

VISUAL PHOTONICS EPITAXY CO., LTD.
FINANCIAL STATEMENTS AND REVIEW REPORT
OF INDEPENDENT ACCOUNTANTS
MARCH 31, 2017 AND 2016

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
MARCH 31, 2017, DECEMBER 31, 2016 AND MARCH 31, 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(THE BALANCE SHEETS AS OF MARCH 31, 2017 AND 2016 ARE REVIEWED, NOT AUDITED)

Assets		Notes	March 31, 2017		December 31, 2016		March 31, 2016	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 1,049,528	31	\$ 981,833	30	\$ 1,803,959	42
1150	Notes receivable, net		177	-	166	-	309	-
1170	Accounts receivable, net	6(3)	301,745	9	242,157	8	463,924	11
1200	Other receivables		6,479	-	11,878	-	9,563	-
130X	Inventory	6(4)	387,549	12	372,708	12	400,849	9
1410	Prepayments		40,557	1	35,383	1	49,664	1
11XX	Current Assets		<u>1,786,035</u>	<u>53</u>	<u>1,644,125</u>	<u>51</u>	<u>2,728,268</u>	<u>63</u>
Non-current assets								
1523	Available-for-sale financial assets - noncurrent	6(2)	334	-	5,755	-	21,856	1
1600	Property, plant and equipment	6(5)	1,523,758	46	1,517,969	47	1,579,105	36
1780	Intangible assets		1,576	-	1,707	-	1,895	-
1840	Deferred income tax assets	6(14)	8,929	-	6,520	-	13,331	-
1915	Prepayments for business facilities		27,326	1	65,294	2	15,887	-
1920	Guarantee deposits paid		67	-	67	-	67	-
15XX	Non-current assets		<u>1,561,990</u>	<u>47</u>	<u>1,597,312</u>	<u>49</u>	<u>1,632,141</u>	<u>37</u>
1XXX	Total assets		<u>\$ 3,348,025</u>	<u>100</u>	<u>\$ 3,241,437</u>	<u>100</u>	<u>\$ 4,360,409</u>	<u>100</u>

(Continued)

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
MARCH 31, 2017, DECEMBER 31, 2016 AND MARCH 31, 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(THE BALANCE SHEETS AS OF MARCH 31, 2017 AND 2016 ARE REVIEWED, NOT AUDITED)

Liabilities and Equity		Notes	March 31, 2017		December 31, 2016		March 31, 2016	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current liabilities								
2170	Accounts payable		\$ 244,242	7	\$ 203,959	7	\$ 300,813	7
2200	Other payables	6(6)	193,544	6	215,079	7	199,760	5
2230	Current income tax liabilities	6(14)	56,120	2	37,821	1	100,165	2
2300	Other current liabilities		9,331	-	7,447	-	9,316	-
21XX	Current Liabilities		<u>503,237</u>	<u>15</u>	<u>464,306</u>	<u>15</u>	<u>610,054</u>	<u>14</u>
Non-current liabilities								
2570	Deferred income tax liabilities	6(14)	971	-	1,693	-	-	-
2640	Accrued pension liabilities	6(7)	7,009	-	7,198	-	4,175	-
25XX	Non-current liabilities		<u>7,980</u>	<u>-</u>	<u>8,891</u>	<u>-</u>	<u>4,175</u>	<u>-</u>
2XXX	Total Liabilities		<u>511,217</u>	<u>15</u>	<u>473,197</u>	<u>15</u>	<u>614,229</u>	<u>14</u>
Equity								
Share capital		6(8)						
3110	Share capital - common stock		1,849,059	55	1,849,059	57	2,465,412	57
Capital surplus		6(9)						
3200	Capital surplus		106,704	3	106,704	3	106,704	2
Retained earnings		6(10)						
3310	Legal reserve		324,861	10	324,861	10	265,595	6
3350	Total unappropriated retained earnings (accumulated deficit)	6(14)	705,001	21	631,012	19	916,469	21
Other equity interest								
3400	Other equity interest	6(2)	(5,421)	-	-	-	(8,000)	-
3500	Treasury stocks	6(8)	(143,396)	(4)	(143,396)	(4)	-	-
3XXX	Total equity		<u>2,836,808</u>	<u>85</u>	<u>2,768,240</u>	<u>85</u>	<u>3,746,180</u>	<u>86</u>
Significant commitments and contingent liabilities		9						
Significant events after the balance date		11						
3X2X	Total liabilities and equity		<u>\$ 3,348,025</u>	<u>100</u>	<u>\$ 3,241,437</u>	<u>100</u>	<u>\$ 4,360,409</u>	<u>100</u>

The accompanying notes are an integral part of these financial statements.

