

VISUAL PHOTONICS EPITAXY CO., LTD.
FINANCIAL STATEMENTS AND REVIEW REPORT
OF INDEPENDENT ACCOUNTANTS
SEPTEMBER 30, 2018 AND 2017

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

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
SEPTEMBER 30, 2018, DECEMBER 31, 2017 AND SEPTEMBER 30, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(THE BALANCE SHEETS AS OF SEPTEMBER 30, 2018 AND 2017 ARE REVIEWED, NOT AUDITED)

Assets		Notes	<u>September 30, 2018</u>		<u>December 31, 2017</u>		<u>September 30, 2017</u>	
			<u>AMOUNT</u>	<u>%</u>	<u>AMOUNT</u>	<u>%</u>	<u>AMOUNT</u>	<u>%</u>
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 781,734	20	\$ 927,301	28	\$ 832,968	27
1150	Notes receivable, net	6(3)	-	-	229	-	-	-
1170	Accounts receivable, net	6(3)	258,925	6	479,606	14	309,755	10
1200	Other receivables		25,402	1	2,674	-	4,821	-
130X	Inventories, net	6(4)	354,581	9	321,148	10	360,127	12
1410	Prepayments		62,145	1	39,321	1	38,724	1
11XX	Current Assets		<u>1,482,787</u>	<u>37</u>	<u>1,770,279</u>	<u>53</u>	<u>1,546,395</u>	<u>50</u>
Non-current assets								
1517	Financial assets at fair value	6(2)						
	through other comprehensive							
	income - noncurrent		-	-	-	-	-	-
1523	Available-for-sale financial assets -	12(4)						
	noncurrent		-	-	-	-	-	-
1600	Property, plant and equipment, net	6(5)	1,475,859	37	1,420,379	43	1,452,518	47
1780	Intangible assets		1,861	-	1,803	-	1,479	-
1840	Deferred income tax assets	6(18)	6,863	-	7,216	-	5,249	-
1915	Prepayments for business facilities	6(5)	1,012,596	26	134,870	4	97,741	3
1920	Guarantee deposits paid		129	-	67	-	116	-
15XX	Non-current assets		<u>2,497,308</u>	<u>63</u>	<u>1,564,335</u>	<u>47</u>	<u>1,557,103</u>	<u>50</u>
1XXX	Total assets		<u>\$ 3,980,095</u>	<u>100</u>	<u>\$ 3,334,614</u>	<u>100</u>	<u>\$ 3,103,498</u>	<u>100</u>

(Continued)

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
SEPTEMBER 30, 2018, DECEMBER 31, 2017 AND SEPTEMBER 30, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(THE BALANCE SHEETS AS OF SEPTEMBER 30, 2018 AND 2017 ARE REVIEWED, NOT AUDITED)

Liabilities and Equity		Notes	September 30, 2018		December 31, 2017		September 30, 2017	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current liabilities								
2100	Short-term borrowings	6(6)	\$ 430,000	11	\$ -	-	\$ -	-
2130	Contract liabilities-current	6(13)	4,896	-	-	-	-	-
2170	Accounts payable		217,305	6	237,096	7	230,720	8
2200	Other payables	6(7)	213,240	5	208,099	6	218,885	7
2230	Current income tax liabilities	6(18)	36,004	1	38,132	1	12,249	-
2300	Other current liabilities		6,637	-	9,993	1	9,649	-
21XX	Current Liabilities		<u>908,082</u>	<u>23</u>	<u>493,320</u>	<u>15</u>	<u>471,503</u>	<u>15</u>
Non-current liabilities								
2540	Long-term borrowings	6(8)	400,000	10	-	-	-	-
2640	Net defined benefit asset, non-current	6(9)	86	-	139	-	6,527	-
25XX	Non-current liabilities		<u>400,086</u>	<u>10</u>	<u>139</u>	<u>-</u>	<u>6,527</u>	<u>-</u>
2XXX	Total Liabilities		<u>1,308,168</u>	<u>33</u>	<u>493,459</u>	<u>15</u>	<u>478,030</u>	<u>15</u>
Equity								
Share capital		6(10)						
3110	Share capital - common stock		1,849,059	47	1,849,059	56	1,849,059	60
Capital surplus		6(11)						
3200	Capital surplus		107,182	3	107,182	3	106,748	3
Retained earnings		6(12)						
3310	Legal reserve		411,007	10	371,572	11	371,572	12
3350	Unappropriated retained earnings	12(4)	399,664	10	513,342	15	407,154	13
Other equity interest								
3400	Other equity interest	12(4)	(68,773)	(2)	-	-	(5,755)	-
3500	Treasury stocks	6(10)	(26,212)	(1)	-	-	(103,310)	(3)
3XXX	Total equity		<u>2,671,927</u>	<u>67</u>	<u>2,841,155</u>	<u>85</u>	<u>2,625,468</u>	<u>85</u>
Significant commitments and contingent liabilities		9						
Significant events after the balance sheet date		11						
3X2X	Total liabilities and equity		<u>\$ 3,980,095</u>	<u>100</u>	<u>\$ 3,334,614</u>	<u>100</u>	<u>\$ 3,103,498</u>	<u>100</u>

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF INCOME
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNT)
(UNAUDITED)

