

VISUAL PHOTONICS EPITAXY CO., LTD.
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, 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, 2019 and 2018, 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(23).

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, 2019, Visual Photonics Epitaxy Co., Ltd.'s inventories and allowance for inventory valuation losses amounted to NT \$380,333 thousand and NT \$50,180 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 19, 2020

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, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2019		December 31, 2018	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 874,549	20	\$ 617,023	16
1150	Notes receivable, net	6(3)	432	-	281	-
1170	Accounts receivable, net	6(3)	513,599	12	273,279	7
1200	Other receivables		1,135	-	6,909	-
130X	Inventories	6(4)	330,153	8	375,310	10
1410	Prepayments		65,295	1	46,868	1
11XX	Current Assets		1,785,163	41	1,319,670	34
Non-current assets						
1517	Non-current financial assets at fair value through other comprehensive income	6(2)	-	-	-	-
1600	Property, plant and equipment	6(5) and 8	2,529,540	59	2,572,657	65
1755	Right-of-use assets	6(6)	2,706	-	-	-
1780	Intangible assets		2,808	-	2,028	-
1840	Deferred income tax assets	6(19)	7,841	-	9,484	-
1915	Prepayments for business facilities	6(5)	11,303	-	27,439	1
1920	Guarantee deposits paid		67	-	129	-
1975	Net defined benefit asset, non-current	6(10)	161	-	655	-
15XX	Non-current assets		2,554,426	59	2,612,392	66
1XXX	Total assets		\$ 4,339,589	100	\$ 3,932,062	100

(Continued)

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity			December 31, 2019		December 31, 2018	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(7)	\$ 470,000	11	\$ 500,000	13
2130	Current contract liabilities	6(14)	6,936	-	6,633	-
2170	Accounts payable		303,605	7	232,688	6
2200	Other payables	6(8)	245,677	6	212,432	5
2230	Current income tax liabilities	6(19)	74,473	2	59,209	2
2280	Current lease liabilities		1,774	-	-	-
2300	Other current liabilities		5,266	-	5,117	-
21XX	Current Liabilities		1,107,731	26	1,016,079	26
Non-current liabilities						
2540	Long-term borrowings	6(9) and 8	400,000	9	380,000	10
2570	Deferred income tax liabilities	6(19)	32	-	131	-
2580	Non-current lease liabilities		947	-	-	-
25XX	Non-current liabilities		400,979	9	380,131	10
2XXX	Total Liabilities		1,508,710	35	1,396,210	36
Equity attributable to owners of parent						
Share capital		6(11)				
3110	Ordinary shares		1,849,059	43	1,849,059	47
Capital surplus		6(12)				
3200	Capital surplus		16,691	-	107,182	3
Retained earnings		6(13)				
3310	Legal reserve		450,724	10	411,007	10
3350	Unappropriated retained earnings		514,405	12	410,075	10
3500	Treasury stocks	6(11)	-	-	(241,471)	(6)
3XXX	Total equity		2,830,879	65	2,535,852	64
Significant commitments and contingent liabilities		9				
Significant events after the balance sheet date		11				
3X2X	Total liabilities and equity		\$ 4,339,589	100	\$ 3,932,062	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, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)

	Items	Notes	Year ended December 31			
			2019		2018	
			AMOUNT	%	AMOUNT	%
4000	Sales revenue	6(14)	\$ 2,530,909	100	\$ 2,062,120	100
5000	Operating costs	6(4)(17)(18)	(1,496,637)	(59)	(1,287,761)	(62)
5900	Net operating margin		<u>1,034,272</u>	<u>41</u>	<u>774,359</u>	<u>38</u>
	Operating expenses	6(17)(18)				
6100	Selling expenses		(10,901)	-	(12,145)	(1)
6200	General and administrative expenses		(117,763)	(5)	(104,895)	(5)
6300	Research and development expenses		(256,598)	(10)	(193,413)	(9)
6450	Impairment loss determined in accordance with IFRS 9	12(2)	(27)	-	-	-
6000	Total operating expenses		<u>(385,289)</u>	<u>(15)</u>	<u>(310,453)</u>	<u>(15)</u>
6900	Operating profit		<u>648,983</u>	<u>26</u>	<u>463,906</u>	<u>23</u>
	Non-operating income and expenses					
7010	Other income		6,978	-	3,919	-
7020	Other gains and losses	6(15)	(19,065)	(1)	26,014	1
7050	Finance costs	6(16)	(8,293)	-	(4,660)	-
7000	Total non-operating income and expenses		<u>(20,380)</u>	<u>(1)</u>	<u>25,273</u>	<u>1</u>
7900	Profit before income tax		628,603	25	489,179	24
7950	Income tax expense	6(19)	(114,278)	(5)	(92,009)	(5)
8200	Profit for the year		<u>\$ 514,325</u>	<u>20</u>	<u>\$ 397,170</u>	<u>19</u>
	Other comprehensive income					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	(Losses) gains on remeasurements of defined benefit plans	6(10)	(\$ 583)	-	\$ 801	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(19)	<u>117</u>	<u>-</u>	<u>352</u>	<u>-</u>
8310	Components of other comprehensive income that will not be reclassified to profit or loss		<u>(466)</u>	<u>-</u>	<u>1,153</u>	<u>-</u>
8300	Total other comprehensive (loss) income for the year		<u>(\$ 466)</u>	<u>-</u>	<u>\$ 1,153</u>	<u>-</u>
8500	Total comprehensive income for the year		<u>\$ 513,859</u>	<u>20</u>	<u>\$ 398,323</u>	<u>19</u>
9750	Total basic earnings per share	6(20)	<u>\$ 2.79</u>		<u>\$ 2.16</u>	
9850	Total diluted earnings per share	6(20)	<u>\$ 2.78</u>		<u>\$ 2.15</u>	