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNT)
(UNAUDITED)

	Items	Notes	For the three months ended March 31,			
			2017		2016	
			AMOUNT	%	AMOUNT	%
4000	Sales revenue		\$ 493,156	100	\$ 663,268	100
5000	Operating costs	6(4)(12)(13)	(322,680)	(66)	(402,994)	(61)
5900	Net operating margin		<u>170,476</u>	<u>34</u>	<u>260,274</u>	<u>39</u>
	Operating expenses	6(12)(13)(16)				
6100	Selling expenses		(1,997)	(1)	(2,983)	-
6200	General & administrative expenses		(21,639)	(4)	(27,221)	(4)
6300	Research and development expenses		(31,319)	(6)	(25,278)	(4)
6000	Total operating expenses		(54,955)	(11)	(55,482)	(8)
6900	Operating profit		<u>115,521</u>	<u>23</u>	<u>204,792</u>	<u>31</u>
	Non-operating income and expenses					
7010	Other income		323	-	885	-
7020	Other gains and losses	6(11)	(26,686)	(5)	(12,266)	(2)
7000	Total non-operating revenue and expenses		(26,363)	(5)	(11,381)	(2)
7900	Profit before income tax		<u>89,158</u>	<u>18</u>	<u>193,411</u>	<u>29</u>
7950	Income tax expense (benefit)	6(14)	(15,169)	(3)	(33,052)	(5)
8200	Profit for the year		<u>\$ 73,989</u>	<u>15</u>	<u>\$ 160,359</u>	<u>24</u>
	Other comprehensive income					
	Components of other comprehensive income that will be reclassified to profit or loss					
8362	Unrealized loss on valuation of available-for-sale financial assets	6(2)	(\$ 5,421)	(1)	(\$ 8,000)	(1)
8399	Income tax relating to the components of other comprehensive income	6(14)	-	-	-	-
8360	Components of other comprehensive income that will be reclassified to profit or loss		(5,421)	(1)	(8,000)	(1)
8300	Total other comprehensive income for the year		(\$ 5,421)	(1)	(\$ 8,000)	(1)
8500	Total comprehensive income for the year		<u>\$ 68,568</u>	<u>14</u>	<u>\$ 152,359</u>	<u>23</u>
9750	Total basic earnings per share	6(15)	<u>\$ 0.41</u>		<u>\$ 0.65</u>	
9850	Total diluted earnings per share	6(15)	<u>\$ 0.40</u>		<u>\$ 0.65</u>	

The accompanying notes are an integral part of these financial statements.

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

		Capital Reserves		Retained Earnings					
	Notes	Share capital - common stock	Total capital surplus, additional paid-in capital	Treasury stock transactions	Legal reserve	Total unappropri- d retained earnings (accumulated deficit)	Unrealized gain or loss on available-for-s ale financial assets	Treasury stocks	Total equity
For the three months ended March 31, 2016									
Balance at January 1, 2016		\$ 2,465,412	\$ 102,682	\$ 4,022	\$ 265,595	\$ 756,110	\$ -	\$ -	\$ 3,593,821
Profit for the period		-	-	-	-	160,359	-	-	160,359
Other comprehensive income for the period	6(2)	-	-	-	-	-	(8,000)	-	(8,000)
Balance at March 31, 2016		<u>\$ 2,465,412</u>	<u>\$ 102,682</u>	<u>\$ 4,022</u>	<u>\$ 265,595</u>	<u>\$ 916,469</u>	<u>(\$ 8,000)</u>	<u>\$ -</u>	<u>\$ 3,746,180</u>
For the three months ended March 31, 2017									
Balance at January 1, 2017		\$ 1,849,059	\$ 102,682	\$ 4,022	\$ 324,861	\$ 631,012	\$ -	(\$ 143,396)	\$ 2,768,240
Profit for the period		-	-	-	-	73,989	-	-	73,989
Other comprehensive income for the period	6(2)	-	-	-	-	-	(5,421)	-	(5,421)
Balance at March 31, 2017		<u>\$ 1,849,059</u>	<u>\$ 102,682</u>	<u>\$ 4,022</u>	<u>\$ 324,861</u>	<u>\$ 705,001</u>	<u>(\$ 5,421)</u>	<u>(\$ 143,396)</u>	<u>\$ 2,836,808</u>

The accompanying notes are an integral part of these financial statements.