Items	Notes	Three months ended September 30				Nine months ended September 30			
		2018		2017		2018		2017	
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(13)	\$ 458,415	100	\$ 499,929	100	\$ 1,573,520	100	\$ 1,556,333	100
5000 Operating costs	6(4)(16)(17)	(290,414)	(63)	(331,235)	(66)	(981,613)	(63)	(1,019,798)	(65)
5900 Gross profit from operations		168,001	37	168,694	34	591,907	37	536,535	35
Operating expenses	6(16)(17)(20)								
6100 Selling expenses		(2,711)	(1)	(2,379)	(1)	(8,794)	-	(6,885)	-
6200 Administrative expenses		(24,546)	(5)	(21,952)	(4)	(75,386)	(5)	(69,383)	(5)
6300 Research and development expenses		(56,958)	(13)	(29,813)	(6)	(140,458)	(9)	(92,653)	(6)
6000 Total operating expenses		(84,215)	(19)	(54,144)	(11)	(224,638)	(14)	(168,921)	(11)
6900 Net operating income		83,786	18	114,550	23	367,269	23	367,614	24
Non-operating income and expenses									
7010 Other income		863	-	566	-	2,894	-	1,711	-
7020 Other gains and losses	6(14)	2,640	1	426	-	22,059	2	(23,448)	(2)
7050 Finance costs	6(15)	(1,807)	-	-	-	(2,098)	-	-	-
7000 Total non-operating income and expenses		1,696	1	992	-	22,855	2	(21,737)	(2)
7900 Profit before income tax		85,482	19	115,542	23	390,124	25	345,877	22
7950 Income tax expense	6(18)	(17,571)	(4)	(22,860)	(4)	(71,387)	(5)	(60,759)	(4)
8200 Profit		\$ 67,911	15	\$ 92,682	19	\$ 318,737	20	\$ 285,118	18
Other comprehensive income									
Components of other comprehensive income that will not be reclassified to profit or loss									
Components of other comprehensive income that will not be reclassified to profit or loss									
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(18)	\$ -	-	\$ -	-	\$ 512	-	\$ -	-
8310 Components of other comprehensive income that will not be reclassified to profit or loss		-	-	-	-	512	-	-	-
Components of other comprehensive income that will be reclassified to profit or loss									
8362 Unrealized loss on valuation of available-for-sale financial assets	12(4)	-	-	-	-	-	-	(5,755)	-
8360 Components of other comprehensive income that will be reclassified to profit or loss		-	-	-	-	-	-	(5,755)	-
8300 Total other comprehensive loss		\$ -	-	\$ -	-	\$ 512	-	(\$ 5,755)	-
8500 Total comprehensive income		\$ 67,911	15	\$ 92,682	19	\$ 319,249	20	\$ 279,363	18
9750 Basic earnings per share	6(19)	\$ 0.37		\$ 0.51		\$ 1.72		\$ 1.56	
9850 Diluted earnings per share	6(19)	\$ 0.37		\$ 0.51		\$ 1.72		\$ 1.55	

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VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTH ENDED SEPTEMBER 30, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

		Capital Reserves		Retained Earnings		Other equity interest				
						Total Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets			
Notes	Share capital - common stock	Total capital surplus, additional paid-in capital	Treasury stock transactions	Legal reserve	Total unappropriated retained earnings (accumulated deficit)			Treasury stocks	Total equity	
Year 2017										
	Balance at January 1, 2017	\$ 1,849,059	\$ 102,682	\$ 4,022	\$ 324,861	\$ 631,012	\$ -	\$ -	(\$ 143,396)	\$ 2,768,240
	Profit for the period	-	-	-	-	285,118	-	-	-	285,118
	Other comprehensive loss for the period	12(4)	-	-	-	-	-	(5,755)	-	(5,755)
	Total comprehensive income	-	-	-	-	285,118	-	(5,755)	-	279,363
Earnings appropriation										
	Legal reserve	6(12)	-	-	46,711	(46,711)	-	-	-	-
	Cash dividends	6(12)	-	-	-	(462,265)	-	-	-	(462,265)
	Treasury shares reissued to employees	-	-	44	-	-	-	-	40,086	40,130
	Balance at September 30, 2017	\$ 1,849,059	\$ 102,682	\$ 4,066	\$ 371,572	\$ 407,154	\$ -	(\$ 5,755)	(\$ 103,310)	\$ 2,625,468
Year 2018										
	Balance at January 1, 2018	\$ 1,849,059	\$ 102,682	\$ 4,500	\$ 371,572	\$ 513,342	\$ -	\$ -	\$ -	\$ 2,841,155
	Effects on retrospective application	-	-	-	-	68,773	(68,773)	-	-	-
	Balance at January 1, 2018 after adjustments	1,849,059	102,682	4,500	371,572	582,115	(68,773)	-	-	2,841,155
	Profit for the period	-	-	-	-	318,737	-	-	-	318,737
	Other comprehensive income for the period	6(18)	-	-	-	512	-	-	-	512
	Total comprehensive income	-	-	-	-	319,249	-	-	-	319,249
Earnings appropriation										
	Legal reserve	6(12)	-	-	39,435	(39,435)	-	-	-	-
	Cash dividends	6(12)	-	-	-	(462,265)	-	-	-	(462,265)
	Purchase of treasury shares	-	-	-	-	-	-	-	(26,212)	(26,212)
	Balance at September 30, 2018	\$ 1,849,059	\$ 102,682	\$ 4,500	\$ 411,007	\$ 399,664	(\$ 68,773)	\$ -	(\$ 26,212)	\$ 2,671,927