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, 2019 AND 2018
(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 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		-		-		-		-		1,153		-		-		1,153	
Total comprehensive income		-		-		-		-		398,323		-		-		398,323	
Earnings appropriation																	
Legal reserve	6(13)	-		-		-		39,435	(	39,435)		-		-		-
Cash dividends	6(13)	-		-		-		-	(	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
<u>Year 2019</u>																	
Balance at January 1, 2019		\$	1,849,059	\$	102,682	\$	4,500	\$	411,007	\$	410,075	\$	-	(241,471)	\$	2,535,852
Net income for 2019		-		-		-		-		514,325		-		-		514,325	
Other comprehensive income for 2019		-		-		-		-	(	466 )		-		-	(	466)
Total comprehensive income		-		-		-		-		513,859		-		-		513,859	
Earnings appropriation																	
Legal reserve	6(13)	-		-		-		39,717	(	39,717)		-		-		-
Cash dividends	6(12)(13)	-		(	92,453 )	-		-	(	369,812 )		-		-	(	462,265)
Treasury shares reissued to employees		-		-		1,962		-		-		-		241,471		243,433	
Balance at December 31, 2019		\$	1,849,059	\$	10,229	\$	6,462	\$	450,724	\$	514,405	\$	-	\$	-	\$	2,830,879

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, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 628,603	\$ 489,179
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense (including right-of-use assets)	6(5)(6)(17)	254,873	219,458
Amortization expense	6(17)	756	669
Expected credit loss	12(2)	27	-
Interest expense		8,293	4,660
Interest income		(3,380)	(3,540)
Gain on disposal of property, plant and equipment	6(15)	-	(555)
Unrealized foreign exchange (gain) loss		10,254	(6,082)
Share-based compensation cost		1,971	-
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(150)	(52)
Accounts receivable		(240,348)	206,328
Other receivables		5,774	(4,235)
Inventories		45,157	(54,162)
Prepayments		(18,427)	(7,547)
Changes in operating liabilities			
Current contract liabilities		303	6,633
Accounts payable		70,917	(4,408)
Other payables		32,751	9,432
Other current liabilities		149	(4,876)
Other non-current liabilities		(89)	7
Cash inflow generated from operations		797,434	850,909
Interest received		3,380	3,540
Interest paid		(8,293)	(4,660)
Income taxes paid		(97,353)	(72,717)
Net cash flows from operating activities		695,168	777,072
<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(22)	(127,974)	(1,242,001)
Proceeds from disposal of property, plant and equipment		-	555
Acquisition of intangible assets		(1,536)	(894)
Increase in prepayments for business facilities		(65,443)	(27,404)
Decrease (increase) in refundable deposits		62	(62)
Net cash flows used in investing activities		(194,891)	(1,269,696)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from long-term debt		20,000	380,000
(Decrease) increase in short-term borrowings		(30,000)	500,000
Payments of lease liabilities		(1,694)	-
Cash dividends paid	6(12)(13)	(462,265)	(462,265)
Purchase of treasury shares	6(11)	-	(241,471)
Treasury shares reissued to employees	6(11)	241,462	-
Net cash flows (used in) from financing activities		(232,497)	176,264
Effect of exchange rate changes on cash and cash equivalents		(10,254)	6,082
Net increase (decrease) in cash and cash equivalents		257,526	(310,278)
Cash and cash equivalents at beginning of year	6(1)	617,023	927,301
Cash and cash equivalents at end of year	6(1)	\$ 874,549	\$ 617,023

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, 2019 AND 2018
(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 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 19, 2020.

