

VISUAL PHOTONICS EPITAXY CO., LTD.
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT ACCOUNTANTS
DECEMBER 31, 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.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

Opinion

We have audited the accompanying balance sheets of Visual Photonics Epitaxy Co., Ltd. as at December 31, 2018 and 2017, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Visual Photonics Epitaxy Co., Ltd. as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

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

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

Appropriateness of cut-off of warehouse operating revenue

Description

For accounting policy of revenue recognition, please refer to Note 4(22).

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

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

How our audit addressed the matter

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

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

Valuation of inventory

Description

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

As of December 31, 2018, Visual Photonics Epitaxy Co., Ltd.'s inventories and allowance for inventory valuation losses amounted to NT \$425,989 thousand and NT \$50,679 thousand, respectively. Visual Photonics Epitaxy Co., Ltd.'s inventories are mainly optoelectronics semiconductor Epi wafer products. Since the industry involves rapidly changing technology and are affected by the communications industry, there is higher risk of incurring inventory valuation losses. Visual Photonics Epitaxy Co., Ltd.'s inventories are measured at the lower of cost and net realisable value, if the price change does not have the expected net realizable value, it may affect the net realizable value estimation result of the inventory evaluation.

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

How our audit addressed the matter

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

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

and accuracy of purchase price, and recalculate and evaluate the reasonableness of allowance for inventory valuation losses which were determined by management.

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

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

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

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

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

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

Chou, Hsiao-Tzu

Lee, Hsiu-Ling

For and on behalf of PricewaterhouseCoopers, Taiwan

March 7, 2019

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

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

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 617,023	16	\$ 927,301	28
1150	Notes receivable, net	6(3)	281	-	229	-
1170	Accounts receivable, net	6(3)	273,279	7	479,606	14
1200	Other receivables		6,909	-	2,674	-
130X	Inventories, net	6(4)	375,310	10	321,148	10
1410	Prepayments		46,868	1	39,321	1
11XX	Current Assets		1,319,670	34	1,770,279	53
Non-current assets						
1517	Financial assets at fair value through other comprehensive income - noncurrent	6(2)	-	-	-	-
1523	Available-for-sale financial assets - noncurrent	12(4)	-	-	-	-
1600	Property, plant and equipment, net	6(5)	2,572,657	65	1,420,379	43
1780	Intangible assets		2,028	-	1,803	-
1840	Deferred income tax assets	6(18)	9,484	-	7,216	-
1915	Prepayments for business facilities	6(5)	27,439	1	134,870	4
1920	Guarantee deposits paid		129	-	67	-
1975	Net defined benefit asset, non-current	6(9)	655	-	-	-
15XX	Non-current assets		2,612,392	66	1,564,335	47
1XXX	Total assets		\$ 3,932,062	100	\$ 3,334,614	100

(Continued)

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Liabilities and Equity		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(6)	\$ 500,000	13	\$ -	-
2130	Contract liabilities-current	6(13)	6,633	-	-	-
2170	Accounts payable		232,688	6	237,096	7
2200	Other payables	6(7)	212,432	5	208,099	6
2230	Current income tax liabilities	6(18)	59,209	2	38,132	1
2300	Other current liabilities		5,117	-	9,993	1
21XX	Current Liabilities		1,016,079	26	493,320	15
Non-current liabilities						
2540	Long-term borrowings	6(8)	380,000	10	-	-
2570	Deferred income tax liabilities	6(18)	131	-	-	-
2640	Net defined benefit liabilities, non-current	6(9)	-	-	139	-
25XX	Non-current liabilities		380,131	10	139	-
2XXX	Total Liabilities		1,396,210	36	493,459	15
Equity						
Share capital		6(10)				
3110	Share capital - common stock		1,849,059	47	1,849,059	56
Capital surplus		6(11)				
3200	Capital surplus		107,182	3	107,182	3
Retained earnings		6(12)				
3310	Legal reserve		411,007	10	371,572	11
3350	Unappropriated retained earnings	12(4)	410,075	10	513,342	15
3500	Treasury stocks	6(10)	(241,471)	(6)	-	-
3XXX	Total equity		2,535,852	64	2,841,155	85
Significant commitments and contingent liabilities		9				
Significant events after the balance sheet date		11				
3X2X	Total liabilities and equity		\$ 3,932,062	100	\$ 3,334,614	100

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE)