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	Notes	2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 390,124	\$ 345,877
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(5)(16)	163,608	156,434
Amortization expense	6(16)	504	493
Interest expense	6(15)	2,098	-
Interest income		(2,724)	(1,598)
Gain on disposal of property, plant and equipment	6(14)	555	-
Unrealized foreign exchange (gain) loss		(5,859)	2,011
Share-based compensation cost		-	44
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		229	166
Accounts receivable		220,681	(67,598)
Other receivables		(22,728)	7,057
Inventories		(33,433)	12,581
Prepayments		(22,824)	(3,341)
Changes in operating liabilities			
Contract liabilities-current		4,896	-
Accounts payable		(19,791)	26,761
Other payables		125	13,073
Other current liabilities		(3,356)	2,202
Other non-current liabilities		(53)	(671)
Cash inflow generated from operations		672,052	493,491
Interest received		2,724	1,598
Interest paid		(2,098)	-
Income taxes paid		(72,649)	(86,753)
Net cash flows from operating activities		<u>600,029</u>	<u>408,336</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of property, plant and equipment	6(21)	(213,877)	(27,659)
Proceeds from disposal of property, plant and equipment		(555)	-
Acquisition of intangible assets		(563)	(265)
Increase in prepayments for business facilities		(877,921)	(105,038)
Decrease in refundable deposits		(62)	(49)
Net cash flows used in investing activities		<u>(1,092,978)</u>	<u>(133,011)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term borrowings	6(6)	430,000	-
Long-term borrowings	6(8)	400,000	-
Cash dividends paid	6(12)	(462,265)	(462,265)
Purchase of treasury shares	6(10)	(26,212)	-
Treasury shares reissued to employees		-	40,086
Net cash flows from (used in) financing activities		<u>341,523</u>	<u>(422,179)</u>
Effect of exchange rate changes on cash and cash equivalents		<u>5,859</u>	<u>(2,011)</u>
Net decrease in cash and cash equivalents		(145,567)	(148,865)
Cash and cash equivalents at beginning of period	6(1)	927,301	981,833
Cash and cash equivalents at end of period	6(1)	<u>\$ 781,734</u>	<u>\$ 832,968</u>

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

VISUAL PHOTONICS EPITAXY CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

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

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 October 25, 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 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

The above standards and interpretations have no significant impact to the Company’s financial condition and financial performance 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 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
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.

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.

In the 1st quarter of 2018, the Company reported to the Board of Directors that IFRS 16 has no material impact to the Company.

The Company expects to recognise the lease contract of lessees in line with IFRS 16. However, the Company intends not to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"), and the effects will be adjusted on January 1, 2019.

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.

(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:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
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 17, 'Insurance contracts'	January 1, 2021

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The financial statements of the Company have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Accounting Standard 34, 'Interim financial reporting' as endorsed by the FSC.

(2) Basis of preparation

A. Except for the following items, the financial statements have been prepared under the historical cost convention:

- (a) Financial assets at fair value through other comprehensive income/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 International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "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.

C. In adopting IFRS 9 effective January 1, 2018, the Company has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 was not restated. The financial statements for the year ended December 31, 2017 or were prepared in compliance with International Accounting Standard 39 ('IAS 39') and related financial reporting interpretations. Please refer to Notes 12(4) for details of significant accounting policies and details of significant accounts.

(3) Foreign currency translation

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

Foreign currency transactions and balances

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

(4) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realised within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be settled within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settled 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) Financial assets at fair value through other comprehensive income

A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:

(a) The objective of the Company's business model is achieved both by collecting contractual cash flows and selling financial assets; and

(b) The assets' contractual cash flows represent solely payments of principal and interest.

B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.

C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value:

The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(7) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The Company initially measures accounts and notes receivable at fair value and subsequently recognises the amortised interest income over the period of circulation using the effective interest method and the impairment loss. A gain or loss is recognised in profit or loss. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(8) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortised cost, at each reporting date, the Company recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Company recognises the impairment provision for lifetime ECLs.

(9) Derecognition of financial assets

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

(10) Inventories

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

(11) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. 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 and structures	50 ~ 60 years
Machinery and equipment	3 ~ 15 years
Office equipment	3 ~ 5 years
Other equipment	3 ~ 7 years

(12)Leased assets/ operating leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(13)Intangible assets

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

(14)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. 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.

(15)Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(16)Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The Company initially measures notes and accounts payable at fair value and subsequently amortises the interest expense in profit or loss over the period of circulation using the effective interest method. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(17)Derecognition of financial liabilities

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

(18)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.
- iv. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

C. Termination benefits

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

D. Employees' compensation 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.

(19) 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 operates and generates 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.
- 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 that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

- F. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- G. If a change in tax rate is enacted or substantively enacted in an interim period, the Company recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(20)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.

(21)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.

(22)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.

(23) Operating segments

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

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

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

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

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

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

As of September 30, 2018, the carrying amount of inventories was \$354,581.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Cash on hand and revolving funds	\$ 349	\$ 291	\$ 344
Checking accounts and demand deposits	628,860	610,730	529,974
Time deposits	152,525	316,280	302,650
Total	<u>\$ 781,734</u>	<u>\$ 927,301</u>	<u>\$ 832,968</u>

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) Financial assets at fair value through other comprehensive income

Items	September 30, 2018
Non-current items:	
Equity instruments	
Unlisted corporate stock	
Branchy Technology Co., Ltd.	\$ 9,573
Hokuang Optics Co.,Ltd.	59,200
Subtotal	68,773
Accumulated impairment	(68,773)
Total	\$ -

A. The Company selected to classify equity investments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$0 at September 30, 2018.

B. 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 October 16, 2018. Thus, the Company recognised valuation adjustment loss in full amount.

C. 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. Thus, the Company recognised valuation adjustment loss in full amount.

D. The Company recognised valuation adjustment \$0 for the both three months and nine months ended September 30, 2018.

E. The Company has no circumstances in which financial assets at fair value through other comprehensive income has been provided as pledge.