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	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’

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 \$727 was recognised in 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 Company

New standards, interpretations and amendments endorsed by the FSC effective from 2020 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendment 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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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Amendments to IFRS 9, IAS 39 and IFRS 7, 'Interest rate benchmark reform'

January 1, 2020

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

(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 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
Amendments to IAS 1, 'Classification of liabilities as current or non-current'	January 1, 2022

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.

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

are disclosed in Note 5.

(3) Foreign currency translation

Items included in the financial statements of 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 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 ~ 10 years
Other equipment	3 ~ 15 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.

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.

(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 December 31, 2019, the carrying amount of inventories was \$330,153.

6. Details of Significant Accounts

(1) Cash and cash equivalents

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash on hand and revolving funds	\$ 335	\$ 318
Checking accounts and demand deposits	498,374	463,990
Time deposits	375,840	152,715
	<u>\$ 874,549</u>	<u>\$ 617,023</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

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

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.

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

Items	December 31, 2019	December 31, 2018
Notes receivable	\$ 432	\$ 281
Accounts receivable	\$ 514,179	\$ 273,859
Less: Allowance for uncollectible accounts	(580)	(580)
	<u>\$ 513,599</u>	<u>\$ 273,279</u>

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

<u>Accounts receivable</u>	December 31, 2019	December 31, 2018
Not past due	\$ 397,074	\$ 245,450
Up to 60 days	85,625	25,744
61 to 90 days	7,921	2,504
91 to 180 days	21,753	161
Over 180 days	1,806	-
	<u>\$ 514,179</u>	<u>\$ 273,859</u>

<u>Notes receivable</u>	December 31, 2019	December 31, 2018
Not past due	<u>\$ 432</u>	<u>\$ 281</u>

The above ageing analysis was based on past due date.

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

C. As of December 31, 2019 and 2018, accounts receivable and notes receivable were all from contracts with customers. And as of January 1, 2018, the balance of receivables from contracts with customers amounted to \$480,415.

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

(4) Inventories

	December 31, 2019		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 163,129	(\$ 4,728)	\$ 158,401
Work in progress	40,510	(430)	40,080
Finished goods	176,694	(45,022)	131,672
Total	<u>\$ 380,333</u>	<u>(\$ 50,180)</u>	<u>\$ 330,153</u>

	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>

The cost of inventories recognised as expense for the period:

	For the years ended December 31,	
	2019	2018
Cost of goods sold	\$ 1,496,637	\$ 1,284,561
Scrap loss	499	-
(Gain on reversal of) loss on decline in market value	(499)	3,200
	<u>\$ 1,496,637</u>	<u>\$ 1,287,761</u>

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

(5) Property, plant and equipment

2019							
	Land	Buildings and structures	Machinery	Office equipment	Unfinished construction and equipment under acceptance	Others	Total
<u>At January 1, 2019</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>
<u>2019</u>							
January 1	\$ 141,004	\$ 466,092	\$ 829,230	\$ 641	\$ 1,105,451	\$ 30,239	\$ 2,572,657
Additions	-	30,716	85,162	-	4,172	8,418	128,468
Reclassifications	-	158,902	962,679	-	(1,082,125)	42,123	81,579
Depreciation charge	-	(53,619)	(189,596)	(252)	-	(9,697)	(253,164)
December 31	<u>\$ 141,004</u>	<u>\$ 602,091</u>	<u>\$ 1,687,475</u>	<u>\$ 389</u>	<u>\$ 27,498</u>	<u>\$ 71,083</u>	<u>\$ 2,529,540</u>
<u>At December 31, 2019</u>							
Cost	\$ 141,004	\$ 1,229,493	\$ 3,718,928	\$ 21,201	\$ 27,498	\$ 222,770	\$ 5,360,894
Accumulated depreciation	-	(627,402)	(2,031,453)	(20,812)	-	(151,687)	(2,831,354)
	<u>\$ 141,004</u>	<u>\$ 602,091</u>	<u>\$ 1,687,475</u>	<u>\$ 389</u>	<u>\$ 27,498</u>	<u>\$ 71,083</u>	<u>\$ 2,529,540</u>
2018							
	Land	Buildings and structures	Machinery	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
Reclassifications	-	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>

- 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 December 31, 2019 and 2018, the amounts of partial payment for undelivered equipment were \$11,303 and \$27,439 (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:

	<u>At December 31, 2019</u>	<u>For the year ended December 31, 2019</u>
	<u>Carrying amount</u>	<u>Depreciation charge</u>
Transportation equipment (Business vehicles)	<u>\$ 2,706</u>	<u>\$ 1,709</u>

