VISUAL PHOTONICS EPITAXY CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF

INDEPENDENT ACCOUNTANTS

DECEMBER 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.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of VISUAL PHOTONICS EPITAXY CO., LTD.

Opinion

We have audited the accompanying balance sheets of Visual Photonics Epitaxy Co., Ltd. as at December 31, 2017 and 2016, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Visual Photonics Epitaxy Co., Ltd. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Visual Photonics Epitaxy Co., Ltd. in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters for Visual Photonics Epitaxy Co., Ltd.'s financial statements of the current period are stated as follows:

Appropriateness of cut-off of warehouse operating revenue

Description

For accounting policy of revenue recognition, please refer to Note 4(20).

The types of sale is separated into direct delivery from factory and warehouse operating revenue. The warehouse operating revenue involves shipping the goods to the warehouse in the USA or others first, then customer pick-up the goods. At this point, risk and reward have been transferred, and revenue is recognized. Visual Photonics Epitaxy Co., Ltd's revenue is recognized in accordance with statements provided by sales customers or online shipping system information.

Due to the multi-location of the warehouses and the different frequency of each custodian providing their statements, the revenue recognition procedure is complex and involves reconciliation of mutual payments. Visual Photonics Epitaxy Co., Ltd's daily transaction quantity is voluminous and the transaction amount around the balance sheet date is significant to the financial statements, therefore, we determined that the appropriateness of cut-off of warehouse operating revenue as one of the key audit matters for this fiscal year.

How our audit addressed the matter

Our key audit procedures performed in respect to the above matter included:

1. Obtained an understanding and tested the timing of sales revenue recognition procedures between Visual Photonics Epitaxy Co., Ltd and the customers to verify the effectiveness of the internal control for warehouse operating revenue recognition.
2. Performed cut-off test on the transactions of warehouse operating revenue around the period of balance sheet date, including verifying the supporting documents of warehouse custodian, the movement of accounted inventory, and related records of cost of goods sold generated to evaluate the timing appropriateness of warehouse operating revenue recognition.
3. Conducted physical inventory count observation and verified whether the physical count is reconciled with the quantity on record, tested the adjustment items prepared by management, and confirmed that the significant variances have been recorded and adjusted appropriately.

Valuation of inventory

Description

For description of accounting policy on inventory valuation, please refer to Note 4(10). For accounting estimates and assumption uncertainty in relation to inventory valuation, please refer to Note 5(2). For description of allowance for inventory valuation losses, please refer to Note 6(4).

As of December 31, 2017, Visual Photonics Epitaxy Co., Ltd's inventories and allowance for inventory valuation losses amounted to NT $368,627 thousand and NT $47,479 thousand, respectively.

Visual Photonics Epitaxy Co., Ltd's inventories are mainly optoelectronics semiconductor Epi wafer products. Since the industry involves rapidly changing technology and are affected by the communications industry, there is higher risk of incurring inventory valuation losses or having obsolete inventory. Visual Photonics Epitaxy Co., Ltd's inventories are measured at the lower of cost and net realisable value, and assesses inventories that are over a certain age and individually identifies obsolete or slow-moving inventories.

Visual Photonics Epitaxy Co., Ltd's determination of net realisable value for obsolete or slow-moving inventories involves subjective judgement resulting in a high degree of estimation uncertainty. Considering the inventories and the allowance for inventory valuation losses are material to its financial statements, we determined that the estimates of the allowance for inventory valuation losses as one of the key audit matters for this fiscal year.

How our audit addressed the matter

Our key audit procedures performed in respect to the above matter included:

1. Assessed the reasonableness and the consistency of provision policies on allowance for inventory valuation losses and procedures based on our understanding of Visual Photonics Epitaxy Co., Ltd's operation and industry, including the classification of inventory for determining net realizable value and the reasonableness of determining the inventory obsolescence.
2. Obtained an understanding of the Visual Photonics Epitaxy Co., Ltd's warehousing control procedures. Reviewed annual physical inventory count plan and participated in the annual inventory count event in order to assess the classification of obsolete inventory and effectiveness of obsolete inventory internal control.
3. Selected samples to check the inventory clearance and historical data of inventory discount in order to evaluate the reasonableness of allowance of inventory valuation losses.

4. Tested the appropriateness of the estimated basis that Visual Photonics Epitaxy Co., Ltd adopted to evaluate net realizable value, selected a sample of individual inventory data like inventory selling and accuracy of purchase price, and recalculate and evaluate the reasonableness of allowance for inventory valuation losses which were determined by management.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Chou, Hsiao-Tzu　　　　　　　　Lee, Hsiu-Ling

For and on behalf of PricewaterhouseCoopers, Taiwan

March 15, 2018

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Assets	Notes	December 31, 2017 AMOUNT	%	December 31, 2016 AMOUNT	%
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 927,301	28	$ 981,833	30
1150	Notes receivable, net		229	-	166	-
1170	Accounts receivable, net	6(3)	479,606	14	242,157	8
1200	Other receivables		2,674	-	11,878	-
130X	Inventories, net	6(4)	321,148	10	372,708	12
1410	Prepayments		39,321	1	35,383	1
11XX	**Current Assets**		1,770,279	53	1,644,125	51
	Non-current assets					
1523	Available-for-sale financial assets - noncurrent	6(2)	-	-	5,755	-
1600	Property, plant and equipment, net	6(5)	1,420,379	43	1,517,969	47
1780	Intangible assets		1,803	-	1,707	-
1840	Deferred income tax assets	6(14)	7,216	-	6,520	-
1915	Prepayments for business facilities		134,870	4	65,294	2
1920	Guarantee deposits paid		67	-	67	-
15XX	**Non-current assets**		1,564,335	47	1,597,312	49
1XXX	**Total assets**		$ 3,334,614	100	$ 3,241,437	100

