VISUAL PHOTONICS EPITAXY CO., LTD.

FINANCIAL STATEMENTS AND REVIEW REPORT

OF INDEPENDENT ACCOUNTANTS

March 31, 2019 AND 2018

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
MARCH 31, 2019, DECEMBER 31, 2018 AND MARCH 31, 2018
(Expressed in thousands of New Taiwan dollars)
(The balance sheets as of March 31, 2019 and 2018 are reviewed, not audited)

	Assets	Notes	March 31, 2019		December 31, 2018		March 31, 2018	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
	Current assets							
1100	Cash and cash equivalents	6(1)	$ 680,721	17	$ 617,023	16	$ 853,651	25
1150	Notes receivable, net	6(3)	-	-	281	-	-	-
1170	Accounts receivable, net	6(3)	327,930	8	273,279	7	390,767	11
1200	Other receivables		5,973	-	6,909	-	8,318	-
130X	Inventory	6(4)	407,587	10	375,310	10	337,864	10
1410	Prepayments		51,949	1	46,868	1	45,553	1
11XX	**Current Assets**		1,474,160	36	1,319,670	34	1,636,153	47
	Non-current assets							
1517	Total non-current financial assets at fair value through other comprehensive income	6(2)	-	-	-	-	-	-
1600	Property, plant and equipment	6(5) and 8	2,617,728	64	2,572,657	65	1,370,967	40
1755	Right-of-use assets	6(6)	4,033	-	-	-	-	-
1780	Intangible assets		2,430	-	2,028	-	1,720	-
1840	Deferred income tax assets	6(19)	11,524	-	9,484	-	7,032	-
1915	Prepayments for business facilities	6(5)	16,789	-	27,439	1	463,275	13
1920	Guarantee deposits paid		67	-	129	-	67	-
1975	Net defined benefit asset, non-current	6(10)	676	-	655	-	-	-
15XX	**Non-current assets**		2,653,247	64	2,612,392	66	1,843,061	53
1XXX	**Total assets**		$ 4,127,407	100	$ 3,932,062	100	$ 3,479,214	100

(Continued)

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
MARCH 31, 2019, DECEMBER 31, 2018 AND MARCH 31, 2018
(Expressed in thousands of New Taiwan dollars)
(The balance sheets as of March 31, 2019 and 2018 are reviewed, not audited)

	Liabilities and Equity	Notes	March 31, 2019 AMOUNT	%	December 31, 2018 AMOUNT	%	March 31, 2018 AMOUNT	%
	Current liabilities							
2100	Short-term borrowings	6(7)	$ 470,000	12	$ 500,000	13	$ -	-
2130	Current contract liabilities	6(14)	8,866	-	6,633	-	-	-
2170	Accounts payable		206,774	5	232,688	6	258,226	7
2200	Other payables	6(8)	178,034	4	212,432	5	194,332	6
2230	Current income tax liabilities	6(19)	80,834	2	59,209	2	64,908	2
2280	Current lease liabilities		1,759	-	-	-	-	-
2300	Other current liabilities		5,128	-	5,117	-	7,786	-
21XX	**Current Liabilities**		951,395	23	1,016,079	26	525,252	15
	Non-current liabilities							
2540	Long-term borrowings	6(9) and 8	300,000	7	380,000	10	-	-
2570	Deferred income tax liabilities	6(19)	3,388	-	131	-	-	-
2580	Non-current lease liabilities		2,279	-	-	-	-	-
2640	Net defined benefit liability, non-current	6(10)	-	-	-	-	128	-
25XX	**Non-current liabilities**		305,667	7	380,131	10	128	-
2XXX	**Total Liabilities**		1,257,062	30	1,396,210	36	525,380	15
	Equity attributable to owners of parent							
	Share capital	6(11)						
3110	Ordinary shares		1,849,059	45	1,849,059	47	1,849,059	53
	Capital surplus	6(12)						
3200	Capital surplus		109,144	3	107,182	3	107,182	3
	Retained earnings	6(13)						
3310	Legal reserve		411,007	10	411,007	10	371,572	11
3350	Unappropriated retained earnings		501,135	12	410,075	10	694,794	20
3400	Other equity interest		-	-	-	-	(68,773)	(2)
3500	Treasury stocks	6(11)	-	-	(241,471)	(6)	-	-
3XXX	**Total equity**		2,870,345	70	2,535,852	64	2,953,834	85
	Significant commitments and contingent liabilities	9						
	Significant events after the balance sheet date	11						
3X2X	**Total liabilities and equity**		$ 4,127,407	100	$ 3,932,062	100	$ 3,479,214	100

