VISUAL PHOTONICS EPITAXY CO., LTD.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REVIEW REPORT

June 30, 2020 AND 2019

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

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
JUNE 30, 2020, DECEMBER 31, 2019 AND JUNE 30, 2019
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(The balance sheets as of June 30, 2020 and 2019 are reviewed, not audited)

			June 30, 2020		December 31, 2019		June 30, 2019	
	Assets	Notes	AMOUNT	%	AMOUNT	%	AMOUNT	%
	Current assets							
1100	Cash and cash equivalents	6(1)	$ 931,851	22	$ 874,549	20	$ 718,849	17
1150	Notes receivable, net	6(2)	540	-	432	-	329	-
1170	Accounts receivable, net	6(2)	424,903	10	513,599	12	441,784	10
1200	Other receivables		600	-	1,135	-	635	-
130X	Inventory	6(3)	405,946	9	330,153	8	412,455	10
1410	Prepayments		68,867	2	65,295	1	51,117	1
11XX	**Current Assets**		1,832,707	43	1,785,163	41	1,625,169	38
	Non-current assets							
1600	Property, plant and equipment	6(4) and 8	2,421,317	57	2,529,540	59	2,609,358	61
1755	Right-of-use assets	6(5)	1,821	-	2,706	-	3,591	-
1780	Intangible assets		2,899	-	2,808	-	2,643	-
1840	Deferred income tax assets		14,202	-	7,841	-	9,356	-
1915	Prepayments for business facilities	6(4)	6,098	-	11,303	-	18,077	1
1920	Guarantee deposits paid		67	-	67	-	67	-
1975	Net defined benefit asset, non-current		182	-	161	-	697	-
15XX	**Non-current assets**		2,446,586	57	2,554,426	59	2,643,789	62
1XXX	**Total assets**		$ 4,279,293	100	$ 4,339,589	100	$ 4,268,958	100

(Continued)

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
JUNE 30, 2020, DECEMBER 31, 2019 AND JUNE 30, 2019
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(The balance sheets as of June 30, 2020 and 2019 are reviewed, not audited)

	Liabilities and Equity	Notes	June 30, 2020 AMOUNT	%	December 31, 2019 AMOUNT	%	June 30, 2019 AMOUNT	%
	Current liabilities							
2100	Short-term borrowings	6(6)	$ 300,000	7	$ 470,000	11	$ 430,000	10
2130	Current contract liabilities	6(13)	9,954	-	6,936	-	12,642	-
2170	Accounts payable		268,364	6	303,605	7	251,387	6
2200	Other payables	6(7)	679,017	16	245,677	6	657,469	16
2230	Current income tax liabilities		71,743	2	74,473	2	56,244	1
2280	Current lease liabilities		1,411	-	1,774	-	1,764	-
2300	Other current liabilities		5,908	-	5,266	-	5,868	-
21XX	**Current Liabilities**		1,336,397	31	1,107,731	26	1,415,374	33
	Non-current liabilities							
2540	Long-term borrowings	6(8) and 8	300,000	7	400,000	9	300,000	7
2570	Deferred income tax liabilities		36	-	32	-	139	-
2580	Non-current lease liabilities		425	-	947	-	1,836	-
25XX	**Non-current liabilities**		300,461	7	400,979	9	301,975	7
2XXX	**Total Liabilities**		1,636,858	38	1,508,710	35	1,717,349	40
	Equity attributable to owners of parent							
	Share capital	6(10)						
3110	Oridinary Shares		1,849,059	43	1,849,059	43	1,849,059	43
	Capital surplus	6(11)						
3200	Capital surplus		16,691	-	16,691	-	16,691	-
	Retained earnings	6(12)						
3310	Legal reserve		502,110	12	450,724	10	450,724	11
3350	Unappropriated retained earnings		274,701	7	514,405	12	235,135	6
3500	Treasury stocks	6(10)	(126)	-	-	-	-	-
3XXX	**Total equity**		2,642,435	62	2,830,879	65	2,551,609	60
	Significant commitments and contingent liabilities	9						
	Significant events after the balance sheet date	11						
3X2X	**Total liabilities and equity**		$ 4,279,293	100	$ 4,339,589	100	$ 4,268,958	100

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME
SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