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VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Liabilities and Equity	Notes	December 31, 2017 AMOUNT	%	December 31, 2016 AMOUNT	%
	Current liabilities					
2170	Accounts payable		$ 237,096	7	$ 203,959	7
2200	Other payables	6(6)	208,099	6	215,079	7
2230	Current income tax liabilities	6(14)	38,132	1	37,821	1
2300	Other current liabilities		9,993	1	7,447	-
21XX	**Current Liabilities**		493,320	15	464,306	15
	Non-current liabilities					
2570	Deferred income tax liabilities	6(14)	-	-	1,693	-
2640	Net defined benefit asset, non-current	6(7)	139	-	7,198	-
25XX	**Non-current liabilities**		139	-	8,891	-
2XXX	**Total Liabilities**		493,459	15	473,197	15
	Share capital	6(8)				
3110	Share capital - common stock		1,849,059	56	1,849,059	57
	Capital surplus	6(9)				
3200	Capital surplus		107,182	3	106,704	3
	Retained earnings	6(10)				
3310	Legal reserve		371,572	11	324,861	10
3350	Unappropriated retained earnings	6(14)	513,342	15	631,012	19
	Other equity interest					
3500	Treasury stocks	6(8)	-	-	(143,396)	(4)
3XXX	**Total equity**		2,841,155	85	2,768,240	85
	Significant commitments and contingent liabilities	9				
	Significant events after the balance sheet date	11				
3X2X	**Total liabilities and equity**		$ 3,334,614	100	$ 3,241,437	100

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNTS)

	Items	Notes	2017 AMOUNT	2017 %	2016 AMOUNT	2016 %
4000	**Sales revenue**		$ 2,137,109	100	$ 2,182,825	100
5000	**Operating costs**	6(4)(12)(13)	(1,393,642)	(65)	(1,373,766)	(63)
5900	**Gross profit from operations**		743,467	35	809,059	37
	Operating expenses	6(12)(13)(16)				
6100	Selling expenses		(9,665)	(1)	(10,150)	(1)
6200	Administrative expenses		(92,287)	(4)	(96,336)	(4)
6300	Research and development expenses		(126,422)	(6)	(114,501)	(5)
6000	**Total operating expenses**		(228,374)	(11)	(220,987)	(10)
6900	**Net operating income**		515,093	24	588,072	27
	Non-operating income and expenses					
7010	Other income		3,203	-	3,521	-
7020	Other gains and losses	6(11)	(38,578)	(2)	(32,952)	(2)
7000	**Total non-operating income and expenses**		(35,375)	(2)	(29,431)	(2)
7900	**Profit before income tax**		479,718	22	558,641	25
7950	Income tax expense	6(14)	(85,366)	(4)	(91,534)	(4)
8200	**Profit**		$ 394,352	18	$ 467,107	21
	Other comprehensive income					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Losses on remeasurements of defined benefit plans	6(7)	($ 3,670)	-	($ 3,465)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(14)	624	-	589	-
8310	**Components of other comprehensive income that will not be reclassified to profit or loss**		(3,046)	-	(2,876)	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8300	**Total other comprehensive loss**		($ 3,046)	-	($ 2,876)	-
8500	**Total comprehensive income**		$ 391,306	18	$ 464,231	21
9750	**Basic earnings per share**	6(15)	$ 2.15		$ 2.12	
9850	**Diluted earnings per share**	6(15)	$ 2.15		$ 2.11	

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

			Capital Surplus		Retained Earnings			
	Notes	Share capital - common stock	Additional paid-in capital	Treasury stock transactions	Legal reserve	Unappropriated retained earnings	Treasury stocks	Total equity
Year 2016								
Balance at January 1, 2016		$ 2,465,412	$ 102,682	$ 4,022	$ 265,595	$ 756,110	$ -	$ 3,593,821
Earnings appropriation								
Legal reserve	6(10)	-	-	-	59,266	(59,266)	-	-
Cash dividends	6(10)	-	-	-	-	(530,063)	-	(530,063)
Net income for 2016		-	-	-	-	467,107	-	467,107
Other comprehensive loss for 2016	6(2)	-	-	-	-	(2,876)	-	(2,876)
Capital reduction	6(8)	(616,353)	-	-	-	-	-	(616,353)
Purchase of treasury shares	6(8)	-	-	-	-	-	(143,396)	(143,396)
Balance at December 31, 2016		$ 1,849,059	$ 102,682	$ 4,022	$ 324,861	$ 631,012	($ 143,396)	$ 2,768,240
Year 2017								
Balance at January 1, 2017		$ 1,849,059	$ 102,682	$ 4,022	$ 324,861	$ 631,012	($ 143,396)	$ 2,768,240
Earnings appropriation								
Legal reserve	6(10)	-	-	-	46,711	(46,711)	-	-
Cash dividends	6(10)	-	-	-	-	(462,265)	-	(462,265)
Net income for 2017		-	-	-	-	394,352	-	394,352
Other comprehensive loss for 2017	6(2)	-	-	-	-	(3,046)	-	(3,046)
Treasury shares reissued to employees	6(8)	-	-	478	-	-	143,396	143,874
Balance at December 31, 2017		$ 1,849,059	$ 102,682	$ 4,500	$ 371,572	$ 513,342	$ -	$ 2,841,155