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF INCOME
FOR THE THREE-MONTH ENDED MARCH 31,2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)
(UNAUDITED)

	Items	Notes	Three months ended March 31 2019 AMOUNT	%	2018 AMOUNT	%
4000	**Sales revenue**	6(14)	$ 471,306	100	$ 562,879	100
5000	**Operating costs**	6(4)(17)(18)	(266,602)	(57)	(351,676)	(63)
5900	**Net operating margin**		204,704	43	211,203	37
	Operating expenses	6(17)(18)(21)				
6100	Selling expenses		(2,875)	(1)	(3,063)	-
6200	General & administrative expenses		(28,900)	(6)	(24,453)	(4)
6300	Research and development expenses		(62,846)	(13)	(36,859)	(7)
6000	**Total operating expenses**		(94,621)	(20)	(64,375)	(11)
6900	**Operating profit**		110,083	23	146,828	26
	Non-operating income and expenses					
7010	Other income		3,741	1	822	-
7020	Other gains and losses	6(15)	2,328	-	(7,963)	(1)
7050	Finance costs	6(16)	(2,210)	-	-	-
7000	**Total non-operating revenue and expenses**		3,859	1	(7,141)	(1)
7900	**Profit before income tax**		113,942	24	139,687	25
7950	Income tax expense	6(19)	(22,882)	(5)	(27,520)	(5)
8200	**Profit for the year**		$ 91,060	19	$ 112,167	20
	Other comprehensive income **Components of other comprehensive income that will not be reclassified to profit or loss**					
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(19)	$ -	-	$ 512	-
8310	**Components of other comprehensive income that will not be reclassified to profit or loss**		-	-	512	-
8300	**Total other comprehensive income for the year**		$ -	-	$ 512	-
8500	**Total comprehensive income for the year**		$ 91,060	19	$ 112,679	20
9750	**Total basic earnings per share**	6(20)	$ 0.50		$ 0.61	
9850	**Total diluted earnings per share**	6(20)	$ 0.50		$ 0.61	

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)
(UNAUDITED)

	Notes	Share capital - common stock	Capital Reserves: Total capital surplus, additional paid-in capital	Capital Reserves: Treasury stock transactions	Retained Earnings: Legal reserve	Retained Earnings: Total unappropriated retained earnings (accumulated deficit)	Total Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Treasury stocks	Total equity
Year 2018									
Balance at January 1, 2018		$ 1,849,059	$ 102,682	$ 4,500	$ 371,572	$ 513,342	$ -	$ -	$ 2,841,155
Effects on retrospective application		-	-	-	-	68,773	(68,773)	-	-
Balance at 1 January after adjustments		1,849,059	102,682	4,500	371,572	582,115	(68,773)	-	2,841,155
Profit for the period		-	-	-	-	112,167	-	-	112,167
Other comprehensive loss for the period	6(19)	-	-	-	-	512	-	-	512
Total comprehensive income		-	-	-	-	112,679	-	-	112,679
Balance at March 31, 2018		$ 1,849,059	$ 102,682	$ 4,500	$ 371,572	$ 694,794	($ 68,773)	$ -	$ 2,953,834
Year 2019									
Balance at January 1, 2019		$ 1,849,059	$ 102,682	$ 4,500	$ 411,007	$ 410,075	$ -	($ 241,471)	$ 2,535,852
Profit for the period		-	-	-	-	91,060	-	-	91,060
Total comprehensive income		-	-	-	-	91,060	-	-	91,060
Treasury shares reissued to employees		-	-	1,962	-	-	-	241,471	243,433
Balance at March 31, 2019		$ 1,849,059	$ 102,682	$ 6,462	$ 411,007	$ 501,135	$ -	$ -	$ 2,870,345

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)
(UNAUDITED)