F. Information of September 30, 2017 is provided in Note 12(4).

(3) Notes and accounts receivable

	September 30, 2018	December 31, 2017	September 30, 2017
Notes receivable	\$ -	\$ 229	\$ -
Accounts receivable	\$ 259,505	\$ 480,186	\$ 310,335
Less: Allowance for uncollectible accounts	(580)	(580)	(580)
	\$ 258,925	\$ 479,606	\$ 309,755

A. The ageing analysis of accounts receivable and notes receivable are as follows:

<u>Accounts receivable</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Not past due	\$ 234,818	\$ 419,980	\$ 301,946
Up to 60 days	24,578	59,181	8,136
61 to 90 days	15	933	101
91 to 180 days	76	92	152
Over 181 days	18	-	-
	<u>\$ 259,505</u>	<u>\$ 480,186</u>	<u>\$ 310,335</u>
<u>Notes receivable</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Not past due	\$ -	\$ 229	\$ -

The above ageing analysis was based on past due date.

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

C. Information relating to credit risk is provided in Note 12(2).

(4) Inventories

	<u>September 30, 2018</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Raw materials	\$ 139,060	(\$ 4,728)	\$ 134,332
Work in progress	37,132	(430)	36,702
Finished goods	225,868	(42,321)	183,547
Total	<u>\$ 402,060</u>	<u>(\$ 47,479)</u>	<u>\$ 354,581</u>
	<u>December 31, 2017</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
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	<u>\$ 368,627</u>	<u>(\$ 47,479)</u>	<u>\$ 321,148</u>
	<u>September 30, 2017</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Raw materials	\$ 119,608	(\$ 2,905)	\$ 116,703
Work in progress	49,200	(430)	48,770
Finished goods	232,759	(38,105)	194,654
Total	<u>\$ 401,567</u>	<u>(\$ 41,440)</u>	<u>\$ 360,127</u>

The cost of inventories recognised as expense for the period:

	<u>For the three months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Cost of goods sold	<u>\$ 290,414</u>	<u>\$ 331,235</u>

For the nine months ended September 30,

	2018	2017
Cost of goods sold	\$ 981,613	\$ 1,019,798

(5) Property, plant and equipment

	Land	Buildings and structures	Machinery	Office equipment	Others	Total
<u>At January 1, 2018</u>						
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)
	<u>\$ 141,004</u>	<u>\$ 368,888</u>	<u>\$ 889,208</u>	<u>\$ 264</u>	<u>\$ 21,015</u>	<u>\$ 1,420,379</u>
<u>2018</u>						
January 1	\$ 141,004	\$ 368,888	\$ 889,208	\$ 264	\$ 21,015	\$ 1,420,379
Additions	-	130,216	80,277	616	7,784	218,893
Reclassification	-	-	195	-	-	195
Depreciation charge	-	(31,895)	(125,765)	(172)	(5,776)	(163,608)
September 30	<u>\$ 141,004</u>	<u>\$ 467,209</u>	<u>\$ 843,915</u>	<u>\$ 708</u>	<u>\$ 23,023</u>	<u>\$ 1,475,859</u>
<u>At September 30, 2018</u>						
Cost	\$ 141,004	\$ 1,029,042	\$ 2,652,151	\$ 21,201	\$ 162,980	\$ 4,006,378
Accumulated depreciation	-	(561,833)	(1,808,236)	(20,493)	(139,957)	(2,530,519)
	<u>\$ 141,004</u>	<u>\$ 467,209</u>	<u>\$ 843,915</u>	<u>\$ 708</u>	<u>\$ 23,023</u>	<u>\$ 1,475,859</u>
	Land	Buildings and structures	Machinery	Office equipment	Others	Total
<u>At January 1, 2017</u>						
Cost	\$ 141,004	\$ 888,179	\$ 2,481,649	\$ 20,722	\$ 152,464	\$ 3,684,018
Accumulated depreciation	-	(492,264)	(1,525,941)	(20,312)	(127,532)	(2,166,049)
	<u>\$ 141,004</u>	<u>\$ 395,915</u>	<u>\$ 955,708</u>	<u>\$ 410</u>	<u>\$ 24,932</u>	<u>\$ 1,517,969</u>
<u>2017</u>						
January 1	\$ 141,004	\$ 395,915	\$ 955,708	\$ 410	\$ 24,932	\$ 1,517,969
Additions	-	4,784	9,522	-	4,086	18,392
Reclassification	-	-	72,591	-	-	72,591
Depreciation charge	-	(28,315)	(122,623)	(109)	(5,387)	(156,434)
September 30	<u>\$ 141,004</u>	<u>\$ 372,384</u>	<u>\$ 915,198</u>	<u>\$ 301</u>	<u>\$ 23,631</u>	<u>\$ 1,452,518</u>
<u>At September 30, 2017</u>						
Cost	\$ 141,004	\$ 892,963	\$ 2,563,762	\$ 20,722	\$ 156,063	\$ 3,774,514
Accumulated depreciation	-	(520,579)	(1,648,564)	(20,421)	(132,432)	(2,321,996)
	<u>\$ 141,004</u>	<u>\$ 372,384</u>	<u>\$ 915,198</u>	<u>\$ 301</u>	<u>\$ 23,631</u>	<u>\$ 1,452,518</u>

1. The significant components of buildings include main plants, which are depreciated over 50 and 60 years, respectively.
2. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.
3. For the requirement of production and operation, the Company has successively entered into equipment purchase contracts starting from 2017. As of September 30, 2018, December 31, 2017 and September 30, 2017, the amounts of unpaid payment as well as payment for acceptance were \$1,012,596, \$134,870 and \$97,741 (shown as 'prepayments for business facilities').