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

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

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 479,718	$ 558,641
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(5)(12)	209,006	207,043
Amortization expense	6(12)	679	610
Interest income		(2,722)	(3,180)
Gain on disposal of property, plant and equipment	6(11)	-	(609)
Impairment loss on financial assets	6(2)(11)	5,755	24,101
Unrealized foreign exchange loss		7,582	(2,223)
Share-based compensation cost	6(10)	478	-
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(63)	(8)
Accounts receivable		(237,449)	248,399
Other receivables		9,204	(10,519)
Inventories		51,560	(6,579)
Prepayments		(3,938)	(4,496)
Changes in operating liabilities			
Accounts payable		33,137	(44,140)
Other payables		(4,136)	(6,203)
Other current liabilities		2,546	81
Other non-current liabilities		(10,729)	(442)
Cash inflow generated from operations		540,628	960,476
Interest received		2,722	3,180
Income taxes paid		(86,820)	(111,748)
Net cash flows from operating activities		456,530	851,908
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	6(17)	(25,332)	(51,050)
Proceeds from disposal of property, plant and equipment		-	1,462
Acquisition of intangible assets		(775)	(423)
Increase in prepayments for business facilities		(158,504)	(61,390)
Decrease in refundable deposits		-	40
Net cash flows used in investing activities		(184,611)	(111,361)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid	6(10)	(462,265)	(530,063)
Payments to acquire treasury shares	6(8)	-	(143,396)
Capital reduction payments to shareholders	6(8)	-	(616,353)
Treasury shares reissued to employees		143,396	-
Net cash flows used in financing activities		(318,869)	(1,289,812)
Effect of exchange rate changes on cash and cash equivalents		(7,582)	2,223
Net decrease in cash and cash equivalents		(54,532)	(547,042)
Cash and cash equivalents at beginning of year	6(1)	981,833	1,528,875
Cash and cash equivalents at end of year	6(1)	$ 927,301	$ 981,833

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

VISUAL PHOTONICS EPITAXY CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

1. HISTORY AND ORGANISATION

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 AUTHORISATION FOR ISSUANCE OF THE FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These financial statements were authorised for issuance by the Board of Directors on March 15, 2018.

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:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 10, IFRS 12 and IAS 28, ‘Investment entities: applying the consolidation exception’	January 1, 2016
Amendments to IFRS 11, ‘Accounting for acquisition of interests in joint operations’	January 1, 2016
IFRS 14,‘Regulatory deferral accounts’	January 1, 2016
Amendments to IAS 1, ‘Disclosure initiative’	January 1, 2016
Amendments to IAS 16 and IAS 38, ‘Clarification of acceptable methods of depreciation and amortisation’	January 1, 2016
Amendments to IAS 16 and IAS 41, ‘Agriculture: bearer plants’	January 1, 2016
Amendments to IAS 19, ‘Defined benefit plans: employee contributions’	July 1, 2014
Amendments to IAS 27, ‘Equity method in separate financial statements’	January 1, 2016
Amendments to IAS 36, ‘Recoverable amount disclosures for non-financial assets’	January 1, 2014
Amendments to IAS 39, ‘Novation of derivatives and continuation of hedge accounting’	January 1, 2014
IFRIC 21, ‘Levies’	January 1, 2014
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	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

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised 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
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 following, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

IFRS 9, 'Financial instruments'

(a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

(b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

(c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

When adopting the new standards endorsed by the FSC effective from 2018, the Company will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The significant effects of applying the standard as of January 1, 2018 are summarised below:

In accordance with IFRS 9, the Company expects to reclassify available-for-sale financial assets and financial assets at cost in the amount of $68,773, and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income, increasing retained earnings and decreasing other equity interest in the amounts of $68,773, $68,773 and $68,773, respectively.

(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 as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, ‘Prepayment features with negative compensation’	January 1, 2019
Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’	To be determined by International Accounting Standards Board
IFRS 16, ‘Leases’	January 1, 2019
IFRS 17, ‘Insurance contracts’	January 1, 2021
Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
IFRIC 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, 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 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.

B. IFRIC 23, ‘Uncertainty over income tax treatments’

This Interpretation clarifies when there is uncertainty over income tax treatments, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 , ‘Income taxes’ based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

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", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(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 judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement 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 each 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) Accounts receivable

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) <u>Derecognition of financial assets</u>

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

(10) <u>Inventories</u>

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 labor, 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) <u>Property, plant and equipment</u>

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) <u>Intangible assets</u>

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 expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense 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 net defined benefit 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. Remeasurements 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.

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 and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal 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 Company 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.

(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.