	Notes	For the three months ended March 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 113,942	$ 139,687
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense (including right-of-use assets)	6(5)(6)(17)	57,672	52,536
Amortization expense	6(17)	166	159
Interest expense	6(16)	2,210	-
Interest income		(585)	(811)
Gain on disposal of property, plant and equipment	6(15)	-	(450)
Unrealized foreign exchange (gain) loss		(324)	1,183
Share-based compensation cost		1,971	-
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		281	229
Accounts receivable		(54,651)	88,839
Other receivables		935	(5,644)
Inventory		(32,277)	(16,716)
Prepayments		(5,081)	(6,232)
Changes in operating liabilities			
Current contract liabilities		2,233	-
Accounts payable		(25,914)	21,130
Other payables		(7,461)	(1,220)
Other current liabilities		11	(2,207)
Other non-current liabilities		(21)	(11)
Cash inflow generated from operations		53,107	270,472
Interest received		585	811
Interest paid		(2,210)	-
Income taxes paid		(40)	(48)
Net cash flows from operating activities		51,442	271,235
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	6(22)	(118,378)	(15,476)
Proceeds from disposal of property, plant and equipment		-	450
Acquisition of intangible assets		(568)	(76)
Increase in prepayments for business facilities		(258)	(328,600)
Decrease in refundable deposits		62	-
Net cash flows used in investing activities		(119,142)	(343,702)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in short-term borrowings	6(7)	(30,000)	-
Repayments of long-term debt	6(9)	(80,000)	-
Payments of lease liabilities		(388)	-
Treasury shares reissued to employees	6(11)	241,462	-
Net cash flows from financing activities		131,074	-
Effect of exchange rate changes on cash and cash equivalents		324	(1,183)
Net increase (decrease) in cash and cash equivalents		63,698	(73,650)
Cash and cash equivalents at beginning of period	6(1)	617,023	927,301
Cash and cash equivalents at end of period	6(1)	$ 680,721	$ 853,651

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

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

1. HISTORY AND ORGANIZATION

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

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

These financial statements were report to the Board of Directors on April 25, 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 issued by FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	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’

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

B. The Company has elected to apply IFRS 16 by not restating the comparative information (referred herein as the 'modified retrospective approach') when applying "IFRSs" effective in 2019 as endorsed by the FSC. Accordingly, the Company increased both 'right-of-use' and 'lease liability' by $2,258 with respect to the lease contracts of lessees on January 1, 2019.

C. The Company has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:

(a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.

(b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

(c) The accounting for operating leases whose period will end before December 31, 2019 as short-term leases and accordingly, rent expense of $226 was recognised in the first quarter of 2019.

(d) The exclusion of initial direct costs for the measurement of 'right-of-use asset'.

(e) The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(f) The adjustment of the 'right-of-use asset' by the amount of any provision for onerous leases.

D. The Company calculated the present value of lease liabilities by using weighted average incremental borrowing interest rate of 1.09%.

E. The Company recognised lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17, 'Leases'. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate and lease liabilities recognised as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	$	2,810
Less: Short-term leases	(	524)
Total lease contracts amount recognised as lease liabilities by applying IFRS 16 on January 1, 2019	$	2,286
Incremental borrowing interest rate at the date of initial application		1.09%
Lease liabilities recognised as at January 1, 2019 by applying IFRS 16	$	2,258

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

None.

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

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

New Standards, Interpretations and Amendments	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
IFRS 17, 'Insurance contracts'	January 1, 2021

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

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

(a) Financial assets at fair value through other comprehensive income.

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

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(3) <u>Foreign currency translation</u>

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) <u>Classification of current and non-current items</u>

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 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) Leasing arrangements (lessee) - right-of-use assets / lease liabilities

Effective 2019

A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of the following:

(a) Fixed payments, less any lease incentives receivable;

(b) Variable lease payments that depend on an index or a rate;

(c) Amounts expected to be payable by the lessee under residual value guarantees;

(d) The exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and

(e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The Company subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost comprising the following:

(a) The amount of the initial measurement of lease liability;

(b) Any lease payments made at or before the commencement date;

(c) Any initial direct costs incurred by the lessee; and

(d) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset’s useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(13) Leased assets/operating leases (lessee)

Prior to 2019

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.