(6) Short-term borrowings

Type of borrowings	September 30, 2018	December 31, 2017	September 30, 2017
Bank unsecured borrowings	\$ 430,000	\$ -	\$ -
Interest rate range	0.86%~0.905%	-	-

The Company did not provide any collateral for the abovementioned borrowings.

(7) Other payables

	September 30, 2018	December 31, 2017	September 30, 2017
Wages, salaries and bonus payable	\$ 145,825	\$ 162,133	\$ 166,583
Payables on machinery and equipment	40,084	35,068	28,645
Other	27,331	10,898	23,657
	<u>\$ 213,240</u>	<u>\$ 208,099</u>	<u>\$ 218,885</u>

(8) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	September 30, 2018
Long-term bank borrowings				
Secured borrowings	Borrowing period is from June 21, 2018 to June 21, 2023 ; interest is repayable monthly.	1.088%	Land, Building and Machinery	\$ 400,000
Less: Current portion				-
				<u>\$ 400,000</u>

As of December 31, 2017 and September 30, 2017, there was no such transaction.

(9) Pension

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, 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 qualify for retirement in the following year, the Company will make contributions for the deficit by next March.

- (b) For the aforementioned pension plan, the Company recognised pension costs of \$0, \$3,029, \$0 and \$11,139 for the three months ended September 30, 2018 and 2017, and nine months ended September 30, 2018 and 2017, respectively.
- (c) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2019 amount to \$43.
- B. (a) Effective July 1, 2005, the Company has 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 contributes 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 three months ended September 30, 2018 and 2017, and nine months ended September 30, 2018 and 2017, were \$1,947, \$1,672, \$5,615 and \$4,974, respectively.

(10) Share capital

- A. As of September 30, 2018, 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 follow:

	2018	2017
At January 1	184,906	182,656
Employee restricted shares	-	629
Shares retired	(340)	-
At September 30	184,566	183,285

B. Treasury shares

- (a) Reason for share reacquisition and movements in the number of the Company’s treasury shares are as follows:

		September 30, 2018	
Name of Company holding the shares	Reason for reacquisition	Number of shares (In thousands)	Carrying amount
The company	To be reissued to employees	340	\$ 26,212

		September 30, 2017	
Name of Company holding the shares	Reason for reacquisition	Number of shares (In thousands)	Carrying amount
The company	To be reissued to employees	1,621	\$ 103,310

In order to encourage employees and strengthen cohesiveness of the Company, on September 18, 2018, the Board of Directors has resolved to repurchase 5 million shares in the open market during the period from September 19 to November 18, 2018 at the price range of \$68 to \$128. When the price of the stock is lower than the bottom-line of the aforementioned range, the Company will continue repurchasing the stocks. The repurchase is still in progress.

- (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 surplus.
- (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. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.

(11) 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.

(12) Retained earnings

- A. Under 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. The distribution of 2017 and 2016 earnings had been resolved at the stockholders' meeting on June 15, 2018 and June 8, 2017, respectively as follows:

	2017		2016	
	Dividends per share		Dividends per share	
	Amount	(in dollar)	Amount	(in dollar)
Legal reserve	\$ 39,435		\$ 46,711	
Cash dividends	462,265	\$ 2.50	462,265	\$ 2.53

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. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(17).

(13) Operating revenue

- A. Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

	Taiwan	US	All other segments	Total
<u>For the three months ended September 30, 2018</u>				
Revenue from external customer contracts	<u>\$ 139,198</u>	<u>\$ 286,398</u>	<u>\$ 32,819</u>	<u>\$ 458,415</u>
<u>For the nine months ended September 30, 2018</u>				
Revenue from external customer contracts	<u>\$ 712,040</u>	<u>\$ 766,839</u>	<u>\$ 94,641</u>	<u>\$ 1,573,520</u>
<u>For the three months ended September 30, 2017</u>				
Revenue from external customer contracts	<u>\$ 275,999</u>	<u>\$ 211,231</u>	<u>\$ 12,699</u>	<u>\$ 499,929</u>
<u>For the nine months ended September 30, 2017</u>				
Revenue from external customer contracts	<u>\$ 836,862</u>	<u>\$ 670,491</u>	<u>\$ 48,980</u>	<u>\$ 1,556,333</u>

B. Contract liabilities

The Company has recognised the following revenue-related contract liabilities:

	<u>September 30, 2018</u>
Advance sales receipts	<u>\$ 4,896</u>

(14) Other gains and losses

	<u>For the three months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Gains on disposals of property, plant and equipment	\$ 50	\$ -
Net foreign exchange gain	2,711	466
Other losses	(121)	(40)
Total	<u>\$ 2,640</u>	<u>\$ 426</u>
	<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Gains on disposals of property, plant and equipment	\$ 555	\$ -
Net foreign exchange gain (loss)	21,700	(23,345)
Other losses	(196)	(103)
Total	<u>\$ 22,059</u>	<u>(\$ 23,448)</u>

(15) Finance costs

	<u>For the three months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Interest expense	<u>\$ 1,807</u>	<u>\$ -</u>
	<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Interest expense	<u>\$ 2,098</u>	<u>\$ -</u>