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 December 31, 2017, the carrying amount of inventories was $321,148.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand and revolving funds	$ 291	$ 396
Checking accounts and demand deposits	610,730	734,437
Time deposits	316,280	247,000
Total	$ 927,301	$ 981,833

A. The Company transacts 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

Items	December 31, 2017	December 31, 2016
Non-current items:		
Unlisted corporate stock		
Branchy Technology Co., Ltd.	$ 9,573	$ 9,573
Hokuang Optics Co.,Ltd.	59,200	-
Listed corporate stock		
Hokuang Optics Co.,Ltd.	-	59,200
Subtotal	68,773	68,773
Accumulated impairment	(68,773)	(63,018)
Total	$ -	$ 5,755

A. The Company assessed that the fair value of its equity investments in Branchy Technology Co., Ltd. had been in decline for an extended period of time, and Branchy Technology Co., Ltd. had applied for discontinuing its business from November 17, 2015 to November 16, 2016. Thus, the Company recognised the investment as fully impaired.

B. The Company assessed that the fair value of its equity investments in Hokuang Optics Co., Ltd., which had an accumulated deficit, was significantly lower than the original investment cost. On May 19, 2016, Hokuang Optics Co., Ltd. was delisted from the Taiwan Emerging Stock market, and thus the Company recognised an impairment loss of $59,200 as of December 31, 2017 after its assessment.

C. The Company recognised impairment loss of $5,755 and $24,101 for the years ended December 31, 2017 and 2016, respectively.

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

(3) Accounts receivable, net

	December 31, 2017	December 31, 2016
Accounts receivable	$ 480,186	$ 242,737
Less: Allowance for bad debts	(580)	(580)
	$ 479,606	$ 242,157

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:

	December 31, 2017	December 31, 2016
Up to 30 days	$ 54,136	$ 20,355
31 to 90 days	5,978	766
91 to 180 days	92	-
	$ 60,206	$ 21,121

The above ageing analysis was based on past due date.

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

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

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

(4) Inventories

	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 127,242	($ 4,728)	$ 122,514
Work in progress	32,360	(430)	31,930
Finished goods	209,025	(42,321)	166,704
Total	$ 368,627	($ 47,479)	$ 321,148

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

	For the years ended December 31,	
	2017	2016
Cost of goods sold	$ 1,387,603	$ 1,377,345
Loss on decline in market value(Gain on reversal of decline)	6,039	(3,579)
	$ 1,393,642	$ 1,373,766

The Company's gain on recovery of inventory valuation loss for 2016 is primarily due to the sales of products that had already provisioned valuation losses, therein resulting in a recovery of their net realizable value.

(5) Property, plant and equipment

	Land	Buildings	Machinery	Office equipment	Others	Total
At January 1, 2017						
Cost	$ 141,004	$ 888,179	$ 2,481,649	$ 20,722	$ 152,464	$ 3,684,018
Accumulated depreciation	-	(492,264)	(1,525,941)	(20,312)	(127,532)	(2,166,049)
	$ 141,004	$ 395,915	$ 955,708	$ 410	$ 24,932	$ 1,517,969
2017						
January 1	$ 141,004	$ 395,915	$ 955,708	$ 410	$ 24,932	$ 1,517,969
Additions	-	10,647	8,540	-	3,301	22,488
Reclassification	-	-	88,928	-	-	88,928
Depreciation	-	(37,674)	(163,968)	(146)	(7,218)	(209,006)
December 31	$ 141,004	$ 368,888	$ 889,208	$ 264	$ 21,015	$ 1,420,379
At December 31, 2017						
Cost	$ 141,004	$ 898,826	$ 2,579,117	$ 20,722	$ 155,278	$ 3,794,947
Accumulated depreciation	-	(529,938)	(1,689,909)	(20,458)	(134,263)	(2,374,568)
	$ 141,004	$ 368,888	$ 889,208	$ 264	$ 21,015	$ 1,420,379

	Land	Buildings	Machinery	Office equipment	Others	Total
At January 1, 2016						
Cost	$ 141,004	$ 869,814	$ 2,416,622	$ 20,464	$ 147,374	$ 3,595,278
Accumulated depreciation	-	(454,874)	(1,365,665)	(20,108)	(124,030)	(1,964,677)
	$ 141,004	$ 414,940	$ 1,050,957	$ 356	$ 23,344	$ 1,630,601
2016						
January 1	$ 141,004	$ 414,940	$ 1,050,957	$ 356	$ 23,344	$ 1,630,601
Additions	-	18,365	54,701	258	10,207	83,531
Disposals	-	-	-	-	(853)	(853)
Reclassification	-	-	11,733	-	-	11,733
Depreciation	-	(37,390)	(161,683)	(204)	(7,766)	(207,043)
December 31	$ 141,004	$ 395,915	$ 955,708	$ 410	$ 24,932	$ 1,517,969
At December 31, 2016						
Cost	$ 141,004	$ 888,179	$ 2,481,649	$ 20,722	$ 152,464	$ 3,684,018
Accumulated depreciation	-	(492,264)	(1,525,941)	(20,312)	(127,532)	(2,166,049)
	$ 141,004	$ 395,915	$ 955,708	$ 410	$ 24,932	$ 1,517,969

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

(6) Other payables

	December 31, 2017	December 31, 2016
Wages, salaries and bonus payable	$ 162,133	$ 166,821
Payables on machinery and equipment	35,068	37,912
Other	10,898	10,346
	$ 208,099	$ 215,079

(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 insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover 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 withdrawal. Therefore, Taoyuan City Government agreed that the Company temporarily stop monthly contributions from April 1, 2015 to March 31, 2016, and then start contributing on April 1, 2016.