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	Notes	For the three months ended March 31,	
		2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 89,158	\$ 193,411
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(5)(12)	51,695	51,766
Amortization	6(12)	161	151
Interest income		(319)	(844)
Unrealized foreign exchange loss		14,320	10,856
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivables		(11)	(151)
Accounts receivable		(59,588)	26,632
Other receivables		5,399	(8,204)
Inventory		(14,841)	(34,720)
Prepayments		(5,174)	(18,777)
Changes in operating liabilities			
Accounts payable		40,283	52,714
Other payables		(1,944)	15,844
Other current liabilities		1,884	1,950
Other non-current liabilities		(189)	-
Cash inflow generated from operations		120,834	290,628
Interest received		319	844
Cash paid for income tax		-	(15)
Net cash flows from operating activities		<u>121,153</u>	<u>291,457</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of property, plant and equipment	6(17)	(30,388)	(5,155)
Acquisition of intangible assets		(32)	(152)
Increase in prepayment for business facilities		(8,718)	(250)
Decrease in guarantee deposits paid		-	40
Net cash flows used in investing activities		<u>(39,138)</u>	<u>(5,517)</u>
Effect of exchange rate changes on cash and cash equivalents		(14,320)	(10,856)
Net increase in cash and cash equivalents		67,695	275,084
Cash and cash equivalents at beginning of period	6(1)	981,833	1,528,875
Cash and cash equivalents at end of period	6(1)	<u>\$ 1,049,528</u>	<u>\$ 1,803,959</u>

The accompanying notes are an integral part of these financial statements.

VISUAL PHOTONICS EPITAXY CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2017 AND 2016

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

(UNAUDITED)

1. HISTORY AND ORGANIZATION

Visual Photonics Epitaxy Co., Ltd. (the “Company”) was incorporated in November 1996. The Company is primarily engaged in research & development, manufacture and sales of optoelectronic semi-conductors epitaxy, optoelectronic components products and etc. On January 24, 2002, the Company’s common stock was officially listed on the Taiwan Stock Exchange Corporation.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These financial statements were authorized for issuance by the Board of Directors on April 28, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

All the above standards and interpretations have no significant impact to the Company's financial condition and operating result based on the Company's assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

None.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendmentsto IFRS 2)	January 1, 2018
Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendmentsto IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, First-time adoption of international financial reporting standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the followings, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 15, 'Revenue from contracts with customers'

IFRS15, 'revenue from contracts with customers' replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step1: Identify contracts with customer

Step 2: Identify separate performance obligations in the contract(s)

Step 3: Determine the transaction price

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

B. Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from Contracts with Customers'

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

C. IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

D. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

E. Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealised losses’

These amendments clarify the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, and they clarify several of the general principles underlying the accounting for deferred tax assets. The amendments clarify that a deductible temporary difference exists whenever an asset is measured at fair value and that fair value is below the asset’s tax base. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, it considers a deductible temporary difference in combination with all of its other deductible temporary differences unless there are tax law restrictions, and the tax deduction resulting from temporary differences is excluded from estimated future taxable profits. The amendments are effective from January 1, 2017.

F. IFRIC 22, ‘Foreign currency transactions and advance consideration’

The Interpretation states that the date of the transaction for a foreign currency-denominated contract should be the date of initial recognition of the non-monetary asset or non-monetary liability arising from the receipt or payment of the advance consideration.’

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The financial statements of the Company have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Accounting Standards 34, ‘Interim financial reporting’ endorsed by the FSC.

(2) Basis of preparation

- A. Except for the following items, the financial statements have been prepared under the historical cost convention:
- (a) Available-for-sale financial assets measured at fair value.
 - (b) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(3) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the “functional currency”). The financial statements are presented in New Taiwan Dollars, which is the Company’s functional and presentation currency.

Foreign currency transactions and balances

- A. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- B. Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- C. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- D. All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

(4) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - (a) Liabilities that are expected to be paid off within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(6) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(7) Loans and receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(8) Impairment of financial assets

- A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (a) Significant financial difficulty of the issuer or debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - (e) The disappearance of an active market for that financial asset because of financial difficulties;

- (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
- (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(a) Financial assets measured at amortised cost

The amount of the impairment loss is measured as 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, and is recognised in profit or loss. 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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(9) Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(10) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(11) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. If each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings	50 ~ 60 years
Machinery and equipment	3 ~ 15 years
Office equipment	3 ~ 5 years
Other equipment	3 ~ 7 years

(12) Intangible assets

Intangible assets, mainly patent and computer software, are recognised at cost and amortised on a straight-line basis over their estimated useful lives of 3 ~ 5 years.

(13) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(14) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(15) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(16) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

- ii. Remeasurement arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past-service costs are recognised immediately in profit or loss.
- iv. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Company's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Company recognises expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation, directors' and supervisors' remuneration

Employees' remuneration and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(17) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(18) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(19) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(20) Revenue recognition

The Company manufactures and sells optoelectronic semi-conductors epitaxy, component and etc. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods should be recognised when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(21) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Company's chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Company's accounting policies

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of March 31, 2017, the carrying amount of inventories was \$387,549

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Cash on hand and revolving funds	\$ 354	\$ 396	\$ 380
Checking accounts and demand deposits	722,174	734,437	1,340,079
Time deposits	<u>327,000</u>	<u>247,000</u>	<u>463,500</u>
Total	<u>\$ 1,049,528</u>	<u>\$ 981,833</u>	<u>\$ 1,803,959</u>

A. The Company associates with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Company has no cash and cash equivalents pledged to others.