(16) Expenses by nature

	<u>For the three months ended September 30,</u>		<u>For the three months ended September 30,</u>	
	<u>2018</u>		<u>2017</u>	
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Operating expenses</u>
Change in inventory of finished goods and work in progress	(\$ 7,659)	\$ -	(\$ 9,152)	\$ -
Raw materials and supplies used	183,526	-	226,010	-
Employee benefit expense	45,295	23,707	44,257	24,255
Depreciation charges on property, plant and equipment	37,792	19,122	40,074	12,468
Amortisation charges on intangible assets	-	166	-	174
Other expenses	<u>31,460</u>	<u>41,220</u>	<u>30,046</u>	<u>17,247</u>
Operating costs and expenses	<u>\$ 290,414</u>	<u>\$ 84,215</u>	<u>\$ 331,235</u>	<u>\$ 54,144</u>

	For the nine months ended September 30,		For the nine months ended September 30,	
	2018		2017	
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Operating expenses</u>
Change in inventory of finished goods and work in progress	(\$ 21,615)	\$ -	\$ 6,635	\$ -
Raw materials and supplies used	658,191	-	676,855	-
Employee benefit expense	133,597	76,076	127,712	72,651
Depreciation charges on property, plant and equipment	118,105	45,503	119,443	36,991
Amortisation charges on intangible assets	-	504	-	493
Other expenses	93,335	102,555	89,153	58,786
Operating costs and expenses	<u>\$ 981,613</u>	<u>\$ 224,638</u>	<u>\$ 1,019,798</u>	<u>\$ 168,921</u>

(17) Employee benefit expense

	For the three months ended September 30,		For the three months ended September 30,	
	2018		2017	
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Operating expenses</u>
Wages and salaries	\$ 37,241	\$ 20,963	\$ 36,183	\$ 20,994
Labor and health Insurance fees	3,643	1,553	2,313	1,120
Pension costs	1,468	479	3,194	1,507
Other personnel expenses	2,943	712	2,567	634
	<u>\$ 45,295</u>	<u>\$ 23,707</u>	<u>\$ 44,257</u>	<u>\$ 24,255</u>
	For the nine months ended September 30,		For the nine months ended September 30,	
	2018		2017	
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Operating expenses</u>
Wages and salaries	\$ 111,880	\$ 69,092	\$ 101,867	\$ 62,698
Labor and health Insurance fees	9,098	3,519	7,365	2,900
Pension costs	4,207	1,408	10,904	5,209
Other personnel expenses	8,412	2,057	7,576	1,844
	<u>\$ 133,597</u>	<u>\$ 76,076</u>	<u>\$ 127,712</u>	<u>\$ 72,651</u>

- 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 three months ended September 30, 2018 and 2017, and nine months ended September 30, 2018 and 2017, employees' compensation was accrued at \$8,729, \$10,174, \$34,356 and \$31,701, respectively; directors' and supervisors' remuneration was accrued at \$3,273, \$3,815, \$12,883 and \$11,888, 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 distributable profit of current year for the nine months ended

September 30, 2018 and 2017. Employees' compensation and directors' and supervisors' remuneration of 2017 as resolved by the meeting of Board of Directors were in agreement with those amounts recognised in the 2017 financial statements. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(18) Income tax

A. Income tax expense

(a) Components of income tax expense:

Items	For the three months ended September 30,	
	2018	2017
Current tax:		
Current tax on profits for the period	\$ 19,213	\$ 22,210
Total current tax	19,213	22,210
Deferred tax :		
Origination and reversal of temporary differences	(1,642)	650
Impact of change in tax rate	-	-
Income tax expense	\$ 17,571	\$ 22,860

Items	For the nine months ended September 30,	
	2018	2017
Current tax:		
Current tax on profits for the period	\$ 78,021	\$ 58,313
Prior year income tax (over) underestimation	(7,499)	2,868
Total current tax	70,522	61,181
Deferred tax :		
Origination and reversal of temporary differences	1,626 (422)
Impact of change in tax rate	(761)	-
Income tax expense	\$ 71,387	\$ 60,759

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

	For the three months ended September 30,	
	2018	2017
Impact of change in tax rate	\$ -	\$ -
	For the nine months ended September 30,	
	2018	2017
Impact of change in tax rate	\$ 512	\$ -

B. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.

C. 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 was raised from

17% to 20% effective from January 1, 2018. The Company has accessed the impact of the change in income tax rate.

(19) Earnings per share

For the three months ended September 30, 2018			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per Share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 67,911	184,875	\$ 0.37
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 67,911	184,875	
Assumed conversion of all dilutive potential ordinary shares Employees' bonus	-	451	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 67,911	185,326	\$ 0.37
For the three months ended September 30, 2017			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per Share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 92,682	182,970	\$ 0.51
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 92,682	182,970	
Assumed conversion of all dilutive potential ordinary shares Employees' bonus	-	514	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 92,682	183,484	\$ 0.51

For the nine months ended September 30, 2018			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per Share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 318,737	184,896	\$ 1.72
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 318,737	184,896	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	540	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 318,737	185,436	\$ 1.72
For the nine months ended September 30, 2017			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per Share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 285,118	182,762	\$ 1.56
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 285,118	182,762	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	732	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 285,118	183,494	\$ 1.55

(20) Operating leases

The Company's transportation equipment is obtained through operating leases. The lease terms were between 1 to 3 years. Rent expenses recognized through current profit or loss for the three months ended September 30, 2018 and 2017, and nine months ended September 30, 2018 and 2017 was \$628, \$615, \$1,859, and \$1,845, respectively. The future aggregate minimum lease payments

receivable under non-cancellable operating leases are as follows:

	September 30, 2018	December 31, 2017	September 30, 2017
Not later than one year	\$ 1,866	\$ 2,026	\$ 2,287
Later than one year but not later than five years	1,515	1,570	1,924
	<u>\$ 3,381</u>	<u>\$ 3,596</u>	<u>\$ 4,211</u>

(21) Supplemental cash flow information

A. Investing activities with partial cash payments

	For the three months ended September 30,	
	2018	2017
Purchase of property, plant and equipment	\$ 218,893	\$ 18,392
Add: Opening balance of payable on equipment	35,068	37,912
Less: Ending balance of payable on equipment	(40,084)	(28,645)
Cash paid during the period	<u>\$ 213,877</u>	<u>\$ 27,659</u>

B. Investing activities with no cash flow effects

	For the nine months ended September 30,	
	2018	2017
Reclassification	<u>\$ 195</u>	<u>\$ 72,591</u>

(22) 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) Names of related parties and relationship

None.