(14) 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.

(15) 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.

(16) 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.

(17) Notes and accounts payable

A. Accounts payable are liabilities for purchases of 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.

(18) Derecognition of financial liabilities

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

(19) 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' remuneration

Employees' compensation and directors' 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.

(20) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities.

C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

F. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

G. If a change in tax rate is enacted or substantively enacted in an interim period, the Company recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(21) 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.

(22) 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.

(23) 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 customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer'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 customer, and either the customer 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.

(24) Operating segments

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

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

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

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

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

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

As of March 31, 2019, the carrying amount of inventories was $407,587.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	March 31, 2019	December 31, 2018	March 31, 2018
Cash on hand and revolving funds	$ 335	$ 318	$ 245
Checking accounts and demand deposits	507,566	463,990	489,638
Time deposits	172,820	152,715	363,768
	$ 680,721	$ 617,023	$ 853,651

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

(No such transaction was recorded as at March 31, 2019 and December 31, 2018)

Items	March 31, 2018
Non-current items:	
Equity instruments	
Unlisted corporate stock	
Branchy Technology Co., Ltd.	$ 9,573
Hokuang Optics Co.,Ltd.	59,200
Subtotal	68,773
Accumulated impairment	(68,773)
Total	$ -

A. The Company selected to classify equity investments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to $0 at March 31, 2018.

B. The Company assessed that the fair value of its equity investments in Branchy Technology Co., Ltd. had been in decline for an extended period of time, and Branchy Technology Co., Ltd. had applied for discontinuing its business from November 17, 2015 to October 16, 2018. Thus, the Company recognised valuation adjustment loss in full amount.

C. The Company assessed that the fair value of its equity investments in Hokuang Optics Co., Ltd., which had an accumulated deficit, was significantly lower than the original investment cost. Thus, the Company recognised valuation adjustment loss in full amount.

D. The Company recognised valuation adjustment $0 for the three months ended March 31, 2018.

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

F. In the fourth quarter of 2018, in order 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.

(3) Financial assets at fair value through other comprehensive income

Items	March 31, 2019	December 31, 2018	March 31, 2018
Notes receivable	$ -	$ 281	$ -
Accounts receivable	$ 328,510	$ 273,859	$ 391,347
Less: Allowance for uncollectible accounts	(580)	(580)	(580)
	$ 327,930	$ 273,279	$ 390,767

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

Accounts receivable	March 31, 2019	December 31, 2018	March 31, 2018
Not past due	$ 292,498	$ 245,450	$ 326,174
Up to 60 days	34,746	25,744	63,626
61 to 90 days	971	2,504	851
91 to 180 days	295	161	695
Over 181 days	-	-	1
	$ 328,510	$ 273,859	$ 391,347

Notes receivable	March 31, 2019	December 31, 2018	March 31, 2018
Not past due	$ -	$ 281	$ -

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

	March 31, 2019		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 145,457	($ 4,728)	$ 140,729
Work in progress	41,248	(430)	40,818
Finished goods	271,062	(45,022)	226,040
Total	$ 457,767	($ 50,180)	$ 407,587

	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	$ 425,989	($ 50,679)	$ 375,310

	March 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 114,234	($ 4,728)	$ 109,506
Work in progress	51,748	(430)	51,318
Finished goods	219,361	(42,321)	177,040
Total	$ 385,343	($ 47,479)	$ 337,864

The cost of inventories recognised as expense for the period:

	For the Three months ended March 31, 2019	For the Three months ended March 31, 2018
Cost of goods sold	$ 266,602	$ 351,676
Scrap loss	499	-
Gain on reversal of decline in market value	(499)	-
	$ 266,602	$ 351,676

The gain on reversal of decline in market value arose from partially scrapping of slow-moving finished goods for the three months ended March 31, 2019.