C. The Company increased right-of-use asset by \$2,157 for the year ended December 31, 2019.

D. The information on profit and loss accounts relating to lease contracts is as follows:

	<u>December 31, 2019</u>
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 38
Expense on short-term lease contracts	727

E. For the year ended December 31, 2019, the Company's total cash outflow for leases were \$2,459.

(7) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Bank unsecured borrowings	<u>\$ 470,000</u>	<u>\$ 500,000</u>
Interest rate range	<u>0.88%~0.909%</u>	<u>0.88%~0.90%</u>

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

(8) Other payables

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Wages, salaries and bonus payable	\$ 202,070	\$ 167,916
Payables on machinery and equipment	30,462	29,968
Other	13,145	14,548
	<u>\$ 245,677</u>	<u>\$ 212,432</u>

(9) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2019
Long-term bank borrowings				
Secured borrowings	Borrowing period is from June 21, 2018 to June 21, 2023 ; interest is repayable monthly.	1.1228% ~ 1.1230%	Land, Building and Machinery	\$ 400,000
Less: Current portion				-
				<u>\$ 400,000</u>

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 Machinery	\$ 380,000
Less: Current portion				-
				<u>\$ 380,000</u>

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Present value of defined benefit obligations	(\$ 658)	(\$ 57)
Fair value of plan assets	<u>819</u>	<u>712</u>
Net defined benefit liability	<u>\$ 161</u>	<u>\$ 655</u>

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

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
Year ended December 31, 2019			
Balance at January 1	(\$ 57)	\$ 712	\$ 655
Interest (expense) income	-	-	-
Settlement profit or loss	(1)	9	8
	<u>(58)</u>	<u>721</u>	<u>663</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	17	17
Change in financial assumptions	(64)	-	(64)
Experience adjustments	(536)	-	(536)
	<u>(600)</u>	<u>17</u>	<u>(583)</u>
Pension fund contribution	-	81	81
Balance at December 31	<u>(\$ 658)</u>	<u>\$ 819</u>	<u>\$ 161</u>

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
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	404	-	404
	<u>400</u>	<u>401</u>	<u>801</u>
Pension fund contribution	-	74	74
Balance at December 31	<u>(\$ 57)</u>	<u>\$ 712</u>	<u>\$ 655</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, 2019 and 2018 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,	
	2019	2018
Discount rate	0.90%	1.30%
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, 2019				
Effect on present value of defined benefit obligation	(\$ 41)	\$ 44	\$ 41	(\$ 39)
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 4)	\$ 4	\$ 4	(\$ 4)

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, 2020 amounts to \$42.

(g) As of December 31, 2019, the weighted average duration of the retirement plan is 26 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		830
	\$	<u>830</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, 2019 and 2018 were \$8,103 and \$7,628, respectively.

(11) Share capital/Treasury shares

A. As of December 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	-
Shares reacquisition (treasury shares)	-	(3,864)
At December 31	<u>\$ 184,906</u>	<u>\$ 181,042</u>

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 December 31, 2019)

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

(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 June 12, 2019, the Stockholders resolved 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.

(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. The distribution of 2018 and 2017 earnings had been resolved at the stockholders' meeting on June 12, 2019 and June 15, 2018, respectively 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

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 19, 2020, the Board of Directors proposed and approved the appropriation of 2019 retained earnings in cash with \$2.5 per share, total dividend was \$462,265. As of March 19, 2020, abovementioned appropriation of 2019 retained earnings has not been resolved by the shareholders in the meeting.
- G. 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 year ended December 31, 2019	Taiwan	US	All other segments	Total
Revenue from external customer contracts	\$ 1,217,245	\$ 1,124,540	\$ 189,124	\$ 2,530,909
For the year ended December 31, 2018	Taiwan	US	All other segments	Total
Revenue from external customer contracts	\$ 888,915	\$ 1,041,368	\$ 131,837	\$ 2,062,120

- B. Contract assets and liabilities

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

	December 31, 2019	December 31, 2018
Advance sales receipts	\$ 6,936	\$ 6,633

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

	For the year ended December 31, 2019
Advance sales receipts	\$ 5,890

(15) Other gains and losses

	For the years ended December 31,	
	2019	2018
Gains on disposals of property, plant and equipment	\$ -	\$ 555
Net foreign exchange (losses) gains	(18,808)	25,707
Other losses	(257)	(248)
Total	(\$ 19,065)	\$ 26,014