(2) Available-for-sale financial assets-non current

<u>Items</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Non-current items:			
Unpublished corporate stock			
Branchy Technology Co., Ltd.	\$ 9,573	\$ 9,573	\$ 9,573
Hokuang Optics Co.,Ltd.	59,200	-	-
Published corporate stock			
Hokuang Optics Co.,Ltd.	-	59,200	-
Emerging stocks			
Hokuang Optics Co.,Ltd.	-	-	59,200
Subtotal	<u>68,773</u>	<u>68,773</u>	<u>68,773</u>
Valuation adjustment	(5,421)	-	(8,000)
Accumulated impairment	<u>(63,018)</u>	<u>(63,018)</u>	<u>(38,917)</u>
Total	<u>\$ 334</u>	<u>\$ 5,755</u>	<u>\$ 21,856</u>

A. The Company recognized (\$5,421) and (\$8,000) in other comprehensive income for fair value change for the years ended March 31, 2017 and 2016, respectively.

B. The Company assessed the fair value of equity investments in Branchy Technology Co., Ltd. had declined for a long time, and Branchy Technology Co., Ltd. applied for discontinuing business from November 17, 2015 to November 16, 2016. Thus the Company recognised the investment to be impaired completely.

C. The Company assessed the fair value of equity investments in Hokuang Optics Co., Ltd., which had accumulated deficit, was significantly lower than the original investment cost, and thus the Company separately recognized impairment loss of \$53,445 in the 1th quarter of 2017 after assessed.

D. The Company has no circumstances in which available-for-sale financial assets has been provided as pledge.

(3) Accounts receivable, net

	March 31, 2017	December 31, 2016	March 31, 2016
Accounts receivable	\$ 302,325	\$ 242,737	\$ 464,504
Less: allowance for bad debts	(580)	(580)	(580)
	<u>\$ 301,745</u>	<u>\$ 242,157</u>	<u>\$ 463,924</u>

A. The Company's accounts receivable that were neither past due nor impaired were fully performing in line with the credit standards prescribed based on counterparties' industrial characteristics, scale of business and profitability.

B. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Up to 30 days	\$ 25,852	\$ 20,355	\$ 31,612
31 to 90 days	2,782	766	9,241
	<u>\$ 28,634</u>	<u>\$ 21,121</u>	<u>\$ 40,853</u>

The above ageing analysis was based on past due date.

C. Movement analysis of financial assets that were impaired is as follows:

As of March 31, 2017, December 31, 2016 and March 31, 2016, impairment losses of \$580 were assessed on a group basis.

D. The Company does not hold any collateral as security.

(4) Inventories

March 31, 2017			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 125,184	(\$ 2,905)	\$ 122,279
Work in process	42,952	(430)	42,522
Finished goods	260,853	(38,105)	222,748
Total	<u>\$ 428,989</u>	<u>(\$ 41,440)</u>	<u>\$ 387,549</u>

December 31, 2016			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 125,553	(\$ 2,905)	\$ 122,648
Work in process	36,401	(430)	35,971
Finished goods	252,194	(38,105)	214,089
Total	<u>\$ 414,148</u>	<u>\$ (41,440)</u>	<u>\$ 372,708</u>

	March 31, 2016		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 115,548	(\$ 2,905)	\$ 112,643
Work in process	65,712	(430)	65,282
Finished goods	264,608	(41,684)	222,924
Total	<u>\$ 445,868</u>	<u>(\$ 45,019)</u>	<u>\$ 400,849</u>

The cost of inventories recognized as expense for the period:

	For the three months ended March 31,	
	2017	2016
Cost of goods sold	322,680	402,994
Gain on reversal of decline in market value	-	-
Recognised as research and development expenses	11,157	8,223

(5) Property, plant and equipment

	Land	Buildings	Machinery	Office equipment	Others	Total
<u>At January 1, 2017</u>						
Cost	\$ 141,004	\$ 888,179	\$ 2,481,649	\$ 20,722	\$ 152,464	\$ 3,684,018
Accumulated depreciation and impairment	-	(492,264)	(1,525,941)	(20,312)	(127,532)	(2,166,049)
	<u>\$ 141,004</u>	<u>\$ 395,915</u>	<u>\$ 955,708</u>	<u>\$ 410</u>	<u>\$ 24,932</u>	<u>\$ 1,517,969</u>
<u>2017</u>						
January 1	\$ 141,004	\$ 395,915	\$ 955,708	\$ 410	\$ 24,932	\$ 1,517,969
Additions	-	1,588	8,381	-	828	10,797
Reclassification	-	-	46,687	-	-	46,687
Depreciation charge	-	(9,502)	(40,374)	(36)	(1,783)	(51,695)
March 31	<u>\$ 141,004</u>	<u>\$ 388,001</u>	<u>\$ 970,402</u>	<u>\$ 374</u>	<u>\$ 23,977</u>	<u>\$ 1,523,758</u>
<u>At March 31, 2017</u>						
Cost	\$ 141,004	\$ 889,767	\$ 2,536,717	\$ 20,722	\$ 153,293	\$ 3,741,503
Accumulated depreciation and impairment	-	(501,766)	(1,566,315)	(20,348)	(129,316)	(2,217,745)
	<u>\$ 141,004</u>	<u>\$ 388,001</u>	<u>\$ 970,402</u>	<u>\$ 374</u>	<u>\$ 23,977</u>	<u>\$ 1,523,758</u>