	Items	Notes	2018		2017	
			AMOUNT	%	AMOUNT	%
4000	Sales revenue	6(13)	\$ 2,062,120	100	\$ 2,137,109	100
5000	Operating costs	6(4)(16)(17)	(1,287,761)	(62)	(1,393,642)	(65)
5900	Gross profit from operations		774,359	38	743,467	35
	Operating expenses	6(16)(17)(20)				
6100	Selling expenses		(12,145)	(1)	(9,665)	(1)
6200	Administrative expenses		(104,895)	(5)	(92,287)	(4)
6300	Research and development expenses		(193,413)	(9)	(126,422)	(6)
6000	Total operating expenses		(310,453)	(15)	(228,374)	(11)
6900	Net operating income		463,906	23	515,093	24
	Non-operating income and expenses					
7010	Other income		3,919	-	3,203	-
7020	Other gains and losses	6(14)	26,014	1	(38,578)	(2)
7050	Finance costs	6(15)	(4,660)	-	-	-
7000	Total non-operating income and expenses		25,273	1	(35,375)	(2)
7900	Profit before income tax		489,179	24	479,718	22
7950	Income tax expense	6(18)	(92,009)	(5)	(85,366)	(4)
8200	Profit		\$ 397,170	19	\$ 394,352	18
	Other comprehensive income					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Losses on remeasurements of defined benefit plans	6(9)	\$ 801	-	(\$ 3,670)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(18)	352	-	624	-
8310	Components of other comprehensive income that will not be reclassified to profit or loss		1,153	-	(3,046)	-
8300	Total other comprehensive income(loss)		\$ 1,153	-	(\$ 3,046)	-
8500	Total comprehensive income		\$ 398,323	19	\$ 391,306	18
9750	Basic earnings per share	6(19)	\$ 2.16		\$ 2.15	
9850	Diluted earnings per share	6(19)	\$ 2.15		\$ 2.15	

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

		Capital Surplus			Retained Earnings		Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Treasury stocks	Total equity
	Notes	Share capital - common stock	Additional paid-in capital	Treasury stock transactions	Legal reserve	Unappropriated retained earnings			
<u>Year 2017</u>									
Balance at January 1, 2017		\$ 1,849,059	\$ 102,682	\$ 4,022	\$ 324,861	\$ 631,012	\$ -	(\$ 143,396)	\$ 2,768,240
Net income for 2017		-	-	-	-	394,352	-	-	394,352
Other comprehensive loss for 2017		-	-	-	-	(3,046)	-	-	(3,046)
Total comprehensive income		-	-	-	-	391,306	-	-	391,306
Earnings appropriation									
Legal reserve	6(12)	-	-	-	46,711	(46,711)	-	-	-
Cash dividends	6(12)	-	-	-	-	(462,265)	-	-	(462,265)
Treasury shares reissued to employees		-	-	478	-	-	-	143,396	143,874
Balance at December 31, 2017		\$ 1,849,059	\$ 102,682	\$ 4,500	\$ 371,572	\$ 513,342	\$ -	\$ -	\$ 2,841,155
<u>Year 2018</u>									
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
Net income for 2018		-	-	-	-	397,170	-	-	397,170
Other comprehensive income for 2018	6(18)	-	-	-	-	1,153	-	-	1,153
Total comprehensive income		-	-	-	-	398,323	-	-	398,323
Earnings appropriation									
Legal reserve	6(12)	-	-	-	39,435	(39,435)	-	-	-
Cash dividends	6(12)	-	-	-	-	(462,265)	-	-	(462,265)
Purchase of treasury shares		-	-	-	-	-	-	(241,471)	(241,471)
Disposal of equity instruments at fair value through other comprehensive income	6(2)	-	-	-	-	(68,663)	68,773	-	110
Balance at December 31, 2018		\$ 1,849,059	\$ 102,682	\$ 4,500	\$ 411,007	\$ 410,075	\$ -	(\$ 241,471)	\$ 2,535,852

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 489,179	\$ 479,718
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(5)(16)	219,458	209,006
Amortization expense	6(16)	669	679
Interest expense	6(15)	(4,660)	-
Interest income		(3,540)	(2,722)
Gain on disposal of property, plant and equipment	6(14)	(555)	-
Impairment loss on financial assets	6(14) and 12(3)	-	5,755
Unrealized foreign exchange (gain) loss		(6,082)	7,582
Share-based compensation cost		-	478
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(52)	(63)
Accounts receivable		206,328	(237,449)
Other receivables		(4,235)	9,204
Inventories		(54,162)	51,560
Prepayments		(7,547)	(3,938)
Changes in operating liabilities			
Contract liabilities-current		6,633	-
Accounts payable		(4,408)	33,137
Other payables		9,432	(4,136)
Other current liabilities		(4,876)	2,546
Other non-current liabilities		7	(10,729)
Cash inflow generated from operations		841,589	540,628
Interest received		3,540	2,722
Interest paid		4,660	-
Income taxes paid		(72,717)	(86,820)
Net cash flows from operating activities		777,072	456,530
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Proceeds from disposal of financial assets at fair value through other comprehensive income	6(2)	110	-
Acquisition of property, plant and equipment	6(21)	(1,242,001)	(25,332)
Proceeds from disposal of property, plant and equipment		555	-
Acquisition of intangible assets		(894)	(775)
Increase in prepayments for business facilities		(27,404)	(158,504)
Decrease in refundable deposits		(62)	-
Net cash flows used in investing activities		(1,269,696)	(184,611)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term borrowings	6(6)	500,000	-
Increase in long-term borrowings	6(8)	380,000	-
Cash dividends paid	6(12)	(462,265)	(462,265)
Purchase of treasury shares	6(10)	(241,471)	-
Treasury shares reissued to employees		-	143,396
Net cash flows from (used in) financing activities		176,264	(318,869)
Effect of exchange rate changes on cash and cash equivalents		6,082	(7,582)
Net decrease in cash and cash equivalents		(310,278)	(54,532)
Cash and cash equivalents at beginning of year	6(1)	927,301	981,833
Cash and cash equivalents at end of year	6(1)	\$ 617,023	\$ 927,301

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

VISUAL PHOTONICS EPITAXY CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

1. HISTORY AND ORGANISATION

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

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

These financial statements were authorised for issuance by the Board of Directors on March 7, 2019.