			Three months ended June 30				Six months ended June 30			
			2020		2019		2020		2019	
	Items	Notes	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000	Sales revenue	6(13)	$ 593,745	100	$ 618,320	100	$ 1,243,380	100	$ 1,089,626	100
5000	Operating costs	6(3)(16)(17)	(331,319)	(56)	(362,187)	(59)	(714,690)	(58)	(628,789)	(58)
5900	Net operating margin		262,426	44	256,133	41	528,690	42	460,837	42
	Operating expenses	6(16)(17)								
6100	Selling expenses		(2,658)	-	(2,842)	-	(5,562)	(1)	(5,717)	(1)
6200	General & administrative expenses		(27,732)	(5)	(29,928)	(5)	(54,605)	(4)	(58,828)	(5)
6300	Research and development expenses		(71,511)	(12)	(61,947)	(10)	(141,570)	(11)	(124,793)	(11)
6450	Impairment loss determined in accordance with IFRS 9	12(2)	(1,608)	-	-	-	(1,608)	-	-	-
6000	Total operating expenses		(103,509)	(17)	(94,717)	(15)	(203,345)	(16)	(189,338)	(17)
6900	Operating profit		158,917	27	161,416	26	325,345	26	271,499	25
	Non-operating income and expenses									
7100	Interest income		1,065	-	1,247	-	2,110	-	1,832	-
7010	Other income		23	-	178	-	24	-	3,334	-
7020	Other gains and losses	6(14)	(11,502)	(2)	3,761	1	(50)	-	6,089	1
7050	Finance costs	6(15)	(1,549)	-	(1,827)	-	(3,821)	-	(4,037)	-
7000	Total non-operating income and expenses		(11,963)	(2)	3,359	1	(1,737)	-	7,218	1
7900	**Profit before income tax**		146,954	25	164,775	27	323,608	26	278,717	26
7950	Income tax expense	6(18)	(14,020)	(3)	(21,246)	(4)	(49,662)	(4)	(44,128)	(4)
8200	**Profit for the period**		$ 132,934	22	$ 143,529	23	$ 273,946	22	$ 234,589	22
8500	**Total comprehensive income for the period**		$ 132,934	22	$ 143,529	23	$ 273,946	22	$ 234,589	22
9750	Total basic earnings per share	6(19)	$	0.72	$	0.78	$	1.48	$	1.28
9850	Total diluted earnings per share	6(19)	$	0.72	$	0.77	$	1.47	$	1.27

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

	Notes	Share capital - common stock	Capital Reserves: Total capital surplus, additional paid-in capital	Capital Reserves: Treasury stock transactions	Retained Earnings: Legal reserve	Retained Earnings: Total unappropriated retained earnings (accumulated deficit)	Treasury stocks	Total equity
2019								
Balance at January 1, 2019		$ 1,849,059	$ 102,682	$ 4,500	$ 411,007	$ 410,075	($ 241,471)	$ 2,535,852
Profit for the period		-	-	-	-	234,589	-	234,589
Total comprehensive income		-	-	-	-	234,589	-	234,589
Appropriation and distribution of retained earnings								
Legal reserve	6(12)	-	-	-	39,717	(39,717)	-	-
Cash dividends	6(11)(12)	-	(92,453)	-	-	(369,812)	-	(462,265)
Treasury shares reissued to employees		-	-	1,962	-	-	241,471	243,433
Balance at June 30, 2019		$ 1,849,059	$ 10,229	$ 6,462	$ 450,724	$ 235,135	$ -	$ 2,551,609
2020								
Balance at January 1, 2020		$ 1,849,059	$ 10,229	$ 6,462	$ 450,724	$ 514,405	$ -	$ 2,830,879
Profit for the period		-	-	-	-	273,946	-	273,946
Total comprehensive income		-	-	-	-	273,946	-	273,946
Appropriation and distribution of retained earnings								
Legal reserve	6(12)	-	-	-	51,386	(51,386)	-	-
Cash dividends	6(12)	-	-	-	-	(462,264)	-	(462,264)
Purchase of treasury shares	6(10)	-	-	-	-	-	(126)	(126)
Balance at June 30, 2020		$ 1,849,059	$ 10,229	$ 6,462	$ 502,110	$ 274,701	($ 126)	$ 2,642,435