(b) The amounts recognised in the balance sheet are as follows:

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	($ 372)	($ 21,555)
Fair value of plan assets	233	14,357
Net defined benefit liability	($ 139)	($ 7,198)

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan asset	Net defined benefit liability
Year ended December 31, 2017			
Balance at January 1	($ 21,555)	$ 14,357	($ 7,198)
Interest (expense) income	(324)	361	37
Settlement profit or loss	(8,485)	-	(8,485)
	(30,364)	14,718	(15,646)
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	(238)	(238)
Change in demographic assumptions	(2,794)	-	(2,794)
Change in financial assumptions	459	-	459
Experience adjustments	(1,097)	-	(1,097)
	(3,432)	(238)	(3,670)
Pension fund contribution	-	678	678
Paid pension	33,424	(14,925)	18,499
Balance at December 31	($ 372)	$ 233	($ 139)

	Present value of defined benefit obligations	Fair value of plan asset	Net defined benefit liability
Year ended December 31, 2016			
Balance at January 1	($ 17,919)	$ 13,744	($ 4,175)
Interest (expense) income	(313)	240	(73)
	(18,232)	13,984	(4,248)
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	(142)	(142)
Change in demographic assumptions	(1,422)	-	(1,422)
Change in financial assumptions	(835)	-	(835)
Experience adjustments	(1,066)	-	(1,066)
	(3,323)	(142)	(3,465)
Pension fund contribution	-	515	515
Balance at December 31	($ 21,555)	$ 14,357	($ 7,198)

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorised by the Regulator. The Company and domestic subsidiaries have no right to participate in managing and operating that fund and hence the Company and domestic subsidiaries are unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	For the years ended December 31,	
	2017	2016
Discount rate	1.625%	1.50%
Future salary increases	2.75%	2.75%

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2017				
Effect on present value of defined benefit obligation	($ 22)	$ 23	$ 23	($ 21)
December 31, 2016				
Effect on present value of defined benefit obligation	($ 878)	$ 923	$ 899	($ 860)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(f) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2018 amounts to $43.

(g) As of December 31, 2017, the weighted average duration of the retirement plan is 26.3 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	-
1-2 year(s)	-
2-5 years	-
Over 5 years	33
	33

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 December 31, 2017 and 2016, were $6,676 and $6,542, respectively.

(8) Share capital

A. As of December 31, 2017, the Company’s authorised 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.

Movements in the number of the Company’s ordinary shares outstanding are as follows:

	2017	2016
At January 1	182,656	246,541
Cash-capital reduction	-	(61,635)
Share reacquisition	-	(2,250)
Reissued to employees	2,250	-
At December 31	184,906	182,656

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 December 31, 2017):

		December 31,2016	
Company holding the shares	Reason for reacquisition	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 Act, 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 realised capital reserve.

(c) Pursuant to the R.O.C. Securities and Exchange Act, 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 Act, 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 summarised 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. On June 8, 2017 and June 21, 2016, the distribution of 2016 and 2015 retained earnings as resolved by the stockholders in the meeting were as follows:

	2017		2016	
	Amount	Dividends per share (in dollar)	Amount	Dividends per share (in dollar)
Legal reserve	$ 46,711		$ 59,266	
Cash dividends	462,265	$ 2.53	530,063	$ 2.15

The abovementioned distribution of earnings for the year of 2016 and 2015 was in agreement with those amounts proposed by the Board of Directors on March 10, 2017 and March 11, 2016, respectively. Information about the distribution of retained earnings of the Company as proposed by the Board of Directors and resolved at the meeting of shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

F. On March 15, 2018, the Board of Directors proposed and approved the appropriation of 2017 retained earnings in cash with $2.5 per share, total dividend was $462,265. As of March 15, 2018, abovementioned appropriation of 2017 retained earnings has not been resolved by shareholders in the meeting.

G. 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 years ended December 31,	
	2017	2016
Net currency exchange losses	($ 32,599)	($ 9,253)
Impairment loss on financial assets	(5,755)	(24,101)
Gains on disposals of property, plant and equipment	-	609
Other losses	(224)	(207)
Total	($ 38,578)	($ 32,952)

(12) Expenses by nature

	For the year ended December 31, 2017		For the year ended December 31, 2016	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Change in inventory of finished goods and work in	$ 47,210	$ -	$ 13,151	$ -
Raw materials and supplies used	897,507	-	912,968	-
Employee benefit expense	167,712	97,970	160,949	94,279
Depreciation charges on property, plant and equipment	159,387	49,619	159,769	47,274
Amortisation charges on intangible assets	-	679	-	610
Other expenses	121,826	80,106	126,929	78,824
Operating costs and expenses	$ 1,393,642	$ 228,374	$ 1,373,766	$ 220,987

(13) Employee benefit expense

	For the year ended December 31, 2017		For the year ended December 31, 2016	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Wages and salaries	$ 134,628	$ 88,252	$ 136,288	$ 86,145
Labor and health insurance	10,699	4,221	9,897	3,996
Pension costs	12,163	2,961	4,883	1,732
Other personnel expenses	10,222	2,536	9,881	2,406
	167,712	97,970	160,949	94,279

A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall be at least 5 ~ 15% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration.