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 2019 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.

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.

The Company expects to recognise the lease contract of lessees in line with IFRS 16. However, the Company does not intend to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"). On January 1, 2019, it is expected that 'right-of-use asset' and lease liability will be increased by \$2,258.

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
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 Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

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

(a) Financial assets at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.

(b) Defined benefit assets/liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

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 were prepared in compliance with International Accounting Standard 39 ('IAS 39') and related financial reporting interpretations. Please refer to Note 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.

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 receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.

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

(8) Impairment of financial assets

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 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.

(20) Share capital

- A. Ordinary shares are classified as equity.
- 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

Sales of goods

- (a) The Company manufactures and sells optoelectronic semi-conductors epitaxy, component and etc. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.
- (b) Sales revenue is recognised based on the price specified in the contract, net of the business tax,

sales return and discounts. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. No element of financing is deemed present as the sales are made with a credit term of 30 to 90 days after control of goods are transferred, which is consistent with market practice.

- (c) A receivable is recognised when the control of goods are transferred as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(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 December 31, 2018, the carrying amount of inventories was \$375,310.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand and revolving funds	\$ 318	\$ 291
Checking accounts and demand deposits	463,990	610,730
Time deposits	152,715	316,280
Total	<u>\$ 617,023</u>	<u>\$ 927,301</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

A. Aiming to adjust the stock position, the Company sold \$110 of unlisted stocks at fair value and resulted in cumulative gains on disposal amounting to \$110 during the year ended December 31, 2018.

B. Amounts recognized in retained earnings in relation to disposal of the financial assets at fair value through other comprehensive income was \$68,773.

C. Information on available-for-sale financial assets and financial assets at cost as of December 31, 2017 is provided in Note 12(4).

(3) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable	\$ 281	\$ 229
Accounts receivable	\$ 273,859	\$ 480,186
Less: Allowance for uncollectible accounts	(580)	(580)
	<u>\$ 273,279</u>	<u>\$ 479,606</u>

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

<u>Accounts receivable</u>	December 31, 2018	December 31, 2017
Not past due	\$ 245,450	\$ 419,980
Up to 60 days	25,744	59,181
61 to 90 days	2,504	933
91 to 180 days	161	92
Over 181 days	-	-
	<u>\$ 273,859</u>	<u>\$ 480,186</u>
 <u>Notes receivable</u>	 December 31, 2018	 December 31, 2017
Not past due	<u>\$ 281</u>	<u>\$ 229</u>

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

December 31, 2018			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 156,772	(\$ 4,728)	\$ 152,044
Work in progress	29,708	(430)	29,278
Finished goods	239,509	(45,521)	193,988
Total	<u>\$ 425,989</u>	<u>(\$ 50,679)</u>	<u>\$ 375,310</u>

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

The cost of inventories recognised as expense for the period:

For the years ended December 31,		
	2018	2017
Cost of goods sold	\$ 1,284,561	\$ 1,387,603
Loss on decline in market value	3,200	6,039
	<u>\$ 1,287,761</u>	<u>\$ 1,393,642</u>

(5) Property, plant and equipment

	Land	Buildings and structures	Machinery and equipment	Office equipment	Unfinished Construction and equipment under acceptance	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>\$ -</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	-	103,568	104,577	616	1,011,107	17,033	1,236,901
Reclassification	-	38,206	2,285	-	94,344	-	134,835
Depreciation charge	-	(44,570)	(166,840)	(239)	-	(7,809)	(219,458)
December 31	<u>\$ 141,004</u>	<u>\$ 466,092</u>	<u>\$ 829,230</u>	<u>\$ 641</u>	<u>\$1,105,451</u>	<u>\$ 30,239</u>	<u>\$ 2,572,657</u>
<u>At December 31, 2018</u>							
Cost	\$ 141,004	\$1,040,600	\$2,678,541	\$ 21,201	\$1,105,451	\$ 172,229	\$ 5,159,026
Accumulated depreciation	-	(574,508)	(1,849,311)	(20,560)	-	(141,990)	(2,586,369)
	<u>\$ 141,004</u>	<u>\$ 466,092</u>	<u>\$ 829,230</u>	<u>\$ 641</u>	<u>\$1,105,451</u>	<u>\$ 30,239</u>	<u>\$ 2,572,657</u>

	Land	Buildings and structures	Machinery and equipment	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	-	10,647	8,540	-	3,301	22,488
Reclassification	-	-	88,928	-	-	88,928
Depreciation charge	-	(37,674)	(163,968)	(146)	(7,218)	(209,006)
December 31	<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>At December 31, 2017</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>

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 December 31, 2018 and 2017, the amounts of unpaid payment as well as payment for acceptance were \$27,439 and \$134,870 (shown as 'prepayments for business facilities').