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

	Notes	Six months ended June 30 2020	Six months ended June 30 2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 323,608	$ 278,717
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense (including right-of-use assets)	6(4)(5)(16)	147,266	116,952
Amortization expense	6(16)	371	358
Expected credit loss	12(2)	1,608	-
Interest expense		3,821	4,037
Interest income		(2,110)	(1,832)
Unrealized foreign exchange loss		2,122	1,124
Share-based compensation cost		-	1,971
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(108)	(48)
Accounts receivable		87,088	(168,505)
Other receivables		535	6,274
Inventory		(75,793)	(37,145)
Prepayments		(3,572)	(4,249)
Net defined benefit assets		(21)	(42)
Changes in operating liabilities			
Current contract liabilities		3,018	6,009
Accounts payable		(35,241)	18,699
Other payables		(1,431)	11,215
Other current liabilities		642	751
Cash inflow generated from operations		451,803	234,286
Interest received		2,110	1,832
Interest paid		(3,821)	(4,037)
Income taxes paid		(58,749)	(46,957)
Net cash flows from operating activities		391,343	185,124
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	6(20)	(58,920)	(170,364)
Acquisition of intangible assets		(462)	(973)
Increase in prepayments for business facilities		(1,526)	(1,546)
Decrease In refundable deposits		-	62
Net cash flows used in investing activities		(60,908)	(172,821)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in short-term borrowings		(170,000)	(70,000)
Repayments of long-term debt		(100,000)	(80,000)
Payments of lease liabilities		(885)	(815)
Treasury shares reissued to employees	6(10)	-	241,462
Purchase of treasury shares	6(10)	(126)	-
Net cash flows (used in) from financing activities		(271,011)	90,647
Effect of exchange rate changes on cash and cash equivalents		(2,122)	(1,124)
Net increase in cash and cash equivalents		57,302	101,826
Cash and cash equivalents at beginning of period	6(1)	874,549	617,023
Cash and cash equivalents at end of period	6(1)	$ 931,851	$ 718,849

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

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 report to the Board of Directors on July 30, 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 endorsed by the FSC effective from 2020 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 1 and IAS 8, 'Disclosure initiative-definition of material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 ,'Interest rate benchmark reform'	January 1, 2020
Amendment to IFRS 16, 'Covid-19-related rent concessions'	June 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.

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

None.

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 4, 'Extension of the temporary exemption from applying IFRS 9'	January 1, 2021
Amendments to IFRS 3, 'Reference to the conceptual framework'	January 1, 2022
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, 2023
Amendments to IFRS 17, 'Insurance contracts'	January 1, 2023
Amendments to IAS 1, 'Classification of liabilities as current or non-	January 1, 2023
Amendments to IAS 16, 'Property, plant and equipment: proceeds before intended use'	January 1, 2022
Amendments to IAS 37, 'Onerous contracts—cost of fulfilling a contract	January 1, 2022
Annual improvements to IFRS Standards 2018–2020	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 Company have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Accounting Standard 34, 'Interim financial reporting' as endorsed by the FSC.

(2) Basis of preparation

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

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

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

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

(3) 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) 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.

(7) 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.

(8) Derecognition of financial assets

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

(9) 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.

(10) 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 ～ 4 years
Other equipment	3 ～ 15 years

(11) <u>Leasing arrangements (lessee) - right-of-use assets / lease liabilities</u>

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.

D. For lease modifications that decrease the scope of the lease, the lessee shall decrease the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize the difference between remeasured lease liability in profit or loss.

(12) 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.

(13) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(14) 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.

(15) 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.

(16) Derecognition of financial liabilities

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

(17) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Past service costs are recognised immediately in profit or loss.

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

C. Termination benefits

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

D. Employees' compensation and directors' remuneration

Employees' compensation and directors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(18) <u>Income tax</u>

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

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

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

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

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

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

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

(19) 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.

(20) 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.

(21) 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.

(22) 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 June 30, 2020, the carrying amount of inventories was $405,946.

6. Details of Significant Accounts

(1) Cash and cash equivalents

	June 30, 2020	December 31, 2019	June 30, 2019
Cash on hand and revolving funds	$ 335	$ 335	$ 328
Checking accounts and demand deposits	736,256	498,374	520,401
Time deposits	134,153	375,840	198,120
Cash equivalents - short-term ticket	61,107	-	-
	$ 931,851	$ 874,549	$ 718,849

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) Notes and accounts receivable

Items	June 30, 2020	December 31, 2019	June 30, 2019
Notes receivable	$ 540	$ 432	$ 329
Accounts receivable	$ 425,483	$ 514,179	$ 442,364
Less: Allowance for uncollectible accounts	(580)	(580)	(580)
	$ 424,903	$ 513,599	$ 441,784

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

Accounts receivable	June 30, 2020	December 31, 2019	June 30, 2019
Not past due	$ 370,959	$ 397,074	$ 409,677
Up to 60 days	49,852	85,625	31,681
61 to 90 days	402	7,921	-
91 to 180 days	-	21,753	1,006
Over 180 days	4,270	1,806	-
	$ 425,483	$ 514,179	$ 442,364

Notes receivable	June 30, 2020	December 31, 2019	June 30, 2019
Not past due	$ 540	$ 432	$ 329

The above ageing analysis was based on past due date.