	Land	Buildings	Machinery	Office equipment	Others	Total
<u>At January 1, 2016</u>						
Cost	\$ 141,004	\$ 869,814	\$ 2,416,622	\$ 20,464	\$ 147,374	\$ 3,595,278
Accumulated depreciation and impairment	-	(454,874)	(1,365,665)	(20,108)	(124,030)	(1,964,677)
	<u>\$ 141,004</u>	<u>\$ 414,940</u>	<u>\$ 1,050,957</u>	<u>\$ 356</u>	<u>\$ 23,344</u>	<u>\$ 1,630,601</u>
<u>2016</u>						
January 1	\$ 141,004	\$ 414,940	\$ 1,050,957	\$ 356	\$ 23,344	\$ 1,630,601
Additions	-	-	-	-	270	270
Depreciation charge	-	(9,279)	(40,122)	(72)	(2,293)	(51,766)
March 31	<u>\$ 141,004</u>	<u>\$ 405,661</u>	<u>\$ 1,010,835</u>	<u>\$ 284</u>	<u>\$ 21,321</u>	<u>\$ 1,579,105</u>
<u>At March 31, 2016</u>						
Cost	\$ 141,004	\$ 869,814	\$ 2,416,622	\$ 20,464	\$ 147,644	\$ 3,595,548
Accumulated depreciation and impairment	-	(464,153)	(1,405,787)	(20,180)	(126,323)	(2,016,443)
	<u>\$ 141,004</u>	<u>\$ 405,661</u>	<u>\$ 1,010,835</u>	<u>\$ 284</u>	<u>\$ 21,321</u>	<u>\$ 1,579,105</u>

The significant components of buildings include main plants, which is depreciated over 50 and 60 years, respectively.

(6) Other payable

	March 31, 2017	December 31, 2016	March 31, 2016
Wages, salaries and bonus payable	\$ 160,759	\$ 166,821	\$ 185,278
Payable on machinery and equipment	18,321	37,912	546
Other	14,464	10,346	13,936
	<u>\$ 193,544</u>	<u>\$ 215,079</u>	<u>\$ 199,760</u>

(7) Pension

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method, to the labors expected to be qualified for retirement next year, the Company will make contribution for the deficit by next March. On March 12, 2015, the Company received an official letter from Taoyuan City Government informing that the

retirement fund is sufficient for future retirement withdraw. Therefore, Taoyuan City Government agreed the Company to pause monthly contribution for one year period, starting from April 1, 2015 to March 31, 2016.

- (b) For the aforementioned pension plan, the Company recognised pension costs of \$3,986 and \$0 for the three months ended March 31, 2017 and 2016, respectively.
- (c) Expected contributions to the defined pension plans of the Company in the year ended December 31, 2018 are \$759.
- B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) The pension costs under defined contribution pension plans of the Company for the years ended March 31, 2017 and 2016, were \$1,607 and \$1,604, respectively.

(8) Share capital

- A. As of March 31, 2017, the Company’s authorized capital was \$2,600,000, consisting of 260,000 thousand shares of ordinary stock (including 15,000 thousand shares reserved for employee stock options), and the paid-in capital was \$1,849,059 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

There was no change in the number of the Company’s ordinary shares outstanding in the 1th quarter of 2017 and 2016.

- B. On June 21, 2016, the Company’s Board of Directors resolved for a capital reduction in which reduced shares were reimbursed in cash. The capital reduction rate was 25%, cancelling 61,635 thousand shares. Paid-in capital after the capital reduction was \$1,849,059. The registration of the capital reduction was completed on August 24, 2016.

C. Treasury shares

- (a) Reason for share reacquisition and movements in the number of the Company’s treasury shares are as follows (There were no treasury shares as of March 31, 2016):

company holding the shares	Reason for reacquisition	<u>March 31, 2017</u>	
		Number of shares (In thousands)	Carrying amount
The company	To be reissued to employees	2,250	\$ 143,396

- (b) Pursuant to the R.O.C. Securities and Exchange Law, the number of shares bought back as treasury share should not exceed 10% of the number of the Company’s issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital reserve.

(c) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.

(d) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired.

(9) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(10) Retained earnings

A. According to the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve unless existing legal reserve exceeds or is equal to issued share capital. Special reserve is set aside or reversed in accordance with related laws or regulations.