(6) Short-term borrowings

Type of borrowings	December 31, 2018	December 31, 2017
Bank unsecured borrowings	\$ 500,000	\$ -
Interest rate range	0.88%~0.90%	-

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

(7) Other payables

	December 31, 2018	December 31, 2017
Wages, salaries and bonus payable	\$ 167,916	\$ 162,133
Payables on machinery and equipment	29,968	35,068
Others	14,548	10,898
	<u>\$ 212,432</u>	<u>\$ 208,099</u>

(8) Long-term borrowings

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2018</u>
Long-term bank borrowings				
Secured borrowings	Borrowing period is from June 21, 2018 to June 21, 2023 ; interest is repayable monthly.	1.0907%~1.0929 %	Land, Building and Machinery	\$ 380,000
Less: Current portion				-
				<u>\$ 380,000</u>

As of December 31, 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) The amounts recognised in the balance sheet are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	(\$ 57)	(\$ 372)
Fair value of plan assets	712	233
Net defined benefit liability	<u>\$ 655</u>	<u>(\$ 139)</u>

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<hr/>			
Year ended December 31, 2018			
Balance at January 1	(\$ 372)	\$ 233	(\$ 139)
Interest (expense) income	(79)	-	(79)
Settlement profit or loss	(6)	4	(2)
	<u>(457)</u>	<u>237</u>	<u>(220)</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	401	401
Change in financial assumptions	(4)	-	(4)
Experience adjustments	<u>404</u>	<u>-</u>	<u>404</u>
	<u>400</u>	<u>401</u>	<u>801</u>
Pension fund contribution	<u>-</u>	<u>74</u>	<u>74</u>
Balance at December 31	<u>(\$ 57)</u>	<u>\$ 712</u>	<u>\$ 655</u>
<hr/>			
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<hr/>			
Year ended December 31, 2017			
Balance at January 1	(\$ 21,555)	\$ 14,357	(\$ 7,198)
Interest (expense) income	(324)	361	37
Settlement profit or loss	(8,485)	-	(8,485)
	<u>(30,364)</u>	<u>14,718</u>	<u>(15,646)</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(238)	(238)
Change in demographic assumptions	(2,794)	-	(2,794)
Change in financial assumptions	459	-	459
Experience adjustments	(1,097)	-	(1,097)
	<u>(3,432)</u>	<u>(238)</u>	<u>(3,670)</u>
Pension fund contribution	<u>-</u>	<u>678</u>	<u>678</u>
Paid pension	<u>33,424</u>	<u>(14,925)</u>	<u>18,499</u>
Balance at December 31	<u>(\$ 372)</u>	<u>\$ 233</u>	<u>(\$ 139)</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund

includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorised by the Regulator. The Company and domestic subsidiaries have no right to participate in managing and operating that fund and hence the Company and domestic subsidiaries are unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

	For the years ended December 31,	
	2018	2017
Discount rate	1.30%	1.625%
Future salary increases	2.75%	2.75%

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

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

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 4)	\$ 4	\$ 4	(\$ 4)
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 22)	\$ 23	\$ 23	(\$ 21)

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

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

(f) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2019 amounts to \$84.

(g) As of December 31, 2018, the weighted average duration of the retirement plan is 28 years.

The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	-
1-2 year(s)		-
2-5 years		-
Over 5 years		82
	\$	<u>82</u>

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 years ended December 31, 2018 and 2017, were \$7,628 and \$6,676, respectively.

(10) Share capital/Treasury shares

A. As of December 31, 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 follows:

	2018	2017
At January 1	184,906	182,656
Shares retired	(3,864)	-
Employee restricted shares	-	2,250
At December 31	<u>181,042</u>	<u>184,906</u>

B. Treasury shares

(a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows (There were no treasury shares as of December 31, 2017):

		December 31, 2018	
Name of Company holding the shares	Reason for reacquisition	Number of shares (In thousands)	Carrying amount
The company	To be reissued to employees	3,864	\$ 241,471

(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

- A. 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.
- B. On March 7, 2019, the Board of Directors proposed that the Company shall distribute cash dividend of \$0.5 (in dollars) per share from the capital surplus arising from paid-in capital in excess of par value on issuance of common stocks amounting to \$92,453. As of March 7, 2019, the proposal has not been resolved by the shareholders.

(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 the 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. On March 7, 2019, the Board of Directors proposed and approved the appropriation of 2018 retained earnings in cash with \$2.03 per share, total dividend was \$369,812. As of March 7, 2019, abovementioned appropriation of 2018 retained earnings has not been resolved by the shareholders in the meeting.
- G. 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:

For the year ended December 31, 2018	Taiwan	US	All other segments	Total
Revenue from external customer contracts	<u>\$ 888,915</u>	<u>\$ 1,041,368</u>	<u>\$ 131,837</u>	<u>\$ 2,062,120</u>
For the year ended December 31, 2017	Taiwan	US	All other segments	Total
Revenue from external customer contracts	<u>\$ 1,187,267</u>	<u>\$ 890,372</u>	<u>\$ 59,470</u>	<u>\$ 2,137,109</u>

- B. Contract liabilities

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

	December 31, 2018
Advance sales receipts	<u>\$ 6,633</u>

(14) Other gains and losses

	For the years ended December 31,	
	2018	2017
Net foreign exchange gains (losses)	\$ 25,707	(\$ 32,599)
Gains on disposals of property, plant and equipment	555	-
Impairment loss on financial assets	-	(5,755)
Other losses	(248)	(244)
Total	\$ 26,014	(\$ 38,598)