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

C. As of June 30, 2020, December 31, 2019 and June 30, 2019, accounts receivable and notes receivable were all from contracts with customers. And as of January 1, 2019, the balance of receivables from contracts with customers amounted to $274,140.

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

(3) Inventories

	June 30, 2020		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 162,057	($ 4,728)	$ 157,329
Work in progress	33,646	(430)	33,216
Finished goods	260,423	(45,022)	215,401
Total	$ 456,126	($ 50,180)	$ 405,946

	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	$ 380,333	($ 50,180)	$ 330,153

	June 30, 2019		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 145,603	($ 4,728)	$ 140,875
Work in progress	40,785	(430)	40,355
Finished goods	276,247	(45,022)	231,225
Total	$ 462,635	($ 50,180)	$ 412,455

The cost of inventories recognised as expense for the period:

	For the three months ended June 30,	
	2020	2019
Cost of goods sold	$ 331,319	$ 362,187

	For the six months ended June 30,	
	2020	2019
Cost of goods sold	$ 714,690	$ 628,789
Scrap loss	-	499
Gain on reversal of decline in market value	-	(499)
	$ 714,690	$ 628,789

The gain on reversal of decline in market value arose from partially scrapping of slow-moving finished goods for the six months ended June 30, 2019.

(4) Property, plant and equipment

	2020						
	Land	Buildings and structures	Machinery	Office equipment	Others	Unfinished construction and equipment under acceptance	Total
At January 1							
Cost	$ 141,004	$ 1,229,493	$ 3,718,928	$ 21,201	$ 222,770	$ 27,498	$ 5,360,894
Accumulated depreciation	-	(627,402)	(2,031,453)	(20,812)	(151,687)	-	(2,831,354)
	$ 141,004	$ 602,091	$ 1,687,475	$ 389	$ 71,083	$ 27,498	$ 2,529,540
Opening net book amount as at January 1	$ 141,004	$ 602,091	$ 1,687,475	$ 389	$ 71,083	$ 27,498	$ 2,529,540
Additions	-	2,730	2,240	363	2,324	23,770	31,427
Reclassifications	-	552	3,148	-	3,031	-	6,731
Depreciation charge	-	(29,891)	(109,944)	(145)	(6,401)	-	(146,381)
Closing net book amount as at June 30	$ 141,004	$ 575,482	$ 1,582,919	$ 607	$ 70,037	$ 51,268	$ 2,421,317
At June 30							
Cost	$ 141,004	$ 1,232,775	$ 3,724,316	$ 21,564	$ 228,126	$ 51,268	$ 5,399,053
Accumulated depreciation	-	(657,293)	(2,141,397)	(20,957)	(158,089)	-	(2,977,736)
	$ 141,004	$ 575,482	$ 1,582,919	$ 607	$ 70,037	$ 51,268	$ 2,421,317

	2019						
	Land	Buildings and structures	Machinery	Office equipment	Others	Unfinished construction and equipment under acceptance	Total
At January 1							
Cost	$ 141,004	$ 1,040,600	$ 2,678,541	$ 21,201	$ 172,229	$ 1,105,451	$ 5,159,026
Accumulated depreciation	-	(574,508)	(1,849,311)	(20,560)	(141,990)	-	(2,586,369)
	$ 141,004	$ 466,092	$ 829,230	$ 641	$ 30,239	$ 1,105,451	$ 2,572,657
Opening net book amount as at January 1	$ 141,004	$ 466,092	$ 829,230	$ 641	$ 30,239	$ 1,105,451	$ 2,572,657
Additions	-	2,201	10,246	-	2,687	126,786	141,920
Reclassifications	-	26,024	273,551	-	7,876	(296,543)	10,908
Depreciation charge	-	(26,622)	(85,025)	(134)	(4,346)	-	(116,127)
Closing net book amount as at June 30	$ 141,004	$ 467,695	$ 1,028,002	$ 507	$ 36,456	$ 935,694	$ 2,609,358
At June 30							
Cost	$ 141,004	$ 1,068,826	$ 2,962,338	$ 21,201	$ 182,792	$ 935,694	$ 5,311,855
Accumulated depreciation	-	(601,131)	(1,934,336)	(20,694)	(146,336)	-	(2,702,497)
	$ 141,004	$ 467,695	$ 1,028,002	$ 507	$ 36,456	$ 935,694	$ 2,609,358

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 June 30, 2020, December 31, 2019 and June 30, 2019, the amounts of partial payment for undelivered equipment were $6,098, $11,303 and $18,077 (shown as 'prepayments for business facilities').