(16) Finance costs

	For the years ended December 31,	
	2019	2018
Interest expense	\$ 8,293	\$ 4,660

(17) Expenses by nature

	For the years ended December 31,			
	2019		2018	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Change in inventory of finished goods and work in progress	\$ 52,013	\$ -	(\$ 27,832)	\$ -
Raw materials and supplies used	931,898	-	857,451	-
Employee benefit expense	209,938	116,775	178,416	101,714
Depreciation charges on property, plant and equipment	153,502	99,662	155,813	63,645
Depreciation charges on right-of-use assets	-	1,709	-	-
Amortisation charges on intangible assets	-	756	-	669
Other expenses	149,286	166,387	123,913	144,425
Operating costs and expenses	\$ 1,496,637	\$ 385,289	\$ 1,287,761	\$ 310,453

(18) Employee benefit expense

	For the years ended December 31,			
	2019		2018	
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Operating expenses</u>
Wages and salaries	\$ 176,081	\$ 106,375	\$ 147,365	\$ 92,791
Labour and health insurance fees	12,299	4,625	11,241	4,270
Pension costs	6,072	2,023	5,731	1,978
Other personnel expenses	15,486	3,752	14,079	2,675
	<u>\$ 209,938</u>	<u>\$ 116,775</u>	<u>\$ 178,416</u>	<u>\$ 101,714</u>

- A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall be at least 5 ~ 15% for employees' compensation and shall not be higher than 3% for directors' remuneration.
- B. For the years ended December 31, 2019 and 2018, employees' compensation was accrued at \$56,504 and \$43,971 respectively; directors' remuneration was accrued at \$21,189 and \$16,489, 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 years ended December 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 years ended December 31,	
	2019	2018
Current tax:		
Current tax on profits for the period	\$ 124,997	\$ 101,293
Prior year income tax overestimation	(12,380)	(7,499)
Total current tax	<u>112,617</u>	<u>93,794</u>
Deferred tax:		
Origination and reversal of temporary differences	1,661	(1,024)
Impact of change in tax rate	-	(761)
Income tax expense	<u>\$ 114,278</u>	<u>\$ 92,009</u>

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

	For the years ended December 31,	
	2019	2018
Remeasurement of defined benefit obligations	\$ 117	(\$ 160)
Impact of change in tax rate	-	512
	<u>\$ 117</u>	<u>\$ 352</u>

B. Reconciliation between income tax expense and accounting profit

	For the years ended December 31,	
	2019	2018
Tax calculated based on profit before tax and statutory tax rate (note)	\$ 125,721	\$ 97,836
Change in assessment of realisation of deferred tax assets	690	639
Expenses disallowed by tax regulation	828	741
Temporary differences not recognised as deferred tax assets	(581)	1,053
Prior year income tax overestimation	(12,380)	(7,499)
Effect from changes in tax regulation	-	(761)
Income tax expense	<u>\$ 114,278</u>	<u>\$ 92,009</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 are as follows:

	Year ended December 31, 2019			
	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	\$ 9,228	(\$ 4,694)	\$ -	\$ 4,534
Book-Tax difference of pension	-	-	-	-
Others	256	3,051	-	3,307
Subtotal	<u>\$ 9,484</u>	<u>(\$ 1,643)</u>	<u>\$ -</u>	<u>\$ 7,841</u>
— Deferred tax liabilities:				
Book-Tax difference of pension	(\$ 131)	(\$ 18)	\$ 117	(\$ 32)
	<u>\$ 9,353</u>	<u>(\$ 1,661)</u>	<u>\$ 117</u>	<u>\$ 7,809</u>

Year ended December 31, 2018				
			Recognised in other	
	January 1	Recognised in profit or loss	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>

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

	December 31, 2019	December 31, 2018
Deductible temporary differences	<u>\$ 59,004</u>	<u>\$ 61,908</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 on February 7, 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.

(20) Earnings per share

For the year ended December 31, 2019			
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 514,325	184,332	\$ 2.79
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 514,325	184,332	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	590	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 514,325	\$ 184,922	\$ 2.78

For the year ended December 31, 2018			
	Amount after tax	Weighted average number of ordinary shares outstanding (share 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' compensation	-	674	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 397,170	\$ 184,818	\$ 2.15

(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 year ended December 31, 2018 was \$2,470. The future aggregate minimum lease payments receivable under non-cancellable operating lease are as follows:

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

(22) Supplemental cash flow information

A. Investing activities with partial cash payments

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Purchase of property, plant and equipment	\$ 128,468	\$ 1,236,901
Add: Opening balance of payable on equipment	29,968	35,068
Less: Ending balance of payable on equipment	(30,462)	(29,968)
Cash paid during the period	<u>\$ 127,974</u>	<u>\$ 1,242,001</u>

B. Investing activities with no cash flow effects

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Prepayments for business facilities transferred to property, plant and equipment	<u>\$ 81,579</u>	<u>\$ 134,835</u>

7. Related Party Transactions

(1) Parent and ultimate controlling party

None.