(15) Finance costs

	For the years ended December 31,	
	2018	2017
Interest expense	\$ 4,660	\$ -

(16) Expenses by nature

	For the year ended December 31, 2018		For the year ended December 31, 2017	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Change in inventory of finished goods and work in progress	(\$ 27,832)	\$ -	\$ 47,210	\$ -
Raw materials and supplies used	857,451	-	897,507	-
Employee benefit expense	178,416	101,714	167,712	97,970
Depreciation charges on property, plant and equipment	155,813	63,645	159,387	49,619
Amortisation charges on intangible assets	-	669	-	679
Other expenses	123,913	144,425	121,826	80,106
Operating costs and expenses	\$ 1,287,761	\$ 310,453	\$ 1,393,642	\$ 228,374

(17) Employee benefit expense

	For the year ended December 31, 2018		For the year ended December 31, 2017	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Wages and salaries	\$ 147,365	\$ 92,791	\$ 134,628	\$ 88,252
Labor and health insurance fees	11,241	4,270	10,699	4,221
Pension costs	5,731	1,978	12,163	2,961
Other personnel expenses	14,079	2,675	10,222	2,536
	\$ 178,416	\$ 101,714	\$ 167,712	\$ 97,970

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

B. For the years ended December 31, 2018 and 2017, employees' compensation (bonus) was accrued at \$43,971 and \$43,121, respectively; directors' and supervisors' remuneration was accrued at \$16,489 and \$16,170, 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% respectively, of distributable profit of current year for the year ended December 31, 2018. Employees' compensation and directors' and supervisors' remuneration of 2017 as resolved at 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 years ended December 31,	
	2018	2017
Current tax:		
Current tax on profits for the period	\$ 101,293	\$ 84,263
Prior year income tax (over) underestimation	(7,499)	2,868
Total current tax	93,794	87,131
Deferred tax :		
Origination and reversal of temporary differences	(1,024)	(1,765)
Impact of change in tax rate	(761)	-
Income tax expense	\$ 92,009	\$ 85,366

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

	For the years ended December 31,	
	2018	2017
Remeasurement of defined benefit obligations	(\$ 160)	\$ 624
Impact of change in tax rate	512	-
	\$ 352	\$ 624

A. Reconciliation between income tax expense and accounting profit

	Year ended December 31, 2018	Year ended December 31, 2017
Tax calculated based on profit before tax and statutory tax rate (note)	\$ 97,836	\$ 81,552
Change in assessment of realisation of deferred tax assets	639	(1,258)
Expenses disallowed by tax regulation	741	603
Temporary differences not recognised as deferred tax assets	1,053	1,601
Prior year income tax (over) underestimation	(7,499)	2,868
Effect from changes in tax regulation	(761)	-
Income tax expense	<u>\$ 92,009</u>	<u>\$ 85,366</u>

Note: The basis for computing the applicable tax rate are the rates applicable for residents of the Republic of China.

C. Amounts of deferred tax assets or liabilities as a result of temporary differences, tax losses and investment tax credits are as follows:

	Year ended December 31, 2018			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
—Deferred tax assets:				
Inventory at hub recognised as gross profit	\$ 5,448	\$ 3,780	\$ -	\$ 9,228
Book-Tax difference of pension	23	(23)	-	-
Others	1,745	(1,489)	-	256
Subtotal	<u>\$ 7,216</u>	<u>\$ 2,268</u>	<u>\$ -</u>	<u>\$ 9,484</u>
—Deferred tax liabilities:				
Book-Tax difference of pension	\$ -	(\$ 483)	\$ 352	(\$ 131)
	<u>\$ 7,216</u>	<u>\$ 1,785</u>	<u>\$ 352</u>	<u>\$ 9,353</u>

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

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

	December 31, 2018	December 31, 2017
Deductible temporary differences	<u>\$ 61,908</u>	<u>\$ 129,053</u>

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

F. 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 assessed the impact of the change in income tax rate.

(19) Earnings per share

Year ended December 31, 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	\$ 397,170	184,144	\$ 2.16
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 397,170	184,144	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	674	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 397,170	184,818	\$ 2.15
Year ended December 31, 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	\$ 394,352	183,036	\$ 2.15
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 394,352	183,036	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	629	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 394,352	183,665	\$ 2.15

(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 2018 and 2017, was \$2,470 and \$2,461, respectively. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than one year	\$ 1,560	\$ 2,026
Later than one year but not later than five	1,250	1,570
	<u>\$ 2,810</u>	<u>\$ 3,596</u>

(21) Supplemental cash flow information

A. Investing activities with partial cash payments

	For the years ended December 31,	
	2018	2017
Purchase of property, plant and equipment	\$ 1,236,901	\$ 22,488
Add: Opening balance of payable on equipment	35,068	37,912
Less: Ending balance of payable on equipment	(29,968)	(35,068)
Cash paid during the period	<u>\$ 1,242,001</u>	<u>\$ 25,332</u>

B. Investing activities with no cash flow effects

	For the years ended December 31,	
	2018	2017
Reclassification	<u>\$ 134,835</u>	<u>\$ 88,928</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

None.

(2) Significant related party transactions

None.