B. The Company's dividend policy is summarized below: as the Company operates in a growth stage and future expansion plans are expected in the future years, the earnings dividend policy considers fostering of competitiveness, capital needs in future years and expansion of share capital. For stable growth of earnings per share, dividends are adjusted based on performance, and cash dividends shall account for at least 10% of the total dividends distributed. The Board of Directors shall propose for dividend distribution based on capital structure and budget, and the proposals shall be resolved in shareholders' meetings.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

E. The appropriations of 2016 and 2015 earnings had been resolved at the stockholders' meeting on March 10, 2017 and June 21, 2016, respectively as follows:

	2016		2015	
	Amount	per share(dollar)	Amount	per share(dollar)
Legal reserve	\$ 46,711		\$ 59,266	
Cash dividend	462,265	\$ 2.53	530,063	\$ 2.15

The appropriation of 2016 earnings as approved by the stockholders is the same as with the appropriation resolved by the board of directors during its meeting on April 28, 2017. Information about earnings appropriation of the Company as resolved by board of directors will be posted in the “Market Observation Post System” at the website of the Taiwan Stock Exchange.

F. For the information relating to employees’ compensation (bonuses) and directors’ and supervisors’ remuneration please refer to Note 6(13).

(11) Other gains and losses

	For the three months ended March 31,	
	2017	2016
Net currency exchange gains	(\$ 26,660)	(\$ 12,238)
Other losses	(26)	(28)
Total	(\$ 26,686)	(\$ 12,266)

(12) Expenses by nature

	For the three months ended March 31,		For the three months ended March 31,	
	2017		2016	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Change in inventory of finished goods and work in	(\$ 15,210)	\$ -	(\$ 28,574)	\$ -
Raw materials and supplies used	230,493	-	306,962	-
Employee benefit expense	41,143	21,452	47,662	30,231
Depreciation charges on property, plant and	39,248	12,447	42,872	8,894
Amortisation charges on intangible assets	-	161	-	151
Other expenses	27,006	20,895	34,072	16,206
Operating costs and expenses	\$ 322,680	\$ 54,955	\$ 402,994	\$ 55,482

(13) Employee benefit expense

	For the three months ended March 31,		For the three months ended March 31,	
	2017		2016	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Wages and salaries	\$ 32,400	\$ 18,155	\$ 41,435	\$ 28,308
Labor and health insurance	2,510	907	2,425	872
Pension costs	3,791	1,802	1,186	418
Other personnel expenses	<u>2,442</u>	<u>588</u>	<u>2,616</u>	<u>633</u>
	<u>41,143</u>	<u>21,452</u>	<u>47,662</u>	<u>30,231</u>

A. In accordance with the Company's Articles of Incorporation, when distributing earnings, employees' compensation shall be at least 5 ~ 15% of the distributed earnings. Directors and Supervisors' remuneration shall not exceed 3% of the distributed earnings.

B. For the three months ended March 31, 2017 and 2016, employees' compensation (bonus) was accrued at \$9,739 and \$19,780, respectively; directors' and supervisors' remuneration was accrued at \$3,652 and \$7,410, respectively. The aforementioned amounts were recognised in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 8% and 3% of profit of current year distributable for the three months ended March 31, 2017 and 2016, respectively, which were in agreement with those amounts resolved by the meeting of Board of Directors.

Employees' compensation and directors' and supervisors' remuneration of 2016 as resolved by the meeting of Board of Directors were in agreement with those amounts recognised in the 2016 financial statements.

Information about employees' compensation (bonus) and directors' and supervisors' remuneration of the Company as resolved by the meeting of Board of Directors and the shareholders' meeting will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(14) Income tax

A. Income tax expense

(a) Components of income tax expense:

	For the three months ended March 31,	
Items	2017	2016
Current tax:		
Current tax on profits for the period	\$ 18,300	\$ 39,348
Total current tax	<u>18,300</u>	<u>39,348</u>
Deferred tax :		
Origination and reversal of temporary differences	(3,131)	(6,296)
Income tax expense	<u>\$ 15,169</u>	<u>\$ 33,052</u>

(b) The income tax (charge) / credit relating to components of other comprehensive income:
None.

B. The company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

C. Unappropriated retained earnings:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Earnings generated in and after 1998	\$ <u>705,001</u>	\$ <u>631,012</u>	\$ <u>916,469</u>

D. As of March 31, 2017, December 31, 2016 and March 31, 2016, the balance of the imputation tax credit account was \$125,575, \$125,575 and \$62,677. The creditable tax rate was 16.47% for 2015 and is estimated to be 19.90% for 2016.