(5) Leasing arrangements－lessee

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:

	June 30, 2020	December 31, 2019	June 30, 2019
	Carrying amount	Carrying amount	Carrying amount
Transportation equipment (Business vehicles)	$ 1,821	$ 2,706	$ 3,591

	For the three months ended June 30,	
	2020	2019
	Depreciation charge	Depreciation charge
Transportation equipment (Business vehicles)	$ 443	$ 443

	For the six months ended June 30,	
	2020	2019
	Depreciation charge	Depreciation charge
Transportation equipment (Business vehicles)	$ 885	$ 825

C. The Company increased right-of-use asset by $0, $0, $0 and $2,157 for the three months and six months ended June 30, 2020 and 2019, respectively.

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

	For the three months ended June 30,	
	2020	2019
Items affecting profit or loss		
Interest expense on lease liabilities	$ 6	$ 10
Expense on short-term lease contracts	107	170

	For the six months ended June 30,	
	2020	2019
Items affecting profit or loss		
Interest expense on lease liabilities	$ 13	$ 21
Expense on short-term lease contracts	265	396

E. For the six months ended June 30, 2019, 2020 and 2019, the Company's total cash outflow for leases were $1,163 and $1,232, respectively.

(6) Short-term borrowings

Type of borrowings	June 30, 2020	December 31, 2019	June 30, 2019
Bank unsecured borrowings	$ 300,000	$ 470,000	$ 430,000
Interest rate range	0.750%	0.88%~0.909%	0.88%~0.905%

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

(7) Other payables

	June 30, 2020	December 31, 2019	June 30, 2019
Dividend payables	$ 462,264	$ -	$ 462,265
Wages, salaries and bonus payable	195,824	202,070	179,537
Payables on machinery and equipment	2,969	30,462	1,524
Other	17,960	13,145	14,143
	$ 679,017	$ 245,677	$ 657,469

(8) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	June 30, 2020
Long-term bank borrowings				
Secured borrowings	Borrowing period is from June 21, 2018 to June 21, 2023 ; interest is repayable monthly.	0.9782%~ 0.9783%	Land, Building and Machinery	$ 300,000
Less: Current portion				-
				$ 300,000

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				-
				$ 400,000

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	June 30, 2019
Long-term bank borrowings				
Secured borrowings	Borrowing period is from June 21, 2018 to June 21, 2023 ; interest is repayable monthly.	1.1192%	Land, Building and Machinery	$ 300,000
Less: Current portion				-
				$ 300,000

(9) Pensions

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

(b) For the aforementioned pension plan, the Company recognised pension costs both of $0 for the three months and six months ended June 30, 2020 and 2019, respectively.

(c) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2020 amounts to $42.

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

(b) The pension costs under defined contribution pension plans of the Company for the three months and six months ended June 30, 2020 and 2019, were $2,135, $2,001, $4,190 and $4,004, respectively.

(10) Share capital/Treasury shares

A. As of June 30, 2020, 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:

	2020	2019
At January 1	$ 184,906	$ 181,042
Treasury shares reissued to employees	-	3,864
Shares reacquisition (treasury shares)	(2)	-
At June 30	$ 184,904	$ 184,906

B. Treasury shares

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

(No such transaction was recorded as at December 31, 2019 and June 30, 2019)

Name of company holding the shares	Reason for reacquisition	June 30, 2020 Number of shares	June 30, 2020 Carrying amount
The Company	To be reissued to employees	2	$ 126

(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 five years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.

(11) Capital surplus

A. Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. 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.

(12) Retained earnings

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

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

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

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

E. The distribution of 2019 and 2018 earnings had been resolved at the stockholders' meeting on June 12, 2020 and June 12, 2019, respectively as follows:

	2019		2018	
	Amount	Dividends per share (in dollar)	Amount	Dividends per share (in dollar)
Legal reserve	$ 51,386		$ 39,717	
Cash dividends	462,264	$ 2.50	369,812	$ 2.03

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.