(2) Names of related parties and relationship

None.

(3) Key management compensation

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Salaries and other short-term employee benefits	\$ 67,605	\$ 63,933
Post-employment benefits	644	605
Total	<u>\$ 68,249</u>	<u>\$ 64,538</u>

8. Pledged Assets

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

	<u>Book value</u>		
<u>Pledged asset</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>Purpose</u>
Property, plant and equipment	<u>\$ 1,175,803</u>	<u>\$ 1,121,987</u>	For guarantee of long-term loans

9. Significant Contingent Liabilities and Unrecognized 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, 2019</u>	<u>December 31, 2018</u>
Property, plant and equipment	<u>\$ 39,980</u>	<u>\$ 130,171</u>

B. Guarantee for customs duties

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
	<u>\$ 10,000</u>	<u>\$ 10,000</u>

10. Significant Disaster Loss

None.

11. Significant Events after the Balance Sheet Date

(1) On March 19, 2020, the Board of Directors proposed the appropriation of 2019 earnings. For details of the appropriation, please refer to Note 6(13).

(2) On March 19, 2020, the Board of Directors announced the repurchase of 5,000 shares in the open market during March 20 to May 19, 2020 in order to motivate employees and improve their morale. The buyback range is between NT\$58 to NT\$108 per share.

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 December 31, 2019 and 2018 were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Total borrowings	<u>\$ 870,000</u>	<u>\$ 880,000</u>
Total equity	<u>\$ 2,830,879</u>	<u>\$ 2,535,852</u>
Gearing ratio	31%	35%

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Financial assets</u>		
Financial assets at amortised cost		
Cash and cash equivalents	\$ 874,549	\$ 617,023
Notes receivable	432	281
Accounts receivable	513,599	273,279
Other receivables	1,135	6,909
Guarantee deposits paid	67	129
	<u>\$ 1,389,782</u>	<u>\$ 897,621</u>
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Short-term borrowings	\$ 470,000	\$ 500,000
Accounts payable	303,605	232,688
Other accounts payable	245,677	212,432
Long-term borrowings (including current portion)	400,000	380,000
	<u>\$ 1,419,282</u>	<u>\$ 1,325,120</u>
Lease liability	<u>\$ 2,721</u>	<u>\$ -</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, 2019			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 29,444	29.98	\$ 882,731
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 7,743	29.98	\$ 232,135
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

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

December 31, 2019			
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%	\$ 8,827	\$ -
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 2,321	\$ -
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	\$ -

- iii. Total exchange gain (loss), including realized and unrealised arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2019 and 2018, amounted to (\$18,808) and \$25,707, respectively.

Price risk

Not applicable.

Cash flow and fair value Interest rate risk

- 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 years ended December 31, 2019 and 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 years ended December 31, 2019 and 2018 would have increased/decreased by \$3,200 and \$3,040. 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 forecast ability 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, 2019 and 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, 2019</u>						
Expected loss rate	0.03%	0.07%	0.20%	15.00%	100.00%	
Total book value	\$ 397,074	\$ 85,625	\$ 7,921	\$ 21,753	\$ 1,806	\$ 514,179
Loss allowance	\$ 119	\$ 60	\$ 16	\$ 385	\$ -	\$ 580

	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. Movements in relation to the Company applying the modified approach to provide loss allowance for accounts receivable is as follows:

	2019	2018
	<u>Accounts receivable</u>	<u>Accounts receivable</u>
At January 1	\$ 580	\$ 580
Provision for impairment	27	-
Write-offs	(27)	-
At December 31	<u>\$ 580</u>	<u>\$ 580</u>

(c) Liquidity risk

- 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.
- 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.
- The table below analyses the Company's non-derivate financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities

	<u>Less than 1 year</u>	<u>Over 1 years</u>
December 31, 2019		
Short-term borrowings	\$ 470,380	\$ -
Accounts payable	303,605	-
Other payables	245,677	-
Other current payables	5,266	-
Lease liability	1,794	952
Long-term borrowings (including current portion)	4,492	411,100

Non-derivative financial liabilities

	<u>Less than 1 year</u>	<u>Over 1 years</u>
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

- 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 balance of financial instruments measured at fair value on December 31, 2019 and 2018 is 0, so there is no disclosure of relevant fair value information.
- C. For the year ended December 31, 2019 and 2018, there was no transfer between Level 1 and Level 2.
- D. For the year ended December 31, 2019 and 2018, there was no transfer in and out from level 3.

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.