(5) Property, plant and equipment

	Land	Buildings and structures	Machinery	Office equipment	Unfinished construction and equipment under acceptance	Others	Total
At January 1, 2019							
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)
	$ 141,004	$ 466,092	$ 829,230	$ 641	$ 1,105,451	$ 30,239	$ 2,572,657
2019							
Opening net book amount as at January 1	$ 141,004	$ 466,092	$ 829,230	$ 641	$ 1,105,451	$ 30,239	$ 2,572,657
Additions	-	1,636	6,164	-	81,737	1,916	91,453
Reclassifications	-	26,024	24,321	-	(47,313)	7,876	10,908
Depreciation charge	-	(13,287)	(41,775)	(67)	-	(2,161)	(57,290)
Closing net book amount as at March 31	$ 141,004	$ 480,465	$ 817,940	$ 574	$ 1,139,875	$ 37,870	$ 2,617,728
At March 31, 2019							
Cost	$ 141,004	$ 1,068,260	$ 2,709,026	$ 21,201	$ 1,139,875	$ 182,021	$ 5,261,387
Accumulated depreciation	-	(587,795)	(1,891,086)	(20,627)	-	(144,151)	(2,643,659)
	$ 141,004	$ 480,465	$ 817,940	$ 574	$ 1,139,875	$ 37,870	$ 2,617,728

	Land	Buildings and structures	Machinery	Office equipment	Others	Total
At January 1, 2018						
Cost	$ 141,004	$ 898,826	$ 2,579,117	$ 20,722	$ 155,278	$ 3,794,947
Accumulated depreciation	-	(529,938)	(1,689,909)	(20,458)	(134,263)	(2,374,568)
	$ 141,004	$ 368,888	$ 889,208	$ 264	$ 21,015	$ 1,420,379
2018						
Opening net book amount as at January 1	$ 141,004	$ 368,888	$ 889,208	$ 264	$ 21,015	$ 1,420,379
Additions	-	1,046	1,165	136	582	2,929
Reclassifications	-	-	195	-	-	195
Depreciation charge	-	(9,231)	(41,411)	(40)	(1,854)	(52,536)
Closing net book amount as at March 31	$ 141,004	$ 360,703	$ 849,157	$ 360	$ 19,743	$ 1,370,967
At March 31, 2018						
Cost	$ 141,004	$ 899,872	$ 2,577,026	$ 20,721	$ 155,860	$ 3,794,483
Accumulated depreciation	-	(539,169)	(1,727,869)	(20,361)	(136,117)	(2,423,516)
	$ 141,004	$ 360,703	$ 849,157	$ 360	$ 19,743	$ 1,370,967

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

B. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

C. For the requirement of production and operation, the Company has successively entered into equipment purchase contracts starting from 2017. As of March 31, 2019, December 31, 2018 and March 31, 2018, the amounts of partial payment for undelivered equipment were $16,789, $27,439 and $463,275 (shown as ‘prepayments for business facilities’).

(6) Leasing arrangements－lessee

Effective 2019

A. The Company leases various assets including business vehicles. Rental contracts are typically made for periods of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.

B. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	At March 31, 2019	For the three months ended March 31, 2019
	Carrying amount	Depreciation charge
Transportation equipment (Business vehicles)	$ 4,033	$ 382

C. The Company increased right-of-use asset by $2,157 for the three months ended March 31, 2019.

D. The information on income and expense accounts relating to lease contracts is as follows:

	March 31, 2019
Items affecting profit or loss	
Interest expense on lease liabilities	$ 10
Expense on short-term lease contracts	226

E. For the three months ended March 31, 2019, the Company's total cash outflow for leases were $614.

(7) Short-term borrowings

Type of borrowings	March 31, 2019	December 31, 2018	March 31, 2018
Bank unsecured borrowings	$ 470,000	$ 500,000	$ -
Interest rate range	0.89%~0.905%	0.88%~0.90%	-

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

(8) Other payables

	March 31, 2019	December 31, 2018	March 31, 2018
Wages, salaries and bonus payable	$ 161,378	$ 167,916	$ 158,081
Payables on machinery and equipment	3,043	29,968	22,521
Other	13,613	14,548	13,730
	$ 178,034	$ 212,432	$ 194,332

(9) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	March 31, 2019
Long-term bank borrowings				
Secured borrowings	Borrowing period is from June 21, 2018 to June 21, 2023 ; interest is repayable monthly.	1.1192%	Land,Building and Machienry	$ 300,000
Less: Current portion				-
				$ 300,000

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2018
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 Machienry	$ 380,000
Less: Current portion				-
				$ 380,000

As of March 31, 2018, there was so such transaction.