(2) Significant related party transactions

None.

(3) Key management compensation

	For the three months ended September 30,	
	2018	2017
Salaries and other short-term employee benefits	\$ 12,316	\$ 11,499
Post-employment benefits	155	134
Total	<u>\$ 12,471</u>	<u>\$ 11,633</u>
	For the nine months ended September 30,	
	2018	2017
Salaries and other short-term employee benefits	\$ 51,436	\$ 42,858
Post-employment benefits	450	392
Total	<u>\$ 51,886</u>	<u>\$ 43,250</u>

8. PLEDGED ASSETS

The Company's assets pledged as collateral are as follows:

Pledged asset	Book value			Purpose
	September 30, 2018	December 31, 2017	September 30, 2017	
Property, plant and equipment	<u>\$ 1,094,072</u>	<u>\$ -</u>	<u>\$ -</u>	For guarantee of loans

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

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

	September 30, 2018	December 31, 2017	September 30, 2017
Property, plant and equipment	<u>\$ 280,168</u>	<u>\$ 530,320</u>	<u>\$ 119,681</u>

B. Guarantee for customs duties

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

	September 30, 2018	December 31, 2017	September 30, 2017
	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

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

(2) Financial instruments

A. Financial instruments by category

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
<u>Financial assets</u>			
Financial assets at fair value through other comprehensive income			
Designation of equity instrument	\$ -	\$ -	\$ -
Available-for-sale financial assets	-	-	-
Financial assets at amortised cost			
Cash and cash equivalents	781,734	927,301	832,968
Notes receivables	-	229	-
Accounts receivables	258,925	479,606	309,755
Other accounts receivables	25,402	2,674	4,821
Guarantee deposits paid	129	67	116
	<u>\$ 1,066,190</u>	<u>\$ 1,409,877</u>	<u>\$ 1,147,660</u>
<u>Financial liabilities</u>			
Financial liabilities at amortised cost			
Short-term borrowings	\$ 430,000	\$ -	\$ -
Accounts payable	217,305	237,096	230,720
Other accounts payable	213,240	208,099	218,885
Long-term borrowing(including current portion)	400,000	-	-
	<u>\$ 1,260,545</u>	<u>\$ 445,195</u>	<u>\$ 449,605</u>

B. Financial risk management policies

- 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.
- Risk management is carried out by Company treasury department under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

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:

September 30, 2018			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 18,403	30.53	\$ 561,752
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 4,938	30.53	\$ 150,732
December 31, 2017			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 27,699	29.76	\$ 824,322
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 6,337	29.76	\$ 188,589
September 30, 2017			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 18,002	30.26	\$ 544,741
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 5,937	30.26	\$ 179,654

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

September 30, 2018			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 5,618	\$ -
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 1,507	\$ -
December 31, 2017			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 8,243	\$ -
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 1,886	\$ -
September 30, 2017			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 5,447	\$ -
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 1,797	\$ -

iii. The unrealised exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Company for the three months ended September 30, 2018 and 2017, and nine months ended September 30, 2018 and 2017 amounted to \$2,711, \$466, \$21,700 and (\$23,345), respectively.

Price risk

Not applicable.

Cash flow and fair value 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. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- ii. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard 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 the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. The Company adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.
- iv. The Company adopts following assumptions under IFRS 9 to assess when the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- v. The Company classifies customer's accounts receivable in accordance with customer types. The Company applies the modified approach to estimate expected credit loss under the provision matrix basis.
- vi. The Company used the forecastability of Taiwan Institute of Economic Research boom observation report to adjust historical and timely information to assess the default possibility of accounts receivable. On September 30, 2018, the provision matrix is as follows:

	Without past due	Up to 60 days	Up to 90 days	Up to 180 days	Over 181 days	Total
<u>At September 30, 2018</u>						
Expected loss rate	0.03%	0.07%	0.20%	15.00%	100.00%	
Total book value	\$ 234,818	\$ 24,578	\$ 15	\$ 76	\$ 18	\$ 259,505
Loss allowance	\$ 71	\$ 400	\$ 15	\$ 76	\$ 18	\$ 580

- vii. Credit risk information of 2017 is provided in Note 12(4).

(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:

September 30, 2018	<u>Less than 1 year</u>	<u>Over 1 year</u>
Short-term borrowings	\$ 430,102	\$ -
Accounts payable	217,305	-
Other payables	213,240	-
Other current liabilities	6,637	-
Long-term borrowings	4,361	416,348

Non-derivative financial liabilities:

December 31, 2017	<u>Less than 1 year</u>	<u>Over 1 year</u>
Accounts payable	\$ 237,096	\$ -
Other payables	208,099	-
Other current liabilities	9,993	-

Non-derivative financial liabilities:

September 30, 2017	<u>Less than 1 year</u>	<u>Over 1 year</u>
Accounts payable	\$ 230,720	\$ -
Other payables	218,885	-
Other current liabilities	9,649	-

- 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. 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.