(15) Earnings per share

	<u>For the three months ended March 31, 2017</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per Share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ <u>73,989</u>	<u>182,656</u>	\$ <u>0.41</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 73,989	182,656	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	<u>-</u>	<u>834</u>	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ <u>73,989</u>	<u>183,490</u>	\$ <u>0.40</u>

For the three months ended March 31, 2016			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per Share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 160,359	246,541	\$ 0.65
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 160,359	246,541	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	756	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 160,359	247,297	\$ 0.65

(16) Operating leases

The Company's transportation equipment is obtained through operating leases. The lease terms were between 1 to 3 years. Rent expenses recognized through current profit or loss for the March 31, 2017, December 31, 2016 and March 31, 2016, was \$615, \$2,461 and \$615, respectively.

(17) Supplemental cash flow information

Investing activities with partial cash payments

	For the three months ended March 31,	
	2017	2016
Purchase of property, plant and equipment	\$ 10,797	\$ 270
Add: opening balance of payable on equipment	37,912	5,431
Less: ending balance of payable on equipment	(18,321)	(546)
Cash paid during the period	\$ 30,388	\$ 5,155

(18) Seasonality of operations

The Company is epi-wafer provider which is the upstream of compound semiconductor industry. Our products are applied in power amplifier and microwave switches etc. that are crucial components in mobile devices. As we are one of the upstream supply chain vendors of wireless communication industry, our product demand is affected by the following factors:

- Mobile brand makers: the timing of launching new mobile phones and their sales performance.
- Direct customers (IDM & Foundry): Design-in cycle time, Delivery lead time, capacity planning, inventory policy, stock level of different seasons, and speed of inventory digestion.
- Due to many components and modules in mobile BOM table and their interdependence, shortage of the above may result in our products demand delay as well as revenue volatility.

7. RELATED-PARTY TRANSACTIONS

(1) Significant related party transactions

None.

(2) Key management compensation

	For the three months ended March 31,	
	2017	2016
Salaries and other short-term employee benefits	\$ 18,078	\$ 22,774
Post-employment benefits	129	128
Total	\$ 18,207	\$ 22,902

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

For related information, please refer to Note 12(4).

(2) Commitments

A. Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Property, plant and equipment	\$ 8,607	\$ 42,021	\$ 21,107

B. Guarantee for customs duties

The Company's guarantee for customs duties is as follows:

<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
\$ 10,000	\$ 10,000	\$ 10,000

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amount of financial instruments which are not measured at fair value (including cash and cash equivalents, notes and accounts receivable, other receivables, accounts payable, other payables, refundable deposits and guarantee deposits received) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

B. Financial risk management policies

- (a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial position and financial performance.
- (b) Risk management is carried out by the Company's treasury department under policies approved by the Board of Directors. The treasury department identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Company's businesses involve some non-functional currency operations (the Company's functional currency is NTD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	March 31, 2017		
	currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 23,802	30.33	\$ 721,915
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 6,590	30.33	\$ 199,875

December 31, 2016			
	currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 15,955	32.25	\$ 514,549
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 5,196	32.25	\$ 167,571

March 31, 2016			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 29,261	32.19	\$ 941,765
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 7,858	32.19	\$ 252,910

ii. The unrealised exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2016 and 2015 are as follows:

For the three months ended March 31			
	2017	2016	
Financial assets	(\$ 20,781)	(\$ 22,368)	
Financial liabilities	7,273	6,860	

iii. Analysis of foreign currency market risk arising from significant foreign exchange variation

	March 31, 2017			
	Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income	
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$ 7,219	\$	-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$ 1,999	\$	-
	December 31, 2016			
	Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income	
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$ 5,145	\$	-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$ 1,676	\$	-
	March 31, 2016			
	Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income	
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$ 9,418	\$	-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$ 2,529	\$	-
<u>Price risk</u>				
Not applicable.				
<u>Interest rate risk</u>				
Not applicable.				

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, the Company is responsible for managing and analysing the credit risk for each of new clients before payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors.

Individual risk limits are set based on internal or external ratings in accordance with limits set by management. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to outstanding receivables.

- ii. For the years ended March 31, 2017 and 2016, no credit limits were exceeded, and management does not expect any significant losses from nonperformance by these counterparties.

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating units of the Company and aggregated by the Company's treasury department. The Company's treasury department monitors rolling forecast of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. The treasury department invests surplus cash in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.
- iii. The table below analyses the Company's non-derivate financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

<u>Non-derivative financial liabilities:</u>	<u>Less than 1 year</u>	<u>Over 1 year</u>
March 31, 2017		
Accounts payable	\$ 244,242	\$ -
Other payables	193,544	-
December 31, 2016		
Accounts payable	\$ 203,959	\$ -
Other payables	215,079	-
March 31, 2016		
Accounts payable	\$ 300,813	\$ -
Other payables	199,760	-

- iv. The Company does not expect the timing of the cash flows estimated in the maturity date analysis will be significantly brought forward, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

- A. Details of the fair value of the Company's financial assets and financial liabilities not measured at fair value are provided in Note 12(2) A.
- B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:
- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.
- C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at March 31,2017, December 31, 2016 and March 31,2016, is as follows:

March 31, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Recurring fair value measurements				
Available-for-sale financial assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 334</u>	<u>\$ 334</u>
December 31, 2016	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Recurring fair value measurements				
Available-for-sale financial assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,755</u>	<u>\$ 5,755</u>
March 31, 2016	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Recurring fair value measurements				
Available-for-sale financial assets	<u>\$ 21,856</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,856</u>

D. The method and assumptions the Company used to measure fair value are as follows:

The Company used market quoted prices of emerging stocks as their fair values (that is, Level 1).