B. For the years ended December 31, 2017 and 2016, employees' compensation (bonus) was accrued at $43,121 and $50,215, respectively; directors' and supervisors' remuneration was accrued at $16,170 and $18,831, 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 year ended December 31, 2017, 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 at 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 years ended December 31,	
Items	2017	2016
Current tax:		
Current tax on profits for the period	$ 84,263	$ 87,633
Prior year income tax underestimation	2,868	1,104
Total current tax	87,131	88,737
Deferred tax :		
Origination and reversal of temporary differences	(1,765)	2,797
Income tax expense	$ 85,366	$ 91,534

(b) The income tax (charge) / credit relating to components of other comprehensive income:

	For the years ended December 31,	
	2017	2016
Remeasurement of defined benefit obligations	($ 624)	($ 589)

B. Reconciliation between income tax expense and accounting profit

	For the years ended December 31,	
	2017	2016
Tax calculated based on profit before tax and statutory tax rate	$ 81,552	$ 94,969
Changes from the estimation of the realizability of the deferred tax assets	946	(4,539)
10% levied on unappropriated retained earnings	-	-
Prior year income tax underestimation	2,868	1,104
Incom tax expense	$ 85,366	$ 91,534

C. Amounts of deferred tax assets or liabilities as a result of temporary difference and investment tax credit are as follows:

	For the year ended December 31, 2017			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets:				
Inventory at hub recognised as gross profit	$ 5,342	$ 106	$ -	$ 5,448
Book-Tax difference of pension	1,314	(1,915)	624	23
Others	(136)	1,881	-	1,745
Subtotal	$ 6,520	$ 72	$ 624	$ 7,216
-Deferred tax liabilities:				
Others	($ 1,693)	$ 1,693	$ -	$ -
Total	$ 4,827	$ 1,765	$ 624	$ 7,216

	For the year ended December 31, 2016			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets:				
Inventory at hub recognized as gross profit	$ 6,902	($ 1,560)	$ -	$ 5,342
Book-Tax difference of pension	725	-	589	1,314
Others	(592)	456	-	(136)
Subtotal	$ 7,035	($ 1,104)	$ 589	$ 6,520
-Deferred tax liabilities:				
Book-Tax difference of pension	$ -	($ 1,693)	$ -	($ 1,693)
Total	$ 7,035	($ 2,797)	$ 589	$ 4,827

D.The amounts of deductible temporary difference that are not recognised as deferred tax assets are as follows:

	December 31, 2017	December 31, 2016
Deductible temporary differences	$ 129,053	$ 91,146

E. The Company’s income tax returns through 2015 have been assessed and approved by the Tax Authority.

F. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China in February, 2018, the information on unappropriated retained earnings and the balance of the imputation credit account as of December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed.

Unappropriated retained earnings as of December 31, 2016:

	December 31, 2016
Earnings generated in and after 1998	$ 631,012

G. As of December 31, 2016, the balance of the imputation tax credit account was $125,575. The creditable tax rate was 18.87% for the year ended December 31, 2016.

(15) Earnings per share

	For the year ended December 31, 2017		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per Share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders	$ 394,352	183,036	$ 2.15
Diluted earnings per share			
Profit attributable to ordinary shareholders	$ 394,352	183,036	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	629	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 394,352	183,665	$ 2.15

	For the year ended December 31, 2016		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per Share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders	$ 467,107	219,947	$ 2.12
Diluted earnings per share			
Profit attributable to ordinary shareholders	$ 467,107	219,947	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	1,621	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 467,107	221,568	$ 2.11

(16) Operating leases

The Company's transportation equipment is obtained through operating leases. The lease terms were between 1 to 3 years. Rent expenses recognised through current profit or loss for 2017 and 2016, were both $2,461. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	December 31, 2017	December 31, 2016
Not later than one year	$ 2,026	$ 2,461
Later than one year but not later than five years	1,570	3,596
	$ 3,596	$ 6,057

(17) Supplemental cash flow information

A.Investing activities with partial cash payments

	For the years ended December 31,	
	2017	2016
Purchase of property, plant and equipment	$ 22,488	$ 83,531
Add: Opening balance of payable on equipment	37,912	5,431
Less: Ending balance of payable on equipment	(35,068)	(37,912)
Cash paid during the period	$ 25,332	$ 51,050

B. Financing activities with no cash flow effects

	For the years ended December 31,	
	2017	2016
Reclassification	$ 88,928	$ 11,733

(18) Seasonality of operations

The Company is an epi-wafer provider which is the upstream of the compound semiconductor industry. The Company's products are used in power amplifiers and microwave switches etc. that are crucial components in mobile devices. As an upstream supply chain vendor of the wireless communication industry, the Company's product demand is affected by the following factors:

A. Mobile brand makers: the timing of launching new mobile phones and their sales performance.

B. Direct customers (Integrated Device Manufacturers (IDM) & Foundry): Design-in cycle time, Delivery lead time, capacity planning, inventory policy, stock level of different seasons, and speed of inventory digestion.

C. Due to many components and modules in mobile Bill of Materials (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 years ended December 31,	
	2017	2016
Salaries and other short-term employee benefits	$ 55,332	$ 56,454
Post-employment benefits	526	514
Total	$ 55,858	$ 56,968

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:

	December 31, 2017	December 31, 2016
Property, plant and equipment	$ 530,320	$ 42,021

B. Guarantee for customs duties

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

December 31, 2017	December 31, 2016
$ 10,000	$ 10,000

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

A. On March 15, 2018, the Board of Directors proposed the appropriation of 2017 earnings. For details of the appropriation, please refer to Note 6(10).

B. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. This will increase the Company's deferred tax assets by $1,273, tax income by $761 and other comprehensive income by $512, which will be adjusted in the first quarter of 2018.

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:

	December 31, 2017		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ 27,699	29.76	$ 824,322
Financial liabilities			
Monetary items			
USD:NTD	$ 6,337	29.76	$ 188,589

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

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

	December 31, 2017		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 8,243	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 1,886	$ -

	December 31, 2016		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 5,145	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 1,676	$ -

iii. 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, 2017 and 2016 , amounted to ($32,599) and ($9,253), respectively.

Price risk

Not applicable.

Interest rate risk

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 December 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:

Non-derivative financial liabilities:		
December 31, 2017	Less than 1 year	Over 1 year
Accounts payable	$ 237,096	$ -
Other payables	208,099	-
Other current liabilities	9,993	
December 31, 2016	Less than 1 year	Over 1 year
Accounts payable	$ 203,959	$ -
Other payables	215,079	-
Other current liabilities	7,447	-

iv. The Company does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, 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 December 31, 2017 and 2016, is as follows:

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Available-for-sale financial assets	$ -	$ -	$ -	$ -

December 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Available-for-sale financial assets	$ -	$ -	$ 5,755	$ 5,755

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 December 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 December 31, 2017 and 2016:

	2017	2016
	Non-derivative equity instrument	Non-derivative equity instrument
At January, 1	$ 5,755	$ -
Recognised impairment loss (Note)	(5,755)	(24,101)
Transfers into level 3	-	29,856
At December, 31	$ -	$ 5,755

Note: Recorded as impairment loss for available-for-sale financial assets.

G. Because the transaction volume of Hokuang Optics Co., Ltd. was low, it was delisted from the Taiwan Emerging Stock market on May, 19, 2016, and there is no sufficient observable market information, the Company has transferred the fair value from 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:

	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Nonderivative equity instrument:					
Unlisted shares	$ -	Net asset value	Not applicable	Not applicable	Not applicable

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

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) Information about segment profit or loss, assets and liabilities

The Company operates business only in a single industry. The Chief Operating Decision-Maker, who allocates resources and assesses performance of the Company as a whole, has identified that the Company has only one reportable operating segment, therefore, no reconciliation was needed.

(4) Reconciliation for segment income (loss)

The Company operates business only in a single industry. The Chief Operating Decision-Maker, who allocates resources and assesses performance of the Company as a whole, has identified that the Company has only one reportable operating segment, therefore, no reconciliation was needed.

(5) Information on products and services

The Company is primarily engaged in manufacturing and sales of optoelectronic semi-conductors epitaxy and optoelectronic components products. Currently, the Company has no other significant products or services provided.

(6) Geographical information

Geographical information for the years ended December 31, 2017 and 2016 is as follows:

	For the year ended December 31, 2017		For the year ended December 31, 2016	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	$ 1,187,267	$ 1,557,052	$ 1,006,276	$ 1,590,725
USA	890,372	-	1,074,850	-
Others	59,470	-	101,699	-
Total	$ 2,137,109	$ 1,557,052	$ 2,182,825	$ 1,590,725

(7) Major customer information

Major customer information of the Company for the years ended December 31, 2017 and 2016 is as follows:

For the year ended December 31, 2017			For the year ended December 31, 2016		
Customer	Net sales	%	Customer	Net sales	%
Company A	$ 827,788	39	Company A	$ 579,968	27
Company B	442,067	21	Company B	399,808	18
Company C	250,005	12	Company C	274,254	13
Company D	130,659	6	Company D	232,993	11

Visual Photonics Epitaxy Co., Ltd.

Holding of marketable securities at the end of the period

December 31, 2017

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer	General ledger account	As of December 31, 2017				Footnote
				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	-	3	-	

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'.

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2017

Details table 1 — Expressed in thousands of New Taiwan dollars

Items	Summary	Amount	Note
Cash on hand and revolving funds		$ 291	
Demand deposits and checking accounts			
- TWD deposits		251,470	
- Foreign currency deposits	USD 12,023 thousand dollars	357,805	Exchange rate 29.76
-	JPY 1,957 thousand dollars	509	Exchange rate 0.26
	HKD 178 thousand dollars	676	Exchange rate 3.8
Time deposits			
- TWD deposits		227,000	
- Foreign currency deposits	USD 3,000 thousand dollars	89,280	Exchange rate 29.76
		$ 981,833	

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VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2017

Details table 2 — Expressed in thousands of New Taiwan dollars

Customer	Amount	Note
Third parties:		
L-021	$ 243,386	
O-114	47,207	
L-013	27,063	
L-201	24,985	
O-214	24,230	
L-073	22,762	
Others	90,553	Each item does not exceed 5% of account balance
	480,186	
Less: allowance for bad debts	(580)	
	$ 479,606	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF INVENTORIES
DECEMBER 31, 2017

Details table 3 — Expressed in thousands of New Taiwan dollars

Items	Amount Cost	Market value	Note
Raw materials	$ 127,242	$ 139,381	Replacement cost as net realizable value
Work in process	32,360	53,705	Net realizable value as market price
Finished goods	209,205	271,273	Net realizable value as market price
	368,627	$ 464,359	
Less: Provision for decline in market value	(47,479)		
	$ 321,148		