(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, 2019 and 2018 is as follows:

	Year ended December 31, 2019		Year ended December 31, 2018	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	\$ 1,217,245	\$ 2,546,357	\$ 888,915	\$ 2,602,124
US	1,124,540	-	1,041,368	-
Others	189,124	-	131,837	-
	<u>\$ 2,530,909</u>	<u>\$ 2,546,357</u>	<u>\$ 2,062,120</u>	<u>\$ 2,602,124</u>

(6) Major customer information

Major customer information of the Company for the years ended December 31, 2019 and 2018 is as follows:

Year ended December 31, 2019			Year ended December 31, 2018		
Customer	Net Sales	%	Customer	Net Sales	%
Customer A	\$ 774,234	31	Customer A	\$ 473,635	23
Customer C	460,676	18	Customer B	429,863	21
Customer B	339,725	13	Customer C	429,677	21
Customer D	271,137	11			

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2019

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Details table 1

Item	Summary	Amount	Note
Cash on hand and revolving funds		\$ 335	
Demand deposits and checking accounts			
TWD deposits		120,666	
Foreign currency deposits	USD 12,575 thousand dollars	377,012	Exchange rate 29.98
	JPY 40 thousand dollars	11	Exchange rate 0.276
	HKD 178 thousand dollars	685	Exchange rate 3.849
Time deposits			
TWD deposits		136,000	
Foreign currency deposits	USD 8,000 thousand dollars	239,840	Exchange rate 29.98
		<u>\$ 874,549</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2019

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Details table 2

Customer	Amount	Note
Third parties:		
L-021	\$ 175,646	
L-007	128,116	
O-022	50,572	
O-252	40,476	
Others	119,369	Each item does not exceed 5% of account balance
	514,179	
Less: allowance for bad debts	(580)	
	<u>\$ 513,599</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.

DETAILS OF INVENTORIES

DECEMBER 31, 2019

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Details table 3

<u>Item</u>	<u>Cost</u>	<u>Market Value</u>	<u>Note</u>
Raw materials	\$ 163,129	\$ 164,450	Replacement cost as net realizable value
Work in process	40,510	73,326	Net realizable value as market price
Finished goods	176,694	206,808	Net realizable value as market price
	380,333	\$ 444,584	
Less: Provision for decline in market value	(50,180)		
	<u>\$ 330,153</u>		

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 2019
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Details table 4

Item	Opening net book amount as at January 1, 2019				Closing net book amount as at December 31, 2019		Collateral
Cost							
Land	\$ 141,004	\$ -	\$ -	\$ -	\$ 141,004		Partial guarantee for long-term loans
Bulidings and structures	1,040,600	30,716	(725)	158,902	1,229,493		"
Machinery and equipment	2,678,541	85,162	(7,454)	962,679	3,718,928		"
Office equipment	21,201	-	-	-	21,201		None
Unfinished construction and equipment under acceptance	1,105,451	4,172	-	(1,082,125)	27,498		"
Other	172,229	8,418	-	42,123	222,770		"
	<u>5,159,026</u>	<u>\$ 128,468</u>	<u>(\$ 8,179)</u>	<u>\$ 81,579</u>	<u>5,360,894</u>		
Accumulated depreciation							
Bulidings and structures	(\$ 574,508)	(\$ 53,619)	\$ 725	\$ -	(\$ 627,402)		
Machinery and equipment	(1,849,311)	(189,596)	7,454	-	(2,031,453)		
Office equipment	(20,560)	(252)	-	-	(20,812)		
Other	(141,990)	(9,697)	-	-	(151,687)		
	<u>(2,586,369)</u>	<u>(\$ 253,164)</u>	<u>\$ 8,179</u>	<u>\$ -</u>	<u>(2,831,354)</u>		
	<u>\$ 2,572,657</u>				<u>\$ 2,529,540</u>		

VISUAL PHOTONICS EPITAXY CO., LTD.

DETAILS OF SHORT-TERM LOANS

DECEMBER 31, 2019

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Details table 5

<u>Type of borrowings</u>	<u>Notes</u>	<u>Balance at December 31, 2019</u>	<u>Contract Period</u>	<u>Interest rate range</u>	<u>Financing line</u>	<u>Collateral</u>
Letter of credit	Financial					
borrowings	institutions					
"	borrowings	\$ 90,000	2019.12.20~2020.1.20	0.909%	\$ 180,000	None
"	"	180,000	2019.10.31~2020.3.22	0.88%~0.89%	180,000	"
"	"	200,000	2019.12.16~2020.1.15	0.89%~0.90%	200,000	"
		<u>\$ 470,000</u>				

VISUAL PHOTONICS EPITAXY CO., LTD.