(10) Pensions

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contributions for the deficit by next March.

(b) For the aforementioned pension plan, the Company recognised pension costs both of $0 for the three months ended March 31, 2019 and 2018, respectively.

(c) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2020 amount to $84.

B. (a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The pension costs under defined contribution pension plans of the Company for the three months ended March 31, 2019 and 2018, were $2,003 and $1,802, respectively.

(11) Share capital/Treasury shares

A. As of March 31, 2019, the Company's authorised capital was $2,600,000, consisting of 260,000 thousand shares of ordinary stock (including 15,000 thousand shares reserved for employee stock options), and the paid-in capital was $1,849,059 with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected. Movements in the number of the company's ordinary shares outstanding are as follow:

	2019		2018	
At January 1	$	181,042	$	184,906
Treasury shares reissued to employees		3,864		-
At March 31	$	184,906	$	184,906

B. Treasury shares

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

(No such transaction was recorded as at March 31, 2019 and March 31, 2018)

Name of company holding the shares	Reason for	December 31, 2018 Number of shares	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.

(12) 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. However, capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

B. On March 7, 2019, the Board of Director 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 April 25, 2019, the proposal has not been resolved by the shareholders.

(13) Retained earnings

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

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

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

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

E. On March 7, 2019 the distribution of 2018 retained earnings as proposed by the Board of Directors, and June 15, 2018, the distribution of 2017 retained earnings as resolved by the stockholders in the meeting were as follows:

	2018		2017	
	Amount	Dividends per share (in dollar)	Amount	Dividends per share (in dollar)
Legal reserve	$ 39,717		$ 39,435	
Cash dividends	369,812	$ 2.03	462,265	$ 2.50

As of April 25, 2019, the abovementioned distribution of earnings for the year of 2018 has not been resolved by shareholders during their meeting. Thus, the financial report did not reflect the dividend payables. Information about the distribution of retained earnings of the Company as proposed by the Board of Directors and resolved at the meeting of shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

F. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(18).

(14) Operating revenue

A. Disaggregation of revenue from contracts with customers

The Group 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 three months ended March 31, 2019	Taiwan	US	All other segments	Total
Revenue from external customer contracts	$ 120,175	$ 303,704	$ 47,427	$ 471,306

For the three months ended March 31, 2018	Taiwan	US	All other segments	Total
Revenue from external customer contracts	$ 306,257	$ 226,871	$ 29,751	$ 562,879

B. Contract assets and liabilities

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

	March 31, 2019	December 31, 2018	March 31, 2018
Advance sales receipts	$ 8,866	$ 6,633	$ -

Revenue recognised that was included in the contract liability balance at the beginning of the period

	For the three months ended March 31, 2019
Advance sales receipts	$ 4,192

(15) Other gains and losses

	For the three months ended March 31,	
	2019	2018
Net foreign exchange gain (losses)	$ 2,364	($ 8,378)
Gains on disposals of property, plant and equipment	-	450
Other losses	(36)	(35)
Total	$ 2,328	($ 7,963)

(16) Finance costs

	For the three months ended March 31,	
	2019	2018
Interest expense	$ 2,210	$ -

(17) Expenses by nature

	For the three months ended March 31, 2019		For the three months ended March 31, 2018	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Change in inventory of finished goods and work in progress	($ 43,093)	$ -	($ 29,724)	$ -
Raw materials and supplies used	211,465	-	265,239	-
Employee benefit expense	46,529	27,076	44,167	26,024
Depreciation charges on property, plant and equipment	35,109	22,181	40,791	11,745
Amortisation charges on intangible assets	-	166	-	159
Other expenses	16,592	45,198	31,203	26,447
Operating costs and expenses	$ 266,602	$ 94,621	$ 351,676	$ 64,375

(18) Employee benefit expense

	For the three months ended March 31, 2019		For the three months ended March 31, 2018	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Wages and salaries	$ 38,193	$ 24,590	$ 37,508	$ 23,887
Labour and health insurance fees	3,232	1,141	2,645	1,005
Pension costs	1,512	491	1,341	461
Other personnel expenses	3,592	854	2,673	671
	$ 46,529	$ 27,076	$ 44,167	$ 26,024

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' remuneration.

