VISUAL PHOTONICS EPITAXY CO., LTD.

FINANCIAL STATEMENTS AND REVIEW REPORT

OF INDEPENDENT ACCOUNTANTS

MARCH 31, 2016 AND 2015

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
MARCH 31, 2016, DECEMBER 31, 2015 AND MARCH 31, 2015
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	March 31, 2016 AMOUNT	%	December 31, 2015 AMOUNT	%	March 31, 2015 AMOUNT	%
	Current assets							
1100	Cash and cash equivalents	6(1)	$ 1,803,959	42	$ 1,528,875	37	$ 1,446,585	35
1150	Notes receivable, net		309	-	158	-	-	-
1170	Accounts receivable, net	6(3)	463,924	11	490,556	12	364,103	9
1200	Other receivables		9,563	-	1,359	-	2,551	-
130X	Inventories, net	6(4)	400,849	9	366,129	9	431,464	11
1410	Prepayments		49,664	1	30,887	1	45,963	1
11XX	**Total current assets**		2,728,268	63	2,417,964	59	2,290,666	56
	Non-current assets							
1523	Available-for-sale financial assets - noncurrent	6(2)	21,856	1	29,856	1	69,088	2
1600	Property, plant and equipment, net	6(5)	1,579,105	36	1,630,601	40	1,722,126	42
1780	Intangible assets		1,895	-	1,894	-	1,704	-
1840	Deferred income tax assets	6(15)	13,331	-	7,035	-	11,025	-
1900	Other non-current assets	6(6)	15,954	-	15,744	-	24,444	-
15XX	**Total non-current assets**		1,632,141	37	1,685,130	41	1,828,387	44
1XXX	**Total assets**		$ 4,360,409	100	$ 4,103,094	100	$ 4,119,053	100

(Continued)

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
MARCH 31, 2016, DECEMBER 31, 2015 AND MARCH 31, 2015
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	March 31, 2016 AMOUNT	%	December 31, 2015 AMOUNT	%	March 31, 2015 AMOUNT	%
	Current liabilities							
2170	Accounts payable		$ 300,813	7	$ 248,099	6	$ 272,727	7
2200	Other payables	6(7)	199,760	5	188,801	5	132,916	3
2230	Current income tax liabilities	6(15)	100,165	2	60,832	1	62,120	2
2300	Other current liabilities		9,316	-	7,366	-	9,620	-
21XX	**Total current liabilities**		610,054	14	505,098	12	477,383	12
	Non-current liabilities							
2570	Deferred income tax liabilities	6(15)	-	-	-	-	167	-
2640	Net defined benefit liability, non-current	6(8)	4,175	-	4,175	-	-	-
25XX	**Total non-current liabilities**		4,175	-	4,175	-	167	-
2XXX	**Total Liabilities**		614,229	14	509,273	12	477,550	12
	Share capital	6(9)						
3110	Share capital - common stock		2,465,412	57	2,465,412	60	2,465,412	60
	Capital surplus	6(10)						
3200	Capital surplus		106,704	2	106,704	3	106,704	3
	Retained earnings	6(11)						
3310	Legal reserve		265,595	6	265,595	7	218,754	5
3350	Unappropriated retained earnings	6(15)	916,469	21	756,110	18	840,745	20
	Other equity interest							
3400	Other equity interest	6(2)	(8,000)	-	-	-	9,888	-
3XXX	**Total equity**		3,746,180	86	3,593,821	88	3,641,503	88
	Significant commitments and contingent liabilities	9						
	Significant events after the balance sheet date	11						
3X2X	**Total liabilities and equity**		$ 4,360,409	100	$ 4,103,094	100	$ 4,119,053	100