(13) Operating revenue

A. Disaggregation of revenue from contracts with customers

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

For the three months ended June 30, 2020	Taiwan	US	All other segments	Total
Revenue from external customer contracts	$ 277,328	$ 240,208	$ 76,209	$ 593,745

For the six months ended June 30, 2020	Taiwan	US	All other segments	Total
Revenue from external customer contracts	$ 633,687	$ 470,455	$ 139,238	$ 1,243,380

For the three months ended June 30, 2019	Taiwan	US	All other segments	Total
Revenue from external customer contracts	$ 311,680	$ 268,817	$ 37,823	$ 618,320

For the six months ended June 30, 2019	Taiwan	US	All other segments	Total
Revenue from external customer contracts	$ 431,855	$ 572,521	$ 85,250	$ 1,089,626

B. Contract assets and liabilities

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

	June 30, 2020	December 31, 2019	June 30, 2019	January 1, 2019
Advance sales receipts	$ 9,954	$ 6,936	$ 12,642	$ 6,633

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

	For the three months ended June 30,	
	2020	2019
Advance sales receipts	$ 1,709	$ 957
	For the six months ended June 30,	
	2020	2019
Advance sales receipts	$ 4,744	$ 5,149

(14) Other gains and losses

	For the three months ended June 30,	
	2020	2019
Net foreign exchange (losses) gains	($ 11,444)	$ 3,809
Other losses	(58)	(48)
Total	($ 11,502)	$ 3,761
	For the six months ended June 30,	
	2020	2019
Net foreign exchange losses	$ 64	$ 6,173
Other losses	(114)	(84)
Total	($ 50)	$ 6,089

(15) Finance costs

	For the three months ended June 30,	
	2020	2019
Interest expense	$ 1,549	$ 1,827

	For the six months ended June 30,	
	2020	2019
Interest expense	$ 3,821	$ 4,037

(16) Expenses by nature

	For the three months ended June 30,			
	2020		2019	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Change in inventory of finished goods and work in progress	($ 43,080)	$ -	($ 4,722)	$ -
Raw materials and supplies used	241,725	-	226,285	-
Employee benefit expense	52,422	29,456	51,931	30,880
Depreciation charges on property, plant and equipment	39,267	32,859	38,982	19,855
Depreciation charges on right-of-use assets	-	443	-	443
Amortisation charges on intangible assets	-	175	-	192
Other expenses	40,985	40,576	49,711	43,347
Operating costs and expenses	$ 331,319	$ 103,509	$ 362,187	$ 94,717

	For the six months ended June 30,			
	2020		2019	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Change in inventory of finished goods and work in progress	($ 76,866)	$ -	($ 47,815)	$ -
Raw materials and supplies used	531,883	-	437,750	-
Employee benefit expense	106,471	59,193	98,460	57,956
Depreciation charges on property, plant and equipment	78,344	68,037	74,091	42,036
Depreciation charges on right-of-use assets	-	885	-	825
Amortisation charges on intangible assets	-	371	-	358
Other expenses	74,858	74,859	66,303	88,163
Operating costs and expenses	$ 714,690	$ 203,345	$ 628,789	$ 189,338

(17) Employee benefit expense

	For the three months ended June 30,			
	2020		2019	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Wages and salaries	$ 44,123	$ 26,406	$ 43,601	$ 28,432
Labour and health insurance fees	3,238	1,234	3,065	984
Pension costs	1,539	596	1,502	499
Other personnel expenses	3,522	1,220	3,763	965
	$ 52,422	$ 29,456	$ 51,931	$ 30,880

	For the six months ended June 30,			
	2020		2019	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Wages and salaries	$ 89,901	$ 53,009	$ 81,794	$ 53,022
Labour and health insurance fees	6,436	2,577	6,297	2,125
Pension costs	3,016	1,174	3,014	990
Other personnel expenses	7,118	2,433	7,355	1,819
	$ 106,471	$ 59,193	$ 98,460	$ 57,956

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

B. For the three months and six months ended June 30, 2020 and 2019, employees' compensation was accrued at $14,006, $15,074, $28,551 and $25,431, respectively; directors' remuneration was accrued at $5,253, $5,653, $10,707 and $9,537, 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 six months ended June 30, 2020 and 2019. Employees' compensation and directors' remuneration of 2019 as resolved by the meeting of Board of Directors were in agreement with those amounts recognised in the 2019 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.

(18) Income tax

A. Income tax expense

Components of income tax expense:

	For the three months ended June 30,	
	2020	2019
Current tax:		
Current tax on profits for the period	$ 33,411	$ 34,708
Prior year income tax overestimation	(15,883)	(12,380)
Total current tax	17,528	22,328
Deferred tax:		
Origination and reversal of temporary differences	(3,508)	(1,082)
Income tax expense	$ 14,020	$ 21,246

	For the six months ended June 30,	
	2020	2019
Current tax:		
Current tax on profits for the period	$ 71,902	$ 56,372
Prior year income tax overestimation	(15,883)	(12,380)
Total current tax	56,019	43,992
Deferred tax:		
Origination and reversal of temporary differences	(6,357)	136
Income tax expense	$ 49,662	$ 44,128