(3) Key management compensation

	For the years ended December 31,	
	2018	2017
Salaries and other short-term employee benefits	\$ 63,933	\$ 55,332
Post-employment benefits	605	526
Total	<u>\$ 64,538</u>	<u>\$ 55,858</u>

8. PLEDGED ASSETS

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

Pledged asset	Book value		Purpose
	December 31, 2018	December 31, 2017	
Property, plant and equipment	<u>\$ 1,121,987</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:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Property, plant and equipment	<u>\$ 130,171</u>	<u>\$ 530,320</u>

B. Guarantee for customs duties

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

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

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

A. On March 7, 2019, the Board of Directors proposed the appropriation of 2018 earnings. For details of the appropriation, please refer to Note 6(12).

B. On March 7, 2019, the Board of Directors proposed the appropriation of 2018 capital surplus. For details of the appropriation, please refer to Note 6(11).

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. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet).

Total capital is calculated as 'equity' as shown in the balance sheet.

	<u>December 31, 2018</u>
Total borrowings	<u>\$ 880,000</u>
Total equity	<u>\$ 2,535,852</u>
Gearing ratio	35%

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 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	617,023	927,301
Notes receivable	281	229
Accounts receivable	273,279	479,606
Other accounts receivable	6,909	2,674
Guarantee deposits paid	129	67
	<u>\$ 897,621</u>	<u>\$ 1,409,877</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Short-term borrowings	\$ 500,000	\$ -
Accounts payable	232,688	237,096
Other accounts payable	212,432	208,099
Long-term borrowing(including current portion)	380,000	-
	<u>\$ 1,325,120</u>	<u>\$ 445,195</u>

B. Financial risk management policies

- (a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.
- (b) 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:

December 31, 2018			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 17,288	30.72	\$ 531,087
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 5,413	30.72	\$ 166,287
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

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

December 31, 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%	\$ 5,311	\$ -
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 1,663	\$ -

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	\$ -

iii. The unrealised exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2018 and 2017, amounted to \$25,707 and (\$32,599), respectively.

Price risk

Not applicable.

Cash flow and fair value interest rate risk

(No such transaction was recorded as at December 31, 2017)

- i. The Company's main interest rate risk arises from long-term borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. For the year ended December 31, 2018, the Company's borrowings at variable rate were mainly denominated in New Taiwan dollars.
- ii. If the borrowing interest rate of New Taiwan dollars had increased/decreased by 1% with all other variables held constant, profit, net of tax for the year ended December 31, 2018 would have increased/decreased by \$3,800. The main factor is that changes in interest expense result in floating-rate borrowings.

(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 customers' 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 December 31, 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 December 31, 2018</u>						
Expected loss rate	0.03%	0.07%	0.20%	15.00%	100.00%	
Total book value	\$ 245,450	\$ 25,744	\$ 2,504	\$ 161	\$ -	\$ 273,859
Loss allowance	\$ 74	\$ 18	\$ 327	\$ 161	\$ -	\$ 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:

December 31, 2018	<u>Less than 1 year</u>	<u>Over 1 year</u>
Short-term borrowings	\$ 500,374	\$ -
Accounts payable	232,688	-
Other payables	212,432	-
Other current liabilities	5,117	-
Long-term borrowings	4,151	394,217

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	-

- 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:

(No such transaction was recorded as at December 31, 2018)

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	\$ -	\$ -	\$ -	\$ -

- C. For the years ended December 31, 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 years ended December 31, 2018 and 2017:

	2018	2017
	Non-derivative equity instrument	Non-derivative equity instrument
At January, 1	\$ -	\$ 5,755
Losses recognised in other comprehensive income	-	(5,755)
At December, 31	\$ -	\$ -

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:

(No such transaction was recorded as at December 31, 2018)

	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity					
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	Other equity
IAS 39	\$ -	\$ -	\$ -
Impairment loss adjustment	-	68,773	(68,773)
IFRS 9	<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 was as follows:

Available-for-sale financial assets

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

- (a) The Company assessed that the fair value of its equity investments in Branchy Technology Co., Ltd. had been in decline for an extended period of time, and Branchy Technology Co., Ltd. had applied for discontinuing its business from November 17, 2015 to October 16, 2018. Thus, the Company recognised the investment as fully impaired.
 - (b) The Company assessed that the fair value of its equity investments in Hokuang Optics Co., Ltd., which had an accumulated deficit, was significantly lower than the original investment cost. On May 19, 2016, Hokuang Optics Co., Ltd. was delisted from the Taiwan Emerging Stock market, and thus the Company recognised an impairment loss of \$59,200 as of December 31, 2017 after its assessment.
 - (c) The Company recognised (\$5,755) in other comprehensive income for fair value change for the year ended December 31, 2017.
 - (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:

	<u>December 31, 2017</u>
Up to 30 days	\$ 54,136
31 to 90 days	5,978
91 to 180 days	92
	<u>\$ 60,206</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, 2017, impairment losses of \$580 was 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): None.
- 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 1.
- 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.

(4) Information on products and services

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

(5) Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

	<u>Year ended December 31, 2018</u>		<u>Year ended December 31, 2017</u>	
	<u>Revenue</u>	<u>Non-current assets</u>	<u>Revenue</u>	<u>Non-current assets</u>
Taiwan	\$ 888,915	\$ 2,602,124	\$ 1,187,267	\$ 1,557,052
US	1,041,368	-	890,372	-
Others	131,837	-	59,470	-
	<u>\$ 2,062,120</u>	<u>\$ 2,602,124</u>	<u>\$ 2,137,109</u>	<u>\$ 1,557,052</u>

(6) Major customer information

Major customer information of the Company for the years ended December 31, 2018 and 2017 is as follows:

<u>Year ended December 31, 2018</u>			<u>Year ended December 31, 2017</u>		
<u>Customer</u>	<u>Net Sales</u>	<u>%</u>	<u>Customer</u>	<u>Net Sales</u>	<u>%</u>
Customer A	\$ 473,635	23	Customer A	\$ 827,788	39
Customer B	429,863	21	Customer B	442,067	21
Customer C	429,677	21	Customer C	250,005	12

Visual Photonics Epitaxy Co., Ltd.
Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more
DECEMBER 31, 2018

Table 1

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						
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	Basis or reference used in setting the price	Reason for acquisition of real estate and status of the real estate	Other commitments
Visual Photonics Epitaxy Co., Ltd.	Machinery and equipment	2017~2018	\$939,431	\$ 879,976	AIXTRON SE	None	Not applicable for non-related party.				Market quoted price	Production and operation	None

Note :As of December 31, 2018, the amounts of unpaid payment as well as payment for acceptance was shown as 'Unfinished Construction and equipment under acceptance'.

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2018

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Details table 1

Items	Summary	Amount	Note
Cash on hand and revolving funds		\$ 318	
Demand deposits and checking accounts			
TWD deposits		201,050	
Foreign currency deposits	USD 8,520 thousand dollars	261,694	Exchange rate 30.72
	JPY 1,957 thousand dollars	548	Exchange rate 0.28
	HKD 178 thousand dollars	698	Exchange rate 3.92
Time deposits			
TWD deposits		122,000	
Foreign currency deposits	USD 1,000 thousand dollars	30,715	Exchange rate 30.72
		<u>\$ 617,023</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2018

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Details table 2

Customer	Amount	Note
Third parties:		
L-021	\$ 69,440	
O-114	43,520	
O-022	35,672	
L-007	25,979	
O-214	18,746	
L-204	15,116	
L-201	14,900	
Others	50,486	Each item does not exceed 5% of account balance
	<u>273,859</u>	
Less: allowance for bad debts	(<u>580</u>)	
	<u>\$ 273,279</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.

DETAILS OF INVENTORIES

DECEMBER 31, 2018

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Details table 3

<u>Items</u>	<u>Cost</u>	<u>Market value</u>	<u>Note</u>
Raw materials	\$ 156,772	\$ 154,479	Replacement cost as net realizable value
Work in process	29,708	56,273	Net realizable value as market price
Finished goods	<u>239,509</u>	<u>272,154</u>	Net realizable value as market price
	425,989	<u>\$ 482,905</u>	
Less: Provision for decline in market value	<u>(50,679)</u>		
	<u>\$ 375,310</u>		

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF PROPERTY, PLANT AND EQUIPMENT
DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Details table 4

<u>Items</u>	<u>Opening net book amount as at January 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfer</u>	<u>Closing net book amount as at December 31, 2018</u>	<u>Collateral</u>
Cost						
Land	\$ 141,004	\$ -	\$ -	\$ -	\$ 141,004	Partial guarantee for long-term loans
Buildings and structures	898,826	103,568	-	38,206	1,040,600	"
Machinery and equipment	2,579,117	104,577	(7,438)	2,285	2,678,541	"
Office equipment	20,722	616	(137)	-	21,201	None
Unfinished construction and equipment under acceptance	-	1,011,107	-	94,344	1,105,451	"
Others	<u>155,278</u>	<u>17,033</u>	<u>(82)</u>	<u>-</u>	<u>172,229</u>	"
	<u>3,794,947</u>	<u>\$ 1,236,901</u>	<u>(\$ 7,657)</u>	<u>\$ 134,835</u>	<u>5,159,026</u>	
Accumulated depreciation						
Buildings and structures	(\$ 529,938)	(\$ 44,570)	\$ -	\$ -	(\$ 574,508)	
Machinery and equipment	(1,689,909)	(166,840)	7,438	-	(1,849,311)	
Office equipment	(20,458)	(239)	137	-	(20,560)	
Others	(134,263)	(7,809)	82	-	(141,990)	
	<u>(2,374,568)</u>	<u>(\$ 219,458)</u>	<u>\$ 7,657</u>	<u>\$ -</u>	<u>(2,586,369)</u>	
	<u>\$ 1,420,379</u>				<u>\$ 2,572,657</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF SHORT-TERM LOANS
DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Details table 5

<u>Type of borrowings</u>	<u>Notes</u>	<u>Balance at December 31, 2018</u>	<u>Contract period</u>	<u>Interest rate range</u>	<u>Financing line</u>	<u>Collateral</u>
Letter of credit borrowings	Financial institutions borrowings	\$ 160,000	2018.12.11~2019.01.10	0.89%	\$ 100,000	None
"	"	150,000	2018.12.18~2019.03.25	0.90%	184,290	"
"	"	100,000	2018.12.28~2019.01.11	0.89%	153,575	"
"	"	<u>90,000</u>	2018.11.09~2019.01.09	0.88%	150,000	"
		<u>\$ 500,000</u>				