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

			Three months ended March 31			
			2016		2015	
	Items	Notes	AMOUNT	%	AMOUNT	%
4000	**Sales revenue**		$ 663,268	100	$ 524,804	100
5000	**Operating costs**	6(4)(13)(14)	(402,994)	(61)	(320,027)	(61)
5900	**Gross profit from operations**		260,274	39	204,777	39
	Operating expenses	6(13)(14)				
6100	Selling expenses		(2,983)	-	(2,543)	(1)
6200	General & administrative expenses		(27,221)	(4)	(20,466)	(4)
6300	Research and development expenses		(25,278)	(4)	(27,503)	(5)
6000	**Total operating expenses**		(55,482)	(8)	(50,512)	(10)
6900	**Operating profit**		204,792	31	154,265	29
	Non-operating income and expenses					
7010	Other income		885	-	1,341	-
7020	Other gains and losses	6(12)	(12,266)	(2)	(2,952)	-
7000	**Total non-operating income and expenses**		(11,381)	(2)	(1,611)	-
7900	**Profit before income tax**		193,411	29	152,654	29
7950	Income tax expense	6(15)	(33,052)	(5)	(19,638)	(4)
8200	**Profit for the period**		$ 160,359	24	$ 133,016	25
	Other comprehensive income					
	Components of other comprehensive income that will be reclassified to profit or loss					
8362	Unrealized (loss) gain on valuation of available-for-sale financial assets	6(2)	($ 8,000)	(1)	$ 2,688	1
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(15)	-	-	-	-
8360	**Components of other comprehensive (loss) income that will be reclassified to profit or loss**		(8,000)	(1)	2,688	1
8300	**Total other comprehensive (loss) income for the period**		($ 8,000)	(1)	$ 2,688	1
8500	**Total comprehensive income for the period**		$ 152,359	23	$ 135,704	26
9750	**Total basic earnings per share**	6(16)	$ 0.65		$ 0.54	
9850	**Total diluted earnings per share**	6(16)	$ 0.65		$ 0.54	

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

			Capital Reserves		Retained Earnings			
	Notes	Share capital - common stock	Additional paid-in capital	Treasury stock transactions	Legal reserve	Total unappropriated retained earnings	Unrealized gain or loss on available-for-sale financial assets	Total equity
Three months ended March 31, 2015								
Balance at January 1, 2015		$ 2,465,412	$ 102,682	$ 4,022	$ 218,754	$ 707,729	$ 7,200	$ 3,505,799
Profit for the period		-	-	-	-	133,016	-	133,016
Other comprehensive income for the period	6(2)	-	-	-	-	-	2,688	2,688
Balance at March 31, 2015		$ 2,465,412	$ 102,682	$ 4,022	$ 218,754	$ 840,745	$ 9,888	$ 3,641,503
Three months ended March 31, 2016								
Balance at January 1, 2016		$ 2,465,412	$ 102,682	$ 4,022	$ 265,595	$ 756,110	$ -	$ 3,593,821
Profit for the period		-	-	-	-	160,359	-	160,359
Other comprehensive loss for the period	6(2)	-	-	-	-	-	(8,000)	(8,000)
Balance at March 31, 2016		$ 2,465,412	$ 102,682	$ 4,022	$ 265,595	$ 916,469	($ 8,000)	$ 3,746,180

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 193,411	$ 152,654
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(13)	51,766	51,552
Amortization	6(13)	151	112
Interest income		(844)	(1,220)
Unrealized foreign exchange loss		10,856	995
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(151)	116
Accounts receivable		26,632	10,162
Other receivables		(8,204)	675
Inventories, net		(34,720)	(75,894)
Prepayments		(18,777)	(13,854)
Changes in operating liabilities			
Accounts payable		52,714	3,390
Other payables		15,844	3,444
Other current liabilities		1,950	5,278
Cash inflow generated from operations		290,628	137,410
Interest received		844	1,220
Cash paid for income tax		(15)	(123)
Net cash flows from operating activities		291,457	138,507
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	6(17)	(5,155)	(35)
Acquisition of intangible assets		(152)	(674)
Increase in other non-current assets		(210)	(1,802)
Net cash flows used in investing activities		(5,517)	(2,511)
Effects of changes in foreign exchange rate		(10,856)	(995)
Net increase in cash and cash equivalents		275,084	135,001
Cash and cash equivalents at beginning of period		1,528,875	1,311,584
Cash and cash equivalents at end of period		$ 1,803,959	$ 1,446,585

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

VISUAL PHOTONICS EPITAXY CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015
(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.

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

These financial statements were reported to the Board of Directors on April 29, 2016.

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")

None.

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

None.

(3) <u>IFRSs issued by International Accounting Standards Board ("IASB") but not yet endorsed by the FSC</u>

New standards, interpretations and amendments issued by IASB but not yet included in the 2013 version of IFRSs as endorsed by the FSC:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board (IASB)
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by IASB
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

The Company is assessing the impact of the above standards and interpretations to the Company's financial condition and operating result. The quantitative impact will be disclosed when the assessment is complete.

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) Available-for-sale financial assets measured at fair value.

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

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment 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 entity 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 paid off within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be paid off 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) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.

C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in ‘financial assets measured at cost’.

(7) Loans and receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(8) Impairment of financial assets

A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

(a) Significant financial difficulty of the issuer or debtor;

(b) A breach of contract, such as a default or delinquency in interest or principal payments;

(c) The Company, for economic or legal reasons relating to the borrower’s financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) The disappearance of an active market for that financial asset because of financial difficulties;

(f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;

(h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset’s acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(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	50 ～ 60 years
Machinery and equipment	3 ～ 15 years
Office equipment	3 ～ 5 years
Other equipment	3 ～ 7 years

(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. Except for goodwill, 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) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(15) Derecognition of financial liabilities

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

(16) 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 expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses 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 defined benefit net 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. Remeasurement 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', directors' and supervisors' remuneration

Employees' remuneration and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal obligation 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.

(17) 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. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

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 goodwill or of an asset or liability in a transaction other than a business combination 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. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

G. 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.

(18) 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.

(19) Revenue recognition

The Company manufactures and sells optoelectronic semi-conductors epitaxy, component and etc. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods should be recognised when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(20) 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.

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

Financial assets—impairment of equity investments

The Company follows the guidance of IAS 39 to determine whether a financial asset—equity investment is impaired. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If the decline of the fair value of an individual equity investment below cost was considered significant or prolonged, the Company would suffer a loss in its financial statements, being the transfer of the accumulated fair value adjustments recognised in other comprehensive income on the impaired available-for-sale financial assets to profit or loss or being the recognition of the impairment loss on the impaired financial assets measured at cost in profit or loss.

(2) Critical accounting estimates and assumptions

A. Realisability of deferred tax assets

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Assessment of the realisability of deferred tax assets involves critical accounting judgements and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred tax assets.

As of March 31, 2016, the Company recognised deferred tax assets amounting to $13,331.

B. Evaluation of inventories

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

As of March 31, 2016, the carrying amount of inventories was $400,849.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	March 31, 2016	December 31, 2015	March 31, 2015
Cash on hand and revolving funds	$ 380	$ 433	$ 455
Checking accounts and demand deposits	1,340,079	1,064,942	922,866
Time deposits	463,500	463,500	523,264
Total	$ 1,803,959	$ 1,528,875	$ 1,446,585

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) Available-for-sale financial assets-non current

Items	March 31, 2016	December 31, 2015	March 31, 2015
Non-current items:			
Unlisted stocks			
Branchy Technology Co., Ltd.	$ 9,573	$ 9,573	$ 9,573
Emerging stocks	-	-	-
Hokuang Optics Co., Ltd.	59,200	59,200	59,200
Subtotal	68,773	68,773	68,773
Valuation adjustment	(8,000)	-	9,888
Accumulated impairment	(38,917)	(38,917)	(9,573)
Total	$ 21,856	$ 29,856	$ 69,088

A. The Company recognised ($8,000) and $2,688 in other comprehensive income for fair value change for the three months ended March 31, 2016 and 2015, respectively.

B. The Company assessed the fair value of equity investments in Branchy Technology Co., Ltd. had declined for a long period of time, and Branchy Technology Co., Ltd. applied for discontinuing its business operations from November 17, 2015 to November 16, 2016. Thus, the Company recognised the investment to be fully impaired.

C. The Company assessed the fair value of equity investments in Hokuang Optics Co., Ltd., which had accumulated deficit, was significantly lower than the original investment cost, and thus the Company recognised impairment loss of $29,344 in the 4th quarter of 2015 after its assessment.

(3) Accounts receivable, net

	March 31, 2016		December 31, 2015		March 31, 2015	
Accounts receivable	$	464,504	$	491,136	$	364,683
Less: allowance for bad debts	(	580)	(	580)	(	580)
	$	463,924	$	490,556	$	364,103

A. The Company's accounts receivable that were neither past due nor impaired were fully performing in line with the credit standards prescribed based on counterparties' industrial characteristics, scale of business and profitability.]

B. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	March 31, 2016		December 31, 2015		March 31, 2015	
Up to 30 days	$	31,612	$	49,925	$	10,504
31 to 90 days		9,241		4,963		6,947
91 to 180 days		8,006		1,738		-
Over 181 days		105		-		-
	$	48,964	$	56,626	$	17,451

The above ageing analysis was based on past due date.

C. Movement analysis of financial assets that were impaired is as follows:

As of March 31, 2016, December 31, 2015 and March 31, 2015, impairment losses of $580 were assessed on a group basis.

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

(4) Inventories

	March 31, 2016					
	Cost		Allowance for valuation loss		Book value	
Raw materials	$	115,548	($	2,905)	$	112,643
Work in process		65,712	(	430)		65,282
Finished goods		264,608	(	41,684)		222,924
Total	$	445,868	($	45,019)	$	400,849

	December 31, 2015		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 109,402	($ 2,905)	$ 106,497
Work in process	53,946	(430)	53,516
Finished goods	247,800	(41,684)	206,116
Total	$ 411,148	($ 45,019)	$ 366,129

	March 31, 2015		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 108,920	($ 2,905)	$ 106,015
Work in process	77,597	(430)	77,167
Finished goods	289,966	(41,684)	248,282
Total	$ 476,483	($ 45,019)	$ 431,464

The cost of inventories recognised as expense for the period:

	Three months ended March 31, 2016	
	2016	2015
Cost of goods sold	$ 402,994	$ 320,027

(5) Property, plant and equipment

	Land	Buildings	Machinery	Office equipment	Others	Total
At January 1, 2016						
Cost	$ 141,004	$ 869,814	$ 2,416,622	$ 20,464	$ 147,374	$ 3,595,278
Accumulated depreciation and impairment	-	(454,874)	(1,365,665)	(20,108)	(124,030)	(1,964,677)
	$ 141,004	$ 414,940	$ 1,050,957	$ 356	$ 23,344	$ 1,630,601
2016						
January 1	$ 141,004	$ 414,940	$ 1,050,957	$ 356	$ 23,344	$ 1,630,601
Additions	-	-	-	-	270	270
Depreciation charge	-	(9,279)	(40,122)	(72)	(2,293)	(51,766)
March 31	$ 141,004	$ 405,661	$ 1,010,835	$ 284	$ 21,321	$ 1,579,105
At March 31, 2016						
Cost	$ 141,004	$ 869,814	$ 2,416,622	$ 20,464	$ 147,644	$ 3,595,548
Accumulated depreciation and impairment	-	(464,153)	(1,405,787)	(20,180)	(126,323)	(2,016,443)
	$ 141,004	$ 405,661	$ 1,010,835	$ 284	$ 21,321	$ 1,579,105

	Land	Buildings	Machinery	Office equipment	Others	Total
At January 1, 2015						
Cost	$ 141,004	$ 863,778	$ 2,374,480	$ 22,156	$ 132,752	$ 3,534,170
Accumulated depreciation and impairment	-	(416,847)	(1,206,753)	(21,461)	(115,431)	(1,760,492)
	$ 141,004	$ 446,931	$ 1,167,727	$ 695	$ 17,321	$ 1,773,678
2015						
January 1	$ 141,004	$ 446,931	$ 1,167,727	$ 695	$ 17,321	$ 1,773,678
Depreciation charge	-	(9,583)	(40,175)	(97)	(1,697)	(51,552)
March 31	$ 141,004	$ 437,348	$ 1,127,552	$ 598	$ 15,624	$ 1,722,126
At March 31, 2015						
Cost	$ 141,004	$ 863,778	$ 2,374,480	$ 22,156	$ 132,752	$ 3,534,170
Accumulated depreciation and impairment	-	(426,430)	(1,246,928)	(21,558)	(117,128)	(1,812,044)
	$ 141,004	$ 437,348	$ 1,127,552	$ 598	$ 15,624	$ 1,722,126

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

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

(6) Other non-current assets

	March 31, 2016	December 31, 2015	March 31, 2015
Prepayment for equipment	$ 15,887	$ 15,637	$ 23,330
Net defined benefit asset	-	-	1,048
Others	67	107	66
	$ 15,954	$ 15,744	$ 24,444

(7) Other payable

	March 31, 2016	December 31, 2015	March 31, 2015
Wages, salaries and bonus payable	$ 185,278	$ 172,209	$ 118,398
Payable on machinery and equipment	546	5,431	-
Others	13,936	11,161	14,518
	$ 199,760	$ 188,801	$ 132,916

(8) Pension

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Act, 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 be qualified for retirement next year, the Company will make contributions to cover the deficit by next March. On March 12, 2015, the Company received an official letter from the Taoyuan City Government informing that the retirement fund is sufficient for future retirement withdrawal. Therefore, Taoyuan City Government agreed that the Company suspend monthly contributions for a one-year period starting from April 1, 2015 to March 31, 2016.

(b) For the aforementioned pension plan, the Company did not recognise any pension costs for the three months ended March 31, 2016 and 2015.

(c) The Company had no expected contributions to the defined pension plan of the Company for the year ending December 31, 2017.

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 plan of the Company for the three months ended March 31, 2016 and 2015 were $1,604 and $1,430, respectively.

(9) Share capital / events after the balance sheet date

A. As of March 31, 2016, the Company's authorized capital were all $2,600,000, consisting of 260,000 thