	-	1,005
Actuarial loss - experience adjustments	(2,558)	-	(2,558)
Recognized in other comprehensive income	(1,553)	120	(1,433)
Contributions from the employer	-	(1,295)	(1,295)
Balance at December 31, 2016	63,114	(16,728)	46,386

Service cost			
Current service cost	119	-	119
Net interest expense (income)	1,042	(286)	756
Recognized in profit or loss	1,161	(286)	875
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	168	168
Actuarial loss - changes in financial assumptions	1,000	-	1,000
Actuarial loss - experience adjustments	(17,749)	-	(17,749)
Recognized in other comprehensive income	(16,749)	168	(16,581)
Contributions from the employer	-	(1,060)	(1,060)
Balance at December 31, 2017	$ 47,526	$ (17,906)	$ 29,620

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	
	2017	**2016**
Discount rate	1.50%	1.65%
Expected rate of salary increase	4.50%	4.50%

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	
	2017	**2016**
Discount rate		
0.25% increase	$ (1,640)	$ (2,469)
0.25% decrease	$ 1,713	$ 2,589
Expected rate of salary increase		
1% increase	$ 7,082	$ 10,747
1% decrease	$ (6,092)	$ (9,099)

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	
	2017	2016
The expected contributions to the plan for the next year	$ 950	$ 1,260
The average duration of the defined benefit obligation	16 years	18 years

20. EQUITY

a. Share capital

Ordinary shares (NT$10 par value per share)

	December 31	
	2017	2016
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)	298,370	296,534
Shares issued	$ 2,983,700	$ 2,965,344

b. Capital surplus

	Additional Paid-in Capital (1)	Treasury Shares (1)	Changes in ownership interests in subsidiaries (2)	Employee Share Options (3)	Employee Restricted Shares (3)	Employee Share Options -Expired (2)	Total
BALANCE, JANUARY 1, 2016	$ 6,362,250	$ 236	$ -	$ 103,350	$ 115,999	$ 10,806	$ 6,592,641
Changes in ownership interests in subsidiaries	-	-	582	-	-	-	582
Treasury Stock transferred to Employees	-	40,069	-	(40,069)	-	-	-
Compensation cost of employee share options	-	-	-	18,687	-	-	18,687
Issue of ordinary shares under employee share options	65,412	-	-	(50,431)	-	-	14,981
Employee share options expired	-	-	-	(3,959)	-	3,959	-
Employee restricted shares vested	39,956	-	-	-	(39,956)	-	-
Cancellation of employee restricted stock	1,201	-	-	-	(2,246)	-	(1,045)
BALANCE AT DECEMBER 31, 2016	6,468,819	40,305	582	27,578	73,797	14,765	6,625,846
Changes in ownership interests in subsidiaries	-	-	687	-	-	-	687
Treasury Stock transferred to Employees	-	563	-	(563)	-	-	-
Compensation cost of employee share options	-	-	-	36,339	-	-	36,339
Issue of ordinary shares under employee share options	51,346	-	-	(30,584)	-	-	20,762
Employee share options expired	-	-	-	(2,591)	-	2,591	-
Employee restricted shares vested	44,741	-	-	-	(73,713)	-	(28,972)
Cancellation of employee restricted stock	298	-	-	-	(84)	-	214
BALANCE AT DECEMBER 31, 2017	$ 6,565,204	$ 40,868	$ 1,269	$ 30,179	$ -	$ 17,356	$ 6,654,876

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

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends are limited to shareholders and do not include employees. The consequential amendments to the Company's Articles of Incorporation had been resolved by the shareholders' meeting on June 22, 2016.

Under the Company's Articles of Incorporation, 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.
Any balance, the distribution of earnings is proposed by the board of directors for approval at the stockholders' meeting. For the comparison of the original and amended of the "Articles of Incorporation" about the accrual basis of the employees' compensation and remuneration to directors, please refer to Note 22(e).

Considering current and future development plans, investment conditions, capital requirements, and market competition situations, and shareholder benefits, The Company would appropriate the dividends to the shareholders not less than 10% of the current year's earnings. The dividends could be paid in cash or shares. The cash portion should be equal or more than 10% of the total dividends. It is allowed not to distribute any cash dividend if the cash amount per share is less than NT 0.5.
Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2016 and 2015 having been approved in the shareholders' meetings on June 14, 2017, and June 22, 2016, respectively, were as follows:

	Appropriation of Earnings For the Year Ended December 31		Dividends Per Share For the Year Ended December 31	
	2016	2015	2016	2015
Legal reserve	$ 21,109	$ 23,582		
Cash dividends	189,985	212,240	$ 0.64	$ 0.7222

d. Treasury stock

	Shares Transferred to Employees (In Thousands)
Number of shares at January 1, 2016	-
Increase during the period	5,000
Decrease during the period	(2,624)
Number of shares at December 31, 2016	2,376
Number of shares at January 1, 2017	2,376
Increase during the period	6,808
Decrease during the period	(3,248)
Number of shares at December 31, 2017	5,936

Please refer to Note 25 (f) and (g) for the detailed information in The 2nd Shares Buy Back Program.

The treasury shares held by the company cannot be pledged and no dividend and voting right is attached in accordance with the Regulations of Securities and Exchange Act.

21. REVENUE

	For the Year Ended December 31	
	2017	2016
IC for portable devices	$ 10,798,334	$ 11,000,406
Others	-	17,819
	$ 10,798,334	$ 11,018,225

22. NET INCOME

a. Other gains and losses-net

	For the Year Ended December 31	
	2017	2016
Loss on disposal of property, plant and equipment	$ (27)	$ (1,974)
Loss on buy back of the bonds	-	(32,888)
Others	28,189	26,936
	$ 28,162	$ (7,926)

b. Finance costs

	For the Year Ended December 31	
	2017	2016
Interest on convertible bonds	$ -	$ 6,482
Interest on bank loans	7,566	2,007
Interest on deposits	355	75
Others	1,755	-
	$ 9,676	$ 8,564

c. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	$ 46,616	$ 53,022
Intangible assets	70,096	56,726
	$ 116,712	$ 109,748
An analysis of deprecation and amortization by function		
Operating expenses	$ 108,794	$ 86,504
Operating costs	7,918	23,244
	$ 116,712	$ 109,748

d. Employee benefits expense

	For the Year Ended December 31	
	2017	**2016**
Post-employment benefits		
Defined contribution plans	$ 27,394	$ 26,440
Defined benefit plans (see Note 19)	875	946
Share-based payments (see Note 25)	43,406	43,147
Other employee benefits	1,426,877	1,309,604
Total employee benefits expense	$ 1,498,552	$ 1,380,137
An analysis of employee benefits expense by function		
Operating expenses	$ 1,416,042	$ 1,291,611
Operating costs	82,510	88,526
	$ 1,498,552	$ 1,380,137

e. 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 2017, due to the net loss before tax, there was no accrual for any remuneration to employees and directors.

The bonuses to employees and remuneration to directors for 2016 was resolved by the board of directors on February 24, 2017, respectively as follows:

	For the Year Ended December 31,2016
	Cash
Bonus to employees	$ 60,075
Remuneration of directors	645

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.

There was no difference between the amounts of the employees' compensation and the remuneration to directors paid and recognized in the consolidated financial statements for the year ended December 31, 2016 and 2015.

Information on the employees' compensation and remuneration to directors resolved by the Company's board of directors in 2018 and 2017 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

23. INCOME TAXES

a. Income tax recognized in profit or loss

	For the Year Ended December 31	
	2017	**2016**
Current tax		
In respect of the current year	$264,210	$ 14,494
Adjustments for prior years	14,899	2,512
	279,109	17,006
Deferred tax		
In respect of the current year	27,834	14,780

Income tax expense (income) recognized in profit or loss	$306,943	$ 31,786

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

	For the Year Ended December 31	
	2017	**2016**
Profit before tax from continuing operations	$ 203,733	$ 241,895
Income tax expense calculated at the statutory rate	$ 38,329	$ 6,845
Nondeductible expenses in determining taxable income	3,860	9,283
Tax-exempt income	-	(3,186)
Tax effect of earnings to be distributed by subsidiaries	-	1,175
Accumulated overseas undistributed surplus income tax	246,151	-
Unrecognized temporary differences	-	4,422
Tax credit from R&D incentive	(9,211)	(4,363)
Unrecognized loss carryforwards	12,696	15,020
Adjustments for prior years' tax	14,899	2,512
Others	219	78
Income tax expense recognized in profit or loss	$ 306,943	$ 31,786

FocalTech Systems Ltd., FocalTech Electronics, Ltd. and FocalTech Smart Sensors, Ltd. are exempted from taxation under local tax regulation.

For other group entities, the applicable tax rates were as follow:

1) FocalTech Corporation, Ltd and FocalTech System, Inc.: 35%
2) The Company , FocalTech Electronics Co., Ltd. and FocalTech Smart Sensors Co., Ltd.: 17%
3) FocalTech Electronics (Shenzhen) Co., Ltd., FocalTech Electronics (Shanghai) Co., Ltd., FocalTech Systems (Shenzhen) Co., Ltd., and Hefei PineTech Electronics Co., Ltd: 25%

In February 2018, the amendment of the Republic of China Income Tax Law became effective after the approval by the President. The income tax rate for corporations was adjusted to 20% from 17% from 2018. In addition, the tax rate applicable to the undistributed surplus of the year from and after 2018 was reduced from 10% to 5%. The deferred income tax assets and liabilities recognized on December 31, 2017 are expected to increase by 15,094 thousand and 2,646 thousand, respectively, in 2018 due to changes in tax rates.

b. Current tax assets and liabilities

	For the Year Ended December 31	
	2017	**2016**
Current tax assets		
Tax refund receivable	$ 1,331	$ 2,428

	For the Year Ended December 31	
	2017	**2016**
Current tax liabilities		
Income tax payable	$411,977	$ 8,858

c. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Reclassification	Exchange Differences	Closing Balance
Deferred tax assets						
Temporary differences						
Obsolete of inventory	$ 67,220	$ 3,659	$ -	$ -	$ -	$ 70,879
Allowance for receivables	11,190	(52)	-	-	-	11,138
Employee share option	3,147	-	-	-	-	3,147
Others	6,247	(2,950)	(1,990)	-	-	1,307
	87,804	657	(1,990)	-	-	86,471
Tax losses	48,565	(30,255)	-	-	(280)	18,030
	$136,369	$ (29,598)	$ (1,990)	$ -	$ (280)	$ 104,501
Deferred tax liabilities						
Temporary differences						
Investment income recognized from foreign investees	$168,343	$ -	$ -	$ (158,850)	$ (9,493)	$ -
Intangible assets	17,640	(1,764)	-	-	-	15,876
	$ 185,983	$ (1,764)	$ -	$(158,850)	$ (9,493)	$ 15,876

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Obsolete of inventory	$ 102,560	$ (35,340)	$ -	$ -	$ 67,220
Allowance for receivables	10,531	659	-	-	11,190
Employee share option	7,094	(3,947)	-	-	3,147
Others	14,915	(8,282)	(386)	-	6,247
	135,100	(46,910)	(386)	-	87,804
Tax losses	19,054	30,721	-	(1,210)	48,565
	$ 154,154	$ (16,189)	$ (386)	$ (1,210)	$ 136,369
Deferred tax liabilities					
Temporary differences					
Investment income recognized from foreign investees	$ 170,148	$ 1,175	$ -	$ (2,980)	$ 168,343
Intangible assets	17,640	-	-	-	17,640
Unrealized foreign exchange gains	2,584	(2,584)	-	-	-
	$ 190,372	$ (1,409)	$ -	$ (2,980)	$ 185,983

d. Information about unused loss carry-forward and tax-exemption.

Loss carryforwards as of December 31, 2017 comprised of:

Unused Amount	Expiry Year
$ 50,301	2020
30,064	2021
6,671	2022
920	2025
29,320	2026
74,564	2027
2,319	2028
1,780	2029
5,194	2030
8,200	2031
15,176	2033
21,470	2034
16,902	2035
19,948	2036
3,473	2037
$ 286,302	

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

As of December 31, 2017 and 2016, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were $3,385,197 thousand and $4,280,961 thousand, respectively.

f. The Company's integrated income tax

	December 31	
	2017	2016
Imputation credit accounts	Note	$ 51,706

	December 31	
	2017	2016
Creditable ratio for distribution of earnings	Note	3.89%

Note: The amendment to the Income Tax Law of the Republic of China was promulgated in February, 2018. The integrated income tax system has been abolished. The relevant information for the year 2017 is no longer applicable.

g. Income tax assessments

The Company and FocalTech Electronics Co., Ltd.'s tax returns until 2015 have been assessed by the tax authorities.

24. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2017	**2016**
Basic earnings per share	$ (0.28)	$ 0.73
Diluted earnings per share	$ (0.28)	$ 0.71

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

Net (Loss) Income for the Year

	For the Year Ended December 31	
	2017	**2016**
Earnings used in the computation of basic earnings per share	$ (79,680)	$ 211,094
Effect of potentially dilutive ordinary shares:		
Convertible bonds	-	-
Earnings used in the computation of diluted earnings per share	$ (79,680)	$ 211,094

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

	For the Year Ended December 31	
	2017	**2016**
Weighted average number of ordinary shares in computation of basic earnings per share	288,839	290,687
Effect of potentially dilutive ordinary shares:		
Convertible bonds	-	-
Employee share option	-	2,924
Employees' compensation or bonus issue to employees	-	2,001
Employee restricted shares	-	869
Weighted average number of ordinary shares used in the computation of diluted earnings per share	288,839	296,481

Note: As upon table showed, the computation of diluted earnings per share did not include the shares from convertible bonds for December 31, 2016 due to anti-dilution. In addition, the Group has a net loss after tax, so there is no dilution effect in 2017.

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

25. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee share option plan in 2015

As approved by the FSC on July 6, 2015, the Company granted 2,800,000 options to qualified employees of the Company and its subsidiaries. Each option entitles the holder to subscribe for one ordinary shares of the Company at $10 per share, and 2,800,000 shares of ordinary shares ($10 par value) were required for this plan. The options granted are valid for 10 years and exercisable at 50%

after the second anniversary from the grant date and at 25% each year thereafter. For any subsequent changes in the Company's capital surplus, such as issuance of shares in cash, earnings and capital surplus, consolidation, spin-off, share split, and issuance of global depositary receipts, the exercise price is adjusted accordingly.

Information on employee share options was as follows:

	For the Year Ended December 31, 2017		For the Year Ended December 31, 2016	
	Number of Options (In Thousands)	**Weighted-average Exercise Price (NT$)**	**Number of Options (In Thousands)**	**Weighted-average Exercise Price (NT$)**
Balance at January 1	2,506,000	$ 12.4	2,688,000	$ 12.7
Option granted	(592,500)	12.2	-	-
Options forfeited	(437,000)	12.3	(182,000)	12.4
Balance at December 31	1,476,500	12.2	2,506,000	12.4

Information about outstanding options was as follows:

December 31,2017		December 31,2016	
Range of exercise price (NT$)	Weighted-average remaining contractual life (years)	Range of exercise price (NT$)	Weighted-average remaining contractual life (years)
$ 12.2	7.67	$ 12.4	8.67

Options granted in 2015 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	September 2, 2015
Grant-date share price ($)	$24.40
Exercise price ($)	$10
Expected volatility	43.71%
Expected life (years)	10 years
Expected dividend yield	-
Risk-free interest rate	0.84%-0.92%

b. Employee share option plan in 2013

As approved by the FSC on July 11, 2013, the Company issued 2,000,000 options at a price lower the market price to qualified employees of the Company and its subsidiaries, amounting to $20,000 thousand in total. Each option entitles the holder to subscribe for one ordinary shares of the Company at $10 per share and to exercise at a price not lower than 50% of the closing price at the issue date of the options, and 2,000,000 shares of ordinary shares ($10 par value) were required for this plan. The options granted are valid for 6 years and exercisable at 50% after the second anniversary from the grant date and at 25% each year thereafter. For any subsequent changes in the Company's capital surplus, such as issuance of shares in cash, earnings and capital surplus, consolidation, spin-off, share split, and issuance of global depositary receipts, the exercise price is adjusted accordingly.

Information on employee share options was as follows:

	For the Year Ended December 31, 2017		For the Year Ended December 31, 2016	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance at January 1	1,220,500	$ 38.5	1,578,500	$ 39.4
Options forfeited	(51,750)	38.5	(119,750)	38.5
Options exercised	(244,250)	38.4	-	-
Options expired	(155,750)	38.1	(238,250)	38.5
Balance at December 31	768,750	37.9	1,220,500	38.5
Options exercisable, end of year	768,750	37.9	918,250	38.5

Information about outstanding options was as follows:

December 31,2017		December 31,2016	
Range of exercise price (NT$)	Weighted-average remaining contractual life (years)	Range of exercise price (NT$)	Weighted-average remaining contractual life (years)
$ 37.9	1.5	$ 38.5	2.5

Options granted in 2013 were priced using the Black-Scholes pricing model and the inputs to the model, which were re-priced at January 2, 2015, the reference date of the acquisition, and the inputs to the model for re-pricing were as follows:

	January 2, 2015
Grant-date share price ($)	$38.6
Exercise price ($)	$27.6
Expected volatility	45.97%
Expected life (years)	6 years
Expected dividend yield	-
Risk-free interest rate	0.72%-0.89%

c. Employee share option plan in 2006

The board of directors of FocalTech System, Inc. resolved to grant 3,950,600 options in February 2006, and resolved additional 1,000,000 options (only for buy-back of treasury socks and re-issuance for share options), 2,500,000 options, 2,300,000 options and 600,000 options in March 2007, July 2010, February 2012 and October 2012, respectively. As of December 31, 2013, 10,350,000 options were available for grant, including 1,000,000 options for reissuance options for treasury stocks, and each option entitled the holder to subscribe for one ordinary share of FocalTech System, Inc. and could be granted to employees and directors of the Company and subsidiaries and engaged consultants.

Due to reconstruction of the Group, FocalTech Systems, Inc. transferred all the rights and obligations of the share options to FocalTech Corporation, Ltd. on December 21, 2012.

For attracting and retaining talented personnel as well as enhancing attachment and belongingness of employees, the board of directors resolved additional 1,000,000 options, 650,000 options, and 600,000 options to be granted in January 2013, March 2013 and April, 2013, respectively.

Exercise price of the share options was confirmed according to the resolution of the board of directors, and the exercise price and the number of options granted were adjusted by the subsequent changes in ordinary shares defined in the share option plan.

Due to FocalTech Corporation, Ltd. planned initial public offering, the employee share option plan in 1996 was terminated by the resolution of the board of directors on June 24, 2013. The options granted before the termination were still effective.

The options granted are valid for 10 years; except certain active employees may exercise the options earlier and leave employees extend the exercisable period of the options, the vesting conditions were as follows:

1) 25% of the options granted are exercisable after the secondary anniversary frorm the grant date, and 12.5% of the options granted become exercisable each half year thereafter, the vesting period amounting to 4 years in total; or
2) the options granted reach exercisable according to the condition of performance achievement.

Information on employee share options was as follows:

	For the Year Ended December 31			
	2017		2016	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (US$)
Balance at January 1	2,662,359	$ 21.01	6,738,924	$ 18.61
Options forfeited	-	-	(720,000)	25.96
Options exercised	(1,025,160)	22.21	(3,356,565)	14.46
Balance at December 31	1,637,199	19.84	2,662,359	21.01
Options exercisable, end of year	1,637,199	19.84	2,226,789	19.83

Information about outstanding options was as follows:

December 31,2017		December 31,2016	
Range of exercise price (NT$)	Weighted-average remaining contractual life (years)	Range of exercise price (NT$)	Weighted-average remaining contractual life (years)
$ 2.13	3.32	$ 2.17	4.32
4.2	4.11	4.27	5.11
5.31	4.33	5.4	5.33
6.81	4.57	6.92	5.57
13.68	4.11	13.91	5.11
17.24	4.82	17.53	5.82
24.51	5.13	24.92	6.13
28.3	5.27	28.77	6.27
32.1	5.48	32.63	6.48

As FocalTech Corporation, Ltd. acquired the Company in a reverse merger, the rights and obligations of the option plan were transferred to the Company. According to the requirements of the agreement of the acquisition and share swap, the adjusted number of shares for which each option entitles the holder to subscribe the Company's ordinary shares was 4.8 times the original number of the shares of FocalTech Corporation, Ltd. for which each option entitled the holder to subscribe, and the adjusted exercise price was the original exercise price divided by the share swap rate. No incremental compensation cost was recognized at the acquisition date.

d. Employee restricted shares plan in 2013

On June 18, 2013, the meeting of the Company's shareholders approved an employee restricted shares plan with a total amount of $10,000 thousand, consisting of 1,000 thousand shares, $10 par per share and issue price at $0 (free of payments). It was applied to the FSC and effective on August 15, 2013.

The grant date and issue date was October 3, 2013 as approved by the board of directors on the same day to issue employee restricted shares with a total amount of $9,820 thousand. The fair value of each share at the grant date was $46.6. The employee restricted shares plan was remeasured at January 2 2015, the reverse merger date at $38 per share, the closest opening price.

Provided that the employees who acquired restricted shares keep active until the end of the vesting period, obey the service principles, and never violate the labor contracts, working principles or employee management rules, the vesting conditions were as follows:

1) the second anniversary from the grant date, 20% of acquired shares.
2) the third anniversary from the grant date, 30% of acquired shares.
3) the fourth anniversary from the grant date, 50% of acquired shares.

The restrictions on the rights of the employees who acquired the restricted shares but have not meet the vesting conditions were as follows:

1) The employees cannot sell, pledge, transfer, donate, or in any way dispose of these shares.
2) The Company enters into a trust agreement with a trust and custodian institution on behalf of the employees, and the institution exercises the rights in shareholders' meeting, in accordance with the agreement, such as attendance, proposing, speaking and voting.
3) The employees holding these shares are still entitled to receive cash and dividends in share and participating in capital increase in cash.
4) For the employees who meet vesting conditions in the periods, including the book closure periods for stock dividends, cash dividends, or cash injection, required by Article 165 item 3 of the Company Act, or due to other circumstances, the removal of restrictions and the delivery of the shares are ceased.

If an employee fails to meet the vesting conditions, the Company will recall and cancel his/her restricted shares.

e. Employee restricted shares plan in 2014

On February 24, 2014, the board of directors of FocalTech Corporation, Ltd. approved an employee restricted shares plan with a total amount of $8,000 thousand, consisting of 800,000 shares, $10 par per share, to apply for issuance at one times or several times for one year since the resolution date.

The Chairman decided August 20, 2014 as the record date of issuance, authorized by the board of directors of FocalTech Corporation, Ltd. on August 1, 2014. The restricted shares issued amounted to $3,854 thousand, consisting of 385,350 shares and issue price at $10 per share. August 1, 2014 and August 20, 2014 were the grant date and the issue date, respectively, and the fair value of each share at the grant date was $247.5.

The Chairman decided November 7, 2014 as the record date of issuance, authorized by the board of directors of FocalTech Corporation, Ltd. on October 31, 2014. The restricted shares issued amounted to $4,057 thousand, consisting of 405,650 shares and issue price at $10 per share. October 31, 2014 and November 7, 2014 were the grant date and the issue date, respectively, and the fair value of each share at the grant date was $173.

According to the employee restricted shares plan, one third of the restricted are vested when the employees who acquired the restricted shares continue working in FocalTech Corporation, Ltd. every anniversary since the grant date.

The restrictions on the rights of the employees who acquired the restricted shares but have not meet the vesting conditions were as follows;

1) The employees cannot sell, pledge, transfer, donate, or in any way dispose of these shares.
2) The Company enters into a trust agreement with a trust and custodian institution on behalf of the employees, and the institution exercises the rights in the shareholders' meeting, in accordance with the agreement, such as attendance, proposing, speaking and voting.
3) The same restrictions were applied to the cash dividends and stock dividends (appropriated from earnings or capital surplus) derived from the restricted shares not vested and related dividends.

If an employee fail to meeting the vesting conditions, FocalTech Corporation, Ltd. will buy back at the original issue price and cancel his/her restricted shares.

As FocalTech Corporation, Ltd. acquired the Company in a reverse merger, the rights and obligations of the restricted shares plan were also transferred to the Company. No incremental compensation cost was recognized at the reference date of the acquisition.
As of the end of 2017, employee restricted shares stated in (d) and (e) have been fully vested.

f. The 2nd Shares Buy Back Program.

On April 28, 2016, the board of directors approved The 2nd Shares Buy Back Program for transferring to employees up to 5,000 thousand shares. The transferred price to employees would be the average purchase price. The Company's employee subscription base dates were February 24, 2017 and October 28, 2016. The eligible employees subscribed 50 thousand shares and 2,624 thousand shares at the price of 26.53 with the total proceeds as 1,327 thousand and 69,615 thousand respectively. The fair value of the transfer date of the share purchase option is 11.26

According to The 2nd Shares Buy Back Program, all the shares would be vested in 2 years, half vested after the first anniversary, if employees are still at work and entitled.

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.

Options of the share transfer plan granted in 2017 were measured by using the Black-Scholes pricing model and the inputs to the model were as follows:

	October 28, 2016
Grant date share price ($)	$33.70
Exercise price ($)	$26.53

Expected volatility	48.66%
Expected life (years)	2 years
Expected dividend yield	-
Risk-free interest rate	0.36%-0.48%

g. The 3rd Shares Buy Back Program.

On May 12, 2017, the board of directors approved The 3rd Shares Buy Back Program for transferring to employees at the average purchase price. The total shares available to transfer in this program is 6,808 thousand shares. 3,198 thousand shares were granted to the eligible employees with the total proceeds of 115,479 thousand on July 24, 2017, at $36.11 per share. The fair value of each share purchase right was $12.85 on the transferring date.

According to The 3rd Shares Buy Back Program, all the shares would be vested in 3 years, 25% for the first and the second anniversary respectively, and 50% for the third anniversary, if employees are still at work and eligible under related Company rules and policies.

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.

Options of the share transfer plan granted in 2017 were measured by using the Black-Scholes pricing model and the inputs to the model were as follows:

	July 24, 2017
Grant-date share price ($)	$41.55
Exercise price ($)	$36.11
Expected volatility	45.20%
Expected life (years)	3 years
Expected dividend yield	-
Risk-free interest rate	0.5%-0.58%

Compensation cost recognized for share-based payments above in 2017 and 2016 were as follows:

	For the Year Ended December 31	
	2017	**2016**
Employee share option plans	$ 36,339	$ 18,687
Employee restricted share plans	7,068	24,460
	$ 43,407	$ 43,147

	For the Year Ended December 31	
	2017	**2016**
Capital surplus - employee share options	$ 36,339	$ 18,687
Other equity - unearned employee compensation	7,068	24,460
	$ 43,407	$ 43,147

26. Equity transactions with non - controlling interests

On November 30, 2016, the Group did not subscribe for the capital increase of FocalTech Smart Sensors Co., Ltd. according to its shareholding ratio, so the proportion of shares held decreased from 100% to 69%. In September 2017, the Group ownership interest over FocalTech Smart Sensors Co., Ltd. diluted to 67.11% after the capital injection due to employee stock option plan and no pro rata subscription in new share.

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

	For the Year Ended December 31	
	2017	**2016**
Proceeds received in cash from non-controlling interests	$ 17,568	$ 15,500
The book value in equity accounted for non-controlling interests	(16,881)	(14,918)
Equity transaction gap	$ 687	$ 582

	For the Year Ended December 31	
	2017	**2016**
Item to adjust for equity transaction gap		
Capital surplus - Changes in ownership interests in subsidiaries	$ 687	$ 582

27. OPERATING LEASE ARRANGEMENTS

The Company is Lessee

The Company and its subsidiaries have lease contracts relate to office, plant and part of office equipment, above contracts would be expired after January 2020.

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

	For the Year Ended December 31	
	2017	**2016**
lease payment	$ 53,177	$ 65,563

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

	December 31	
	2017	**2016**
Not later than 1 year	$ 29,819	$ 31,731
Later than 1 year and not later than 5 years	12,021	3,992
	$ 41,840	$ 35,723

28. CAPITAL MANAGEMENT

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.

As the strategy of the Group’s capital structure management, the Group sets its target market share according to the industry scale, the growth of the industry and the product development. The Group estimates the required capacity and plant and equipment and the responding capital expenditure to reach such capacity. Furthermore, the Group calculates working capitals and cash demands on the basis of the industry characteristics to make a comprehensive plan for long-term development. 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 capital structure of the Group consists of net debt (loans net of cash and cash equivalent) and equity (comprising issued capital, capital surplus, retained earnings and other equity).

The Group was not restricted to other external capital requirements.

29. 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, 2017

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Fixed income bonds	$ -	$ 281,454	$ -	$ 281,454

December 31, 2016

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Fixed income bonds	$ -	$ 175,839	$ -	$ 175,839

c. Categories of financial instruments

	December 31	
	2017	2016
Financial assets		
Available-for-sale financial assets (Note 1)	$ 355,854	$ 256,464
Loans and receivables (Note 2)	5,280,160	6,943,655
Financial liabilities		
Amortized cost (Note 3)	2,250,211	3,204,242

1) The balances included the carrying amount of available-for-sale and financial assets measured at cost.

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

3) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, 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, available-for-sale financial assets, financial assets measured at cost, borrowings, trade and other payables. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

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

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

1) Market risk

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

a) Foreign currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities which were not in the same functional currency with the Group entity at the end of the reporting period are shown in Note 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 an 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**	
	2017	**2016**	**2017**	**2016**
Profit or loss/ equity	$ 45,303 (i)	$ 17,690 (i)	$ 53 (ii)	$ 2,416 (ii)

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

ii. This was mainly attributable to the exposure to outstanding RMB time deposits.

b) Interest rate risk

The Group was exposed to interest risk arising from fixed rate time deposits, bond investments, borrowings and floating rate demand deposits. 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	
	2017	**2016**
Fair value interest rate risk		
Financial assets	$ 3,499,180	$ 4,398,311
Cash flow interest rate risk		
Financial assets	$ 762,436	$ 1,343,883
Fair value interest rate risk		
Financial liabilities	$ -	$ 645,000

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 years ended December 31, 2017 and 2016 would decrease/increase by $1,906 thousand and $2,789 thousand, respectively.

2) Credit risk

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

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 credit risk on liquid funds and derivatives was limited because the counterparties are banks and entities with high credit ratings.

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

As of December 31, 2017, the Group's five largest customers took 64% of total trade receivables, the remaining transactions with a large number of unrelated customers, thus, no significant concentration of credit risk was observed.

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 liquidtiy for the Group.

As of December 31, 2017 and 2016, the Group had available unutilized short-term bank loan facilities refer to (b) Financing facilities.

a) Liquidity and interest risk rate tables for 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, 2017

	On Demand or Less than 1 Year	1-5 Years
Financial liabilities		
Non-interest bearing	$ 2,049,260	$ 200,951

December 31, 2016

	On Demand or Less than 1 Year	1-5 Years
Financial liabilities		
Fixed interest rate liabilities	$ 645,000	$ -
Non-interest bearing	2,445,967	113,275
	$ 3,090,967	$ 113,275

b) Financing facilities

	December 31, 2017	December 31, 2016
Unsecured bank overdraft facility, reviewed annually:		
Amount used	$ -	$ 645,000
Amount unused	3,385,600	2,145,000
	$ 3,385,600	$ 2,790,000

30. TRANSACTIONS WITH RELATED PARTIES

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

b. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Long-term employee benefits	$ 34,487	$ 22,031
Short-term employee benefits	32,077	55,812
Post-employment benefits	282	606
Share-based payments	5,397	7,404
	$ 72,243	$ 85,853

The remuneration of directors and key executives was determined by the remuneration committee based on the performance and market trends.

31. ASSETS PLEDGED AS COLLATERAL (CLASSIFIED AS OTHER NON-CURRENT ASSETS)

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

	December 31	
	2017	2016
Pledge deposits	$ 35,882	$ 36,543

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, 2017

	Foreign Currencies	Exchange Rate (to its relevant functional currency)	New Taiwan Dollars
Financial assets			
Monetary items			
USD	$ 64,113	29.76 (USD:NTD)	$ 1,908,009
USD	1,971	6.5342 (USD:RMB)	58,644
RMB	231	0.153 (RMB:USD)	1,050
Financial liabilities			
Monetary items			
USD	27,718	29.76 (USD:NTD)	824,887
USD	7,920	6.5342 (USD:RMB)	235,704

December 31, 2016

	Foreign Currencies	Exchange Rate (to its relevant functional currency)	New Taiwan Dollars
Financial assets			
Monetary items			
USD	$ 46,040	32.25 (USD:NTD)	$ 1,484,800
USD	1,561	6.9370 (USD:RMB)	50,350
RMB	10,395	0.1442 (RMB:USD)	48,326
Financial liabilities			
Monetary items			
USD	26,937	32.25 (USD:NTD)	868,732
USD	9,693	6.9370 (USD:RMB)	312,609

33. SEGMENT INFORMATION

a. Operating segments

Segment information is provided to those who allocate resources and assesse 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	
	2017	2016
IC for portable devices	$ 10,798,334	$ 11,000,406
Others	-	17,819
	$ 10,798,334	$ 11,018,225

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	
	2017	2016	2017	2016
China	$ 9,007,540	$ 9,667,749	$ 1,471,256	$ 150,332
Taiwan	791,248	801,034	188,534	203,226
Others	999,546	549,442	-	-
	$ 10,798,334	$ 11,018,225	$ 1,659,790	$ 353,558

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 available-for-sale financial assets, financial asset measured at cost, 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	
	2017	**2016**
Custom A and subsidiaries	$ 2,588,225	$ 1,848,328
Custom B and subsidiaries	1,817,638	1,398,673
Custom C and subsidiaries	1,493,504	1,289,186