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VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF PROPERTY, PLANT AND EQUIPMENT
DECEMBER 31, 2017

Details table 4 | Expressed in thousands of New Taiwan dollars

Items	Opening net book amount as at January 1, 2017	Additions	Deductions	Transfer	Closing net book amount as at December 31, 2017	Collateral
Cost						
Land	$ 141,004	$ -	$ -	$ -	$ 141,004	None
Buildings and structures	888,179	10,647	-	-	898,826	〃
Machinery	2,481,649	8,540	-	88,928	2,579,117	〃
Office equipment	20,722	-	-	-	20,722	〃
Others	152,464	3,301	(487)	-	155,278	〃
	3,684,018	$ 22,488	($ 487)	$ 88,928	3,794,947	
Accumulated depreciation						
Buildings and structures	($ 492,264)	($ 37,674)	$ -	$ -	($ 529,938)	
Machinery	(1,525,941)	(163,968)	-	-	(1,689,909)	
Office equipment	(20,312)	(146)	-	-	(20,458)	
Others	(127,532)	(7,218)	487	-	(134,263)	
	(2,166,049)	($ 209,006)	$ 487	$ -	(2,374,568)	
	$ 1,517,969				$ 1,420,379	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF ACCOUNTS PAYABLE
DECEMBER 31, 2017

Details table 5 Expressed in thousands of New Taiwan dollars

Suppliers	Amount		Note
PW004	$	80,481	
PW001		72,471	
PW005		29,328	
PG004		25,645	
Others		29,171	Each item does not exceed 5% of account balance
	$	237,096	

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VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017

Details table 6 — Expressed in thousands of New Taiwan dollars

Items	Quantity	Amount	Notes
Operating revenue			
Compound semiconductor wafer product and other items	284,584(pcs)	$ 2,160,239	
Less: Sales returns		(2,552)	
Less: Sales discounts		(20,578)	
		$ 2,137,109	

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VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Details table 7 Expressed in thousands of New Taiwan dollars

Items	Amount	Note
Opening raw materials	$ 125,553	
Add: Current purchases	954,014	
Less: Closing raw materials	(127,242)	
Cost of sales of raw materials	(7,515)	
Transfer production overheads	(7,150)	
Transfer R&D expenses	(40,153)	
Current used raw materials	897,507	
Direct labour	18,033	
Production overheads	425,399	
Production costs	1,340,939	
Add: Opening work in progress	36,401	
Less: Closing work in progress	(32,360)	
Cost of finished goods	1,344,980	
Add: Opening finished goods	252,194	
Less: Closing finished goods	(209,025)	
Transfer expenses	(7,442)	
Current cost of manufacture and sales	1,380,707	
Add: Cost of sales of raw materials	7,515	
Others	(619)	
Cost of goods sold	1,387,603	
Loss on decline in market value	6,039	
Current operating costs	$ 1,393,642	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF PRODUCTION OVERHEADS
FOR THE YEAR ENDED DECEMBER 31, 2017

Details table 8 Expressed in thousands of New Taiwan dollars

Items	Summary	Amount	Notes
Depreciation expense		$ 159,387	
Wages and salaries		116,595	
Utility fee		38,587	
Repair and maintenance expense		32,451	
Indirect materials		20,148	
Other expenses		58,231	Each item does not exceed 5% of account balance
		$ 425,399	

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VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF SELLING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

Details table 9 Expressed in thousands of New Taiwan dollars

Items	Summary	Amount	Notes
Import/export expense		$ 4,519	
Wages and salaries		3,130	
Other expenses		2,016	Each item does not exceed 5% of account balance
		$ 9,655	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

Details table 10 Expressed in thousands of New Taiwan dollars

Items	Summary	Amount	Notes
Wages and salaries		$ 63,611	
Depreciation expense		3,616	
Other expenses		25,060	Each item does not exceed 5% of account balance
		$ 92,287	

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VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF RESEARCH AND DEVELOPMENT EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

Details table 11 Expressed in thousands of New Taiwan dollars

Items	Summary	Amount	Notes
Depreciation expense		$ 45,999	
R&D materials		40,744	
Wage and salaries		21,511	
Sample expense		7,436	
Other expenses		10,732	Each item does not exceed 5% of account balance
		$ 126,422	

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VISUAL PHOTONICS EPITAXY CO., LTD.
CURRENT EMPLOYEE BENEFIT, DEPRECIATION AND AMORTISATION EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

Details table 12

Expressed in thousands of New Taiwan dollars

By Function / By Nature	For the year ended December 31, 2017			For the year ended December 31, 2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefit expense (Note 1)						
Wages and salaries	$ 134,628	$ 88,252	$ 222,880	$ 136,288	$ 86,145	$ 222,433
Labour and health insurance fees	10,699	4,221	14,920	9,897	3,996	13,893
Pension expense	12,163	2,961	15,124	4,883	1,732	6,615
Other employee benefit expenses	10,222	2,536	12,758	9,881	2,406	12,287
Depreciation expense	$ 159,387	$ 49,619	$ 209,006	$ 159,769	$ 47,274	$ 207,043
Amortisation expense	$ -	$ 679	$ 679	$ -	$ 610	$ 610

(Note 1)As of December 31, 2017 and 2016, the Company has 216 and 211 employees, respectively.