- B. 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 are as follows:

September 30, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through other comprehensive income				
Equity securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

September 30, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

- C. For the nine months ended September 30, 2018 and 2017, there was no transfer between Level 1 and Level 2.

- D. The following chart is the movement of Level 3 for the nine months ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	<u>Non-derivative equity instrument</u>	<u>Non-derivative equity instrument</u>
At January, 1	\$ -	\$ 5,755
Losses recognised in other comprehensive income	-	(5,755)
At September, 30	<u>\$ -</u>	<u>\$ -</u>

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

	<u>Fair value at September 30, 2018</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instrument:					
		Net			
Unlisted shares	\$ -	asset value	Not applicable	Not applicable	Not applicable

	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ -	Net asset value	Not applicable	Not applicable	Not applicable
	Fair value at September 30, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ -	Net asset value	Not applicable	Not applicable	Not applicable

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of significant accounting policies adopted in 2017:

(a) Available for sale financial assets

- i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.
- ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- iii. They 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'.

(b) Loans and receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They 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.

(c) Impairment of financial assets

- i. 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.

ii. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:

- (i) Significant financial difficulty of the issuer or debtor;
- (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
- (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) The disappearance of an active market for that financial asset because of financial difficulties;
- (vi) 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;
- (vii) 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;
- (viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

iii. 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:

(i) Financial assets 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.

(ii) 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, 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 directly.

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

	Available-for-sale-equity		Effects	
	Measured at fair value through other comprehensive income-equity		Retained earnings	Others equity
IAS 39	\$	-	\$	-
Impairment loss adjustment		-	68,773	(68,773)
IFRS 9	<u>\$</u>	<u>-</u>	<u>\$ 68,773</u>	<u>(\$ 68,773)</u>

Under IAS 39, because the equity instruments, which were classified as: available-for-sale financial assets, amounting to \$68,773, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)" ; increased retained earnings and decreased other equity interest in the amounts of \$68,773 and \$68,773 on initial application of IFRS 9.

C. The significant accounts as of December 31, 2017 and September 30, 2017 are as follows:

Available-for-sale financial assets

Items	December 31, 2017	September 30, 2017
Non-current items:		
Unlisted corporate stock		
Branchy Technology Co., Ltd.	\$ 9,573	\$ 9,573
Hokuang Optics Co.,Ltd.	59,200	59,200
Subtotal	68,773	68,773
Valuation adjustment	- (5,755)
Accumulated impairment	(68,773)	(63,018)
Total	<u>\$ -</u>	<u>\$ -</u>

(a) The Company recognised \$0 and (\$5,755) in other comprehensive income for fair value change for the three months ended September 30, 2017 and the nine months ended September 30, 2017, respectively.

(b) 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 October 16, 2018. Thus, the Company recognised the investment as fully impaired.

- (c) 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.
- (d) No available-for-sale financial assets held by the Company were pledged to others.
- D. Credit risk information for the year ended December 31, 2017 are as follows :

- (a) 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 their new clients before standard 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 the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and deposits with banks and financial institutions, including outstanding receivables.
- (b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The Company's accounts receivable that are neither past due nor impaired are fully performing in line with the credit standards prescribed based on counterparties' industrial characteristics, scale of business and profitability.
- (d) The ageing analysis of financial assets that were past due but not impaired is as follows:

	December 31, 2017	September 30, 2017
Up to 30 days	\$ 54,136	\$ 7,926
31 to 90 days	5,978	344
91 to 180 days	92	152
	<u>\$ 60,206</u>	<u>\$ 8,422</u>

The above ageing analysis was based on past due date.

- (e) Movement analysis of financial assets that were impaired is as follows:

As of December 31 and September 30, 2017, impairment losses of \$580 were assessed on a group basis.

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 (not including 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: Please refer to table 2.
- 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 Board of Directors who allocates resources and assesses performance of the Company as a whole, has identified that the Company has only one reportable operating segment.

(2) Information about segment profit or loss, assets and liabilities

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

(3) Reconciliation for segment income (loss)

The Company operates business only in a single industry. The 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.

Visual Photonics Epitaxy Co., Ltd.
Holding of marketable securities at the end of the period
SEPTEMBER 30, 2018

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

				As of SEPTEMBER 30, 2018				
Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Visual Photonics Epitaxy Co., Ltd.	Stocks - Branchy Technology Co., Ltd.	None.	Financial assets at fair value through other comprehensive income - non-current	342,529	\$ -	0	\$ -	
Visual Photonics Epitaxy Co., Ltd.	Stocks - Hokuang Optics Co., Ltd.	Entity that is controlled by Company's key management	Financial assets at fair value through other comprehensive income - non-current	1,767,124	-	3	-	

Visual Photonics Epitaxy Co., Ltd.
Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more
SEPTEMBER 30, 2018

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

							If the counterparty is a related party, information as to the last transaction of the real estate is disclosed below					Basis or reference used in setting the price	Reason for acquisition of real estate and status of the real estate	Other commitments
Real estate acquired by	Real estate acquired	Date of the event	Transaction amount	Status of payment	Counterparty	Relationship with the counterparty	Original owner who sold the real estate to the counterparty	Relationship between the original owner and the acquirer	Date of the original transaction	Amount				
Visual Photonics Epitaxy Co., Ltd.	Machinery and equipment (Note)	2017~2018.09	\$939,585	\$ 841,437	AIXTRON SE	None	Not applicable for non-related party.				Market quoted price	Production and operation	None	

Note :As of SEPTEMBER 30, 2018, the amounts of unpaid payment as well as payment for acceptance was shown as 'prepayments for business facilities'.