B. For the three months ended March 31, 2019 and 2018, employees' compensation was accrued at $10,357and $12,371 respectively; directors' remuneration was accrued at $3,884 and $4,639, respectively.The aforementioned amounts were recognised in salary expenses.

The employees' compensation and directors' remuneration were estimated and accrued based on 8% and 3% of distributable profit of current year for the three months ended March 31, 2019 and 2018. Employees' compensation and directors' remuneration of 2018 as resolved by the meeting of Board of Directors were in agreement with those amounts recognised in the 2018 financial statements. Information about employees' compensation and directors' 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.

(19) Income tax

A. Income tax expense

(a) Components of income tax expense:

	For the three months ended March 31, 2019	For the three months ended March 31, 2018
Current tax:		
Current tax on profits for the period	$ 21,664	$ 26,824
Deferred tax:		
Origination and reversal of temporary differences	1,218	1,457
Impact of change in tax rate	-	(761)
Income tax expense	$ 22,882	$ 27,520

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

	For the three months ended March 31, 2019	For the three months ended March 31, 2018
Impact of change in tax rate	$ -	$ 512

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

C. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has accessed the impact of the change in income tax rate.

(20) Earnings per share

	For the three months ended March 31, 2019		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders	$ 91,060	182,581	$ 0.50
Diluted earnings per share			
Profit attributable to ordinary shareholders	$ 91,060	182,581	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	641	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 91,060	183,222	$ 0.50

	For the three months ended March 31, 2018		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders	$ 112,167	184,906	$ 0.61
Diluted earnings per share			
Profit attributable to ordinary shareholders	$ 112,167	184,906	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	380	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 112,167	185,286	$ 0.61

(21) Operating leases

Effective 2018

The company's transportation equipment is obtained through operating leases. The lease terms were between 1 to 3 years. Rent expenses recognized through current profit or loss for the three months ended March 31, 2018, was $615. The future aggregate minimum lease payments receivable under non-cancellable operating lease are as follows:

	December 31, 2018	March 31, 2018
Not later than one year	$ 1,560	$ 1,681
Later than one year but not later than five years	1,250	1,300
	$ 2,810	$ 2,981

(22) Supplemental cash flow information

A. Investing activities with partial cash payments

	For the three months ended March 31,	
	2019	2018
Purchase of property, plant and equipment	$ 91,453	$ 2,929
Add: Opening balance of payable on equipment	29,968	35,068
Less: Ending balance of payable on equipment	(3,043)	(22,521)
Cash paid during the period	$ 118,378	$ 15,476

B. Financing activities with no cash flow effects

	For the three months ended March 31,	
	2019	2018
Reclassification	$ 10,908	$ 195

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

None.

(2) Names of related parties and relationship

None

(3) Key management compensation

	For the three months ended March 31,	
	2019	2018
Salaries and other short-term employee benefits	$ 20,973	$ 21,873
Post-employment benefits	155	141
Total	$ 21,128	$ 22,014

8. PLEDGED ASSETS

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

Pledged asset	Book value March 31, 2019		December 31, 2018		March 31, 2018		Purpose
Property, plant and equipment	$	1,150,112	$	1,121,987	$	-	For guarantee of long-term 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:

	March 31, 2019		December 31, 2018		March 31, 2018	
Property, plant and equipment	$	91,027	$	130,171	$	797,254

B. Guarantee for customs duties

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

March 31, 2019		December 31, 2018		March 31, 2018	
$	10,000	$	10,000	$	10,000

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

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

The gearing ratios at March 31, 2019, December 31, 2018 and March 31, 2018 were as follows:

	March 31, 2019		December 31, 2018		March 31, 2018	
Total borrowings	$	770,000	$	880,000	$	-
Total equity	$	2,870,345	$	2,535,852	$	2,953,834
Gearing ratio		27%		35%		-