E. For the years ended March 31, 2017 and 2016, there was no transfer between Level 1 and Level 2.

F. The following chart is the movement of Level 3 for the years ended March 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	<u>Non-derivative equity instrument</u>	<u>Non-derivative equity instrument</u>
At January, 1	\$ 5,755	\$ -
comprehensive income(NOTE)	(5,421)	-
Transfers into level 3	-	-
At March, 31	<u>\$ 334</u>	<u>\$ -</u>

Note: Recorded as unrealised valuation gain or loss of available-for-sale financial assets

G. Because the transaction volume of Hokuang Optics Co.,Ltd. Was delisted from the Taiwan Emerging Stock market on May,19,2016,and there is not enough observable market information, the Group has transferred the fair value form Level 1 into Level 3 at the end of month when the event occurred.

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	<u>Fair value at March 31,2017</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Nonderivative equity instrument:					
Unlisted shares	\$ 334	Net asset value	Not applicable	Not applicable	Not applicable
	<u>Fair value at December 31,2016</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Nonderivative equity instrument:					
Unlisted shares	\$ 5,755	Net asset value	Not applicable	Not applicable	Not applicable

(4) Other/Contingences

The Company was introduced by Tosho Asset Management Consultant Ltd. (abbreviated as TONGSHENG), which is registered in Taiwan, to purchase Tosho Foreign Currency Exchange Fund, amounting US \$ 1,300 thousand from Tosho Asset Management Consultant Ltd. (abbreviated as TOSHO), which is registered in British Virgin Islands. TOSHO was not able to perform the contract and return the principal to the Company. Thus, the Company filed a complaint against TONGSHENG in Taiwan Taipei District Court in July 2011.

The Company obtained certain assets and commercial paper of US \$ 1,300 thousand from TONGSHENG's responsible person as collateral. The Company has priority claims over collaterals and when the collateral value is insufficient, the joint-debtor is responsible for the insufficient amount. TONGSHENG has repaid \$1,520 in 2011 and the Company has recognised the loss of \$38,262 (shown as 'miscellaneous expense') in the same year. As of March 31, 2017, TONGSHENG has repaid \$10,750 and the Company recognised this repayment as 'other revenue'.

On June 14, 2016, the Taiwan High Court ruled that the responsible persons of TONGSHENG and TOSHO shall be sentenced to imprisonment for 34 months and 6 months, respectively. The prosecutor and the responsible persons of TONGSHENG and TOSHO claimed an appeal, and thus the case is still under judgement of the Supreme Court.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: None.

C. Holding of securities at the end of the period, excluding subsidiaries, associates and joint ventures:
Please refer to table 1.

D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.

E. Acquisition of real estate reaching \$300 million or 20% of the Company's paid-in capital or more:
None.

F. Disposal of real estate reaching \$300 million or 20% of the Company's paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of the Company's paid-in capital or more: None.

H. Receivables from related parties reaching \$100 million or 20% of the Company's paid-in capital or more: None.

I. Trading in derivative instruments undertaken during the reporting periods: None.

J. Significant inter-company transactions during the reporting periods: None.

(2) Information on investees

None.

(3) Information on investments in Mainland China

None.

14. SEGMENT INFORMATION

(1) General information

The Company operates business only in a single industry. The Company allocates resources and assesses performance of the Company as a whole, has identified that the Company has only one reportable operating segment.

(2) Segment information

The Company's segment information, including segment income or loss, assets and liabilities, is consistent with that in the financial statements.

(3) Reconciliation for segment income (loss)

The Company operates business only in a single industry. The Company allocates resources and assesses performance of the Company as a whole, has identified that the Company has only one reportable operating segment. Therefore, reconciliation is not applicable.

Visual Photonics Epitaxy Co., Ltd.
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)
March 31, 2017

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

				As of March 31, 2017				Footnote
Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	
Visual Photonics Epitaxy Co., Ltd.	Stocks - Branchy Technology Co., Ltd.	None.	Available-for-sale financial assets - non-current	342,529	\$ -	0	\$ -	
Visual Photonics Epitaxy Co., Ltd.	Stocks - Hokuang Optics Co., Ltd.	Entity that is controlled by Company's key management	Available-for-sale financial assets - non-current	1,767,124	334	3	334	

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities within the scope of IAS 39 'Financial instruments: recognition and measurement'.