(Remainder of page intentionally left blank)

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF ACCOUNTS PAYABLE
DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Details table 6

<u>Suppliers</u>	<u>Amount</u>	<u>Note</u>
PW004	\$ 53,557	
PW001	85,687	
PW005	18,312	
PG004	32,536	
Others	42,596	Each item does not exceed 5% of account balance
	<u>\$ 232,688</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF LONG-TERM LOANS
DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Details table 7

<u>Creditor</u>	<u>Description</u>	<u>Amount</u>	<u>Term of Contract</u>	<u>Rat(%)</u>	<u>Collateral</u>	<u>Footnote</u>
Bank of Taiwan	Guaranteed loan	\$ 280,000	2018.06.21~2023.06.21	1.0929%	Land, Building and Machinery	None
"	"	<u>100,000</u>	"	1.0907%	"	"
		<u>\$ 380,000</u>				

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF OPERATING REVENUE
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Details table 8

<u>Items</u>	<u>Quantity</u>	<u>Amount</u>	<u>Notes</u>
Operating revenue			
Compound semiconductor wafer product and other items	265,076 (pcs)	\$ 2,073,350	
Less: Sales returns		(3,018)	
Less: Sales discounts		(8,212)	
		<u>\$ 2,062,120</u>	

(Remainder of page intentionally left blank)

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF OPERATING COST
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Details table 9

<u>Items</u>	<u>Amount</u>	<u>Note</u>
Opening raw materials	\$ 127,242	
Add: Current purchases	961,587	
Less: Closing raw materials	(156,772)	
Cost of sales of raw materials	(2,915)	
Transfer expenses	(71,772)	
Current used raw materials	857,370	
Direct labour	20,035	
Production overheads	440,074	
Production costs	1,317,479	
Add: Opening work in progress	32,360	
Less: Closing work in progress	(29,708)	
Cost of finished goods	1,320,131	
Add: Opening finished goods	209,025	
Less: Closing finished goods	(239,509)	
Transfer expenses	(7,957)	
Current cost of manufacture and sales	1,281,690	
Add: Cost of sales of raw materials	2,915	
Others	(44)	
Cost of goods sold	1,284,561	
Loss on decline in market value	3,200	
Current operating costs	<u>\$ 1,287,761</u>	

(Remainder of page intentionally left blank)

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF MANUFACTURING OVERHEAD
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Details table 10

<u>Items</u>	<u>Summary</u>	<u>Amount</u>	<u>Notes</u>
Depreciation expense		\$ 155,813	
Wages and salaries		127,330	
Repair and maintenance expense		40,633	
Utility fee		39,958	
Indirect materials		21,774	
Other expenses		54,566	Each item does not exceed 5% of account balance
		<u>\$ 440,074</u>	

(Remainder of page intentionally left blank)

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF SELLING EXPENSES
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Details table 11

<u>Items</u>	<u>Summary</u>	<u>Amount</u>	<u>Notes</u>
Import/export expense		\$ 5,960	
Wages and salaries		3,419	
Other expenses		2,766	Each item does not exceed 5% of account balance
		<u>\$ 12,145</u>	

(Remainder of page intentionally left blank)

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF ADMINISTRATIVE EXPENSES
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Details table 12

<u>Items</u>	<u>Summary</u>	<u>Amount</u>	<u>Notes</u>
Wages and salaries		\$ 63,528	
Utility fee		12,130	
Professional service fees		5,298	
Depreciation expense		429	
Other expenses		23,510	Each item does not exceed 5% of account balance
		<u>\$ 104,895</u>	

(Remainder of page intentionally left blank)

TAIWAN SURFACE MOUNTING TECHNOLOGY CORP.
DETAILS OF RESEARCH AND DEVELOPMENT EXPENSES
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Details table 13

<u>Items</u>	<u>Summary</u>	<u>Amount</u>	<u>Notes</u>
R&D materials		\$ 66,481	
Depreciation expense		63,210	
Wage and salaries		25,844	
Repair and maintenance expense		15,592	
Sample expense		7,940	
Other expenses		14,346	Each item does not exceed 5% of account balance
		<u>\$ 193,413</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
CURRENT EMPLOYEE BENEFITS, DEPRECIATION, AND AMORTISATION EXPENSES SUMMARIZED BY FUNCTION
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Details table 14

By nature \ By function	Year ended December 31, 2018			Year ended December 31, 2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefit expense						
Wages and salaries	\$ 147,365	\$ 72,368	\$ 219,733	\$ 134,628	\$ 70,471	\$ 205,099
Labour and health insurance fees	11,241	4,270	15,511	10,699	4,221	14,920
Pension expense	5,731	1,978	7,709	12,163	2,961	15,124
Directors' remuneration	-	20,423	20,423	-	17,781	17,781
Other employee benefit expense	14,079	2,675	16,754	10,222	2,536	12,758
Depreciation	\$ 155,813	\$ 63,645	\$ 219,458	\$ 159,387	\$ 49,619	\$ 209,006
Amortisation	\$ -	\$ 669	\$ 669	\$ -	\$ 679	\$ 669

Note: As of December 31, 2018 and 2017, the Company had 248 and 216 employees, respectively. There were 6 and 7 non-employee directors for the years 2018 and 2017, respectively.