B. The Company’s income tax returns through 2017 have been assessed and approved by the Tax Authority.

(19) Earnings per share

	For the three months ended June 30, 2020		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders	$ 132,934	184,904	$ 0.72
Diluted earnings per share			
Profit attributable to ordinary shareholders	$ 132,934	184,904	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	312	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 132,934	185,216	$ 0.72

	For the three months ended June 30, 2019		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders	$ 143,529	184,906	$ 0.78
Diluted earnings per share			
Profit attributable to ordinary shareholders	$ 143,529	184,906	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	318	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 143,529	185,224	$ 0.77

	For the six months ended June 30, 2020		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders	$ 273,946	184,905	$ 1.48
Diluted earnings per share			
Profit attributable to ordinary shareholders	$ 273,946	184,905	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	1,038	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 273,946	185,943	$ 1.47

	For the six months ended June 30, 2019		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders	$ 234,589	183,750	$ 1.28
Diluted earnings per share			
Profit attributable to ordinary shareholders	$ 234,589	183,750	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	570	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 234,589	184,320	$ 1.27

(20) Supplemental cash flow information

A. Investing activities with partial cash payments

	For the six months ended June 30,	
	2020	2019
Purchase of property, plant and equipment	$ 31,427	$ 141,920
Add: Opening balance of payable on equipment	30,462	29,968
Less: Ending balance of payable on equipment	(2,969)	(1,524)
Cash paid during the period	$ 58,920	$ 170,364

B. Investing activities with no cash flow effects

	For the six months ended June 30,	
	2020	2019
Prepayments for business facilities transferred to property, plant and equipment	$ 6,731	$ 10,908

C. Financing activities with no cash flow effects:

	For the six months ended June 30,	
	2020	2019
Cash dividends declared but yet to be paid	$ 462,264	$ 462,265

7. Related Party Transactions

(1) Parent and ultimate controlling party

None.

(2) Names of related parties and relationship

None.

(3) Key management compensation

	For the three months ended June 30,	
	2020	2019
Salaries and other short-term employee benefits	$ 19,078	$ 16,941
Post-employment benefits	164	161
Total	$ 19,242	$ 17,102

	For the six months ended June 30,	
	2020	2019
Salaries and other short-term employee benefits	$ 35,708	$ 37,914
Post-employment benefits	328	316
Total	$ 36,036	$ 38,230

8. Pledged Assets

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

	Book value			
Pledged asset	June 30, 2020	December 31, 2019	June 30, 2019	Purpose
Property, plant and equipment	$ 1,144,681	$ 1,175,803	$ 1,178,483	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:

	June 30, 2020	December 31, 2019	June 30, 2019
Property, plant and equipment	$ 64,837	$ 39,980	$ 54,875

B. Guarantee for customs duties

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

June 30, 2020	December 31, 2019	June 30, 2019
$ 10,000	$ 10,000	$ 10,000

10. Significant Disaster Loss

None.

11. Significant Events after the Balance Sheet Date

None.

12. Others

(1) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet). Total capital is calculated as 'equity' as shown in the balance sheet.

The gearing ratios at June 30, 2020, December 31, 2019 and June 30, 2019 were as follows:

	June 30, 2020	December 31, 2019	June 30, 2019
Total borrowings	$ 600,000	$ 870,000	$ 730,000
Total equity	$ 2,642,435	$ 2,830,879	$ 2,551,609
Gearing ratio	23%	31%	29%

(2) Financial instruments

A. Financial instruments by category

	June 30, 2020	December 31, 2019	June 30, 2019
Financial assets			
Financial assets at amortised cost			
Cash and cash equivalents	$ 931,851	$ 874,549	$ 718,849
Notes receivable	540	432	329
Accounts receivable	424,903	513,599	441,784
Other receivables	600	1,135	635
Guarantee deposits paid	67	67	67
	$ 1,357,961	$ 1,389,782	$ 1,161,664

	June 30, 2020	December 31, 2019	June 30, 2019
Financial liabilities			
Financial liabilities at amortised cost			
Short-term borrowings	$ 300,000	$ 470,000	$ 430,000
Accounts payable	268,364	303,605	251,387
Other accounts payable	679,017	245,677	657,469
Long-term borrowings (including current portion)	300,000	400,000	300,000
	$ 1,547,381	$ 1,419,282	$ 1,638,856
Lease liability	$ 1,836	$ 2,721	$ 3,600

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:

	June 30, 2020				
	Foreign currency amount (In thousands)		Exchange rate	Book value (NTD)	
Financial assets					
Monetary items					
USD:NTD	$	32,872	29.63	$	973,997
Financial liabilities					
Monetary items					
USD:NTD	$	6,530	29.63	$	193,484

	December 31, 2019				
	Foreign currency amount (In thousands)		Exchange rate	Book value (NTD)	
Financial assets					
Monetary items					
USD:NTD	$	29,444	29.98	$	882,731
Financial liabilities					
Monetary items					
USD:NTD	$	7,743	29.98	$	232,135

	June 30, 2019				
	Foreign currency amount (In thousands)		Exchange rate	Book value (NTD)	
Financial assets					
Monetary items					
USD:NTD	$	23,981	31.06	$	744,850
Financial liabilities					
Monetary items					
USD:NTD	$	5,806	31.06	$	180,334

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

	June 30, 2020		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 9,740	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 1,935	$ -

	December 31, 2019		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 8,827	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 2,321	$ -

	June 30, 2019		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 7,448	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 1,803	$ -

iii. Total exchange (loss) gain, including realized and unrealised arising from significant foreign exchange variation on the monetary items held by the Company for the three months and six months ended June 30, 2020 and 2019, amounted to $($11,444), $3,809, $64 and $6,173, 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 six months ended June 30, 2020 and 2019, the Company's borrowings at variable rate were mainly denominated in New Taiwan dollars.

ii. If the borrowing interest rate of New Taiwan dollars had increased/decreased by 1% with all other variables held constant, profit, net of tax for the six months ended June 30, 2020 and 2019 would have increased/decreased by $1,200 and $1,200. 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 June 30, 2020, December 31, 2019 and June 30, 2019, the provision matrix is as follows:

	Without past due	Up to 60 days	Up to 90 days	Up to 180 days	Over 181 days	Total
At June 30, 2020						
Expected loss rate	0.03%	0.07%	0.20%	15.00%	100.00%	
Total book value	$ 370,959	$ 49,852	$ 402	$ -	$ 4,270	$ 425,483
Loss allowance	$ 111	$ 35	$ 1	$ -	$ 433	$ 580

	Without past due	Up to 60 days	Up to 90 days	Up to 180 days	Over 181 days	Total
At December 31, 2019						
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
At June 30, 2019						
Expected loss rate	0.03%	0.07%	0.20%	15.00%	100.00%	
Total book value	$ 409,677	$ 31,681	$ -	$ 1,006	$ -	$ 442,364
Loss allowance	$ 123	$ 22	$ -	$ 435	$ -	$ 580

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

	2020	2019
	Accounts receivable	Accounts receivable
At January 1	$ 580	$ 580
Provision for impairment	1,608	-
Write-offs	(1,608)	-
At June 30	$ 580	$ 580

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating units of the Company and aggregated by the Company’s treasury department. The Company’s treasury department monitors rolling forecast of the Company’s liquidity requirements to ensure it has sufficient cash to meet operational needs.

ii. The treasury department invests surplus cash in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

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

Non-derivative financial liabilities

	Less than 1 year	Over 1 years
June 30, 2020		
Short-term borrowings	$ 300,113	$ -
Accounts payable	268,364	-
Other payables	679,017	-
Other current liability	5,908	-
Lease liability	1,423	427
Long-term borrowings (including current portion)	2,935	305,797

Non-derivative financial liabilities

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

Non-derivative financial liabilities

	Less than 1 year	Over 1 years
June 30, 2019		
Short-term borrowings	$ 430,408	$ -
Accounts payable	251,387	-
Other payables	657,469	-
Other current liability	5,868	-
Lease liability	1,764	1,836
Long-term borrowings (including current portion)	3,358	309,990

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 June 30, 2020, December 31, 2019 and June 30, 2019 is 0, so there is no disclosure of relevant fair value information.

C. For the six months ended June 30, 2020 and 2019, there was no transfer between Level 1 and Level 2.

D. For the six months ended June 30, 2020 and 2019, 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.

(4) Major shareholders information

Major shareholders information: Please refer to table 1.

14. Segment Information

(1) General information

The Company operates business only in a single industry. The Board of Directors who allocates resources and assesses performance of the Company as a whole, has identified that the Company has only one reportable operating segment.

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

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

(3) Reconciliation for segment income (loss)

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

VISUAL PHOTONICS EPITAXY CO., LTD.
Major shareholders information
June 30, 2020

Table 1

Name of major shareholders	Shares	
	Name of shares held	Ownership (%)
Fubon Life Assurance Co.,LTD	10,176,000	5.50%