DETAILS OF ACCOUNTS PAYABLE

DECEMBER 31, 2019

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Details table 6

Suppliers	Amount	Note
PW001	\$ 116,963	
PW004	92,994	
PG004	29,394	
Others	64,254	Each item does not exceed 5% of account balance
	<u>\$ 303,605</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.

DETAILS OF LONG-TERM LOANS

DECEMBER 31, 2019

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

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	\$ 200,000	2018.06.21~2023.06.21	1.1228%	Land, Building and Machinery	None
"	"	200,000	"	1.123%	"	"
		<u>\$ 400,000</u>				

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Details table 8

Item	Quantity	Amount	Note
Operating revenue			
Compound semiconductor wafer			
product and other items	294,899 (pcs)	\$ 2,546,057	
Less: Sales returns		(5,976)	
Less: Sales discounts		(9,172)	
		<u>\$ 2,530,909</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF OPERATING COST
FOR THE YEAR ENDED DECEMBER 31, 2019
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Details table 9

Items	Amount	Note
Opening raw materials	\$ 156,772	
Add: Current purchases	1,039,481	
Less: Closing raw materials	(163,129)	
Cost of sales of raw materials	(1,484)	
Transfer expenses	(99,742)	
Current used raw materials	931,898	
Direct labour	21,477	
Production overheads	495,397	
Production costs	1,448,772	
Add: Opening work in progress	29,708	
Less: Closing work in progress	(40,510)	
Cost of finished goods	1,437,970	
Add: Opening finished goods	239,509	
Less: Closing finished goods	(176,694)	
Transfer expenses	(5,554)	
Current cost of manufacture and sales	1,495,231	
Add: Cost of sales of raw materials	1,484	
Others	(78)	
Cost of goods sold	1,496,637	
Scrap loss	499	
Loss on decline in market value	(499)	
Current operating costs	<u>\$ 1,496,637</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF MANUFACTURING OVERHEAD
FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Details table 10

Item	Summary	Amount	Note
Wages and salaries		\$ 154,604	
Depreciation expense		153,502	
Repair and maintenance expense		52,963	
Utility fee		45,485	
Indirect materials		26,039	
Other expenses		62,804	Each item does not exceed 5% of account balance
		<u>\$ 495,397</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF SELLING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Details table 11

Item	Summary	Amount	Note
Import/export expense		\$ 4,247	
Wages and salaries		4,005	
Other expenses		2,649	Each item does not exceed 5% of account balance
		<u>\$ 10,901</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Details table 12

Item	Summary	Amount	Note
Wages and salaries		\$ 73,570	
Utility fee		16,236	
Other expenses		27,957	Each item does not exceed 5% of account balance
		<u>\$ 117,763</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF RESEARCH AND DEVELOPMENT EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Details table 13

Item	Summary	Amount	Note
Depreciation expense		\$ 99,214	
R&D materials		91,548	
Wage and salaries		28,800	
Repair and maintenance expense		16,252	
Other expenses		20,784	Each item does not exceed 5% of account balance
		<u>\$ 256,598</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
CURRENT EMPLOYEE BENEFITS, DEPRECIATION, AND AMORTISATION EXPENSES SUMMARIZED BY FUNCTION
FOR THE YEAR ENDED DECEMBER 31, 2019
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Detail table 14

By nature \ By function	Year ended December 31, 2019			Year ended December 31, 2018		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Employee Benefit Expense						
Wages and salaries	\$ 176,081	\$ 81,178	\$ 257,259	\$ 147,365	\$ 72,368	\$ 219,733
Labour and health insurance fees	12,299	4,625	16,924	11,241	4,270	15,511
Pension expense	6,072	2,023	8,095	5,731	1,978	7,709
Directors' remuneration	-	25,197	25,197	-	20,423	20,423
Other employee benefit expense	15,486	3,752	19,238	14,079	2,675	16,754
Depreciation charges on property, plant and equipment	\$ 153,502	\$ 99,662	\$ 253,164	\$ 155,813	\$ 63,645	\$ 219,458
Amortisation	\$ -	\$ 756	\$ 756	\$ -	\$ 669	\$ 669
Depreciation charges on right-of-use	\$ -	\$ 1,709	\$ 1,709	\$ -	\$ -	\$ -

Note:

1. As at December 31, 2019 and 2018, the Company had 251 and 238 employees, including 7 and 6 non-employee directors, respectively.
2. A company whose stock is listed for trading on the stock exchange or over-the-counter securities exchange shall additionally disclose the following information :
 - (1) Average employee benefit expense in current year \$ 1,236.
Average employee benefit expense in previous year \$ 1,119.
 - (2) Average employees salaries in current year \$ 1,054.
Average employees salaries in previous year \$ 947.
 - (3) Adjustments of average employees salaries 11.30%