(2) Financial instruments

A. Financial instruments by category

	March 31, 2019	December 31, 2018	March 31, 2018
Financial assets			
Financial assets at fair value through other comprehensive income			
Designation of equity instrument	$ -	$ -	$ -
Financial assets at amortised cost			
Cash and cash equivalents	680,721	617,023	853,651
Notes receivable	-	281	-
Accounts receivable	327,930	273,279	390,767
Other receivables	5,973	6,909	8,318
Guarantee deposits paid	67	129	67
	$ 1,014,691	$ 897,621	$ 1,252,803

	March 31, 2019	December 31, 2018	March 31, 2018
Financial liabilities			
Financial liabilities at amortised cost			
Short-term borrowings	$ 470,000	$ 500,000	$ -
Accounts payable	206,774	232,688	258,226
Other accounts payable	178,034	212,432	194,332
Lease liability	4,038	-	-
Long-term borrowings (including current portion)	300,000	380,000	-
	$ 1,158,846	$ 1,325,120	$ 452,558

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:

	March 31, 2019		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ 18,895	30.82	$ 582,344
Financial liabilities			
Monetary items			
USD:NTD	$ 4,758	30.82	$ 146,642

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

	March 31, 2018		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ 32,329	29.11	$ 941,097
Financial liabilities			
Monetary items			
USD:NTD	$ 6,811	29.11	$ 198,268

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

	March 31, 2019		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 5,823	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 1,466	$ -

	December 31, 2018		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 5,311	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 1,663	$ -

	March 31, 2018		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 9,411	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 1,983	$ -

iii. The unrealised exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Company for the three months ended March 31, 2019 and 2018, amounted to $2,364, and ($8,378), respectively.

Price risk

Not applicable.

Cash flow and fair value Interest rate risk

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

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 three months ended March 31, 2019, 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 three months ended March 31, 2019 would have increased/decreased by $3,000. 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 customer's accounts receivable in accordance with customer types. The Company applies the modified approach to estimate expected credit loss under the provision matrix basis.

vi. The Company used the forecastability of Taiwan Institute of Economic Research boom observation report to adjust historical and timely information to assess the default possibility of accounts receivable. On March 31, 2019, December 31, 2018 and March 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
At March 31, 2019						
Expected loss rate	0.03%	0.07%	0.20%	15.00%	100.00%	
Total book value	$ 292,498	$ 34,746	$ 971	$ 295	$ -	$ 328,510
Loss allowance	$ 88	$ 24	$ 173	$ 295	$ -	$ 580

	Without past due	Up to 60 days	Up to 90 days	Up to 180 days	Over 181 days	Total
At December 31, 2018						
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

	Without past due	Up to 60 days	Up to 90 days	Up to 180 days	Over 181 days	Total
At March 31, 2018						
Expected loss rate	0.03%	0.07%	0.20%	15.00%	100.00%	
Total book value	$ 326,174	$ 63,626	$ 851	$ 695	$ 1	$ 391,347
Loss allowance	$ 98	$ 45	$ 2	$ 434	$ 1	$ 580

(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

	Less than 1 year	Over 1 years
March 31, 2019		
Short-term borrowings	$ 470,260	$ -
Accounts payable	206,774	-
Other payables	178,034	-
Other current payables	5,128	-
Lease liability	1,759	2,279
Long-term borrowings (including current portion)	3,358	310,947

Non-derivative financial liabilities

	Less than 1 year	Over 1 years
December 31, 2018		
Short-term borrowings	$ 500,374	$ -
Accounts payable	232,688	-
Other payables	212,432	-
Other current payables	5,117	-
Long-term borrowings (including current portion)	4,151	394,217

Non-derivative financial liabilities

	Less than 1 year	Over 1 years
March 31, 2018		
Accounts payable	$ 258,226	-
Other payables	194,332	-
Other current payables	7,786	-

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 March 31, 2019 and December 31, 2018)

March 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Financial assets at fair value through other comprehensive income				
Equity securities	-	-	-	-

C. For the three months ended March 31, 2019 and 2018, there was no transfer between Level 1 and Level 2.

D. 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 March 31, 2019 and December 31, 2018)

	Fair value at March 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	$ -	Net asset value	Not applicable	Not applicable	Not applicable

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: None.

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

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

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

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

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

(2) Information on investees

None.

(3) Information on investments in Mainland China

None.

14. SEGMENT INFORMATION

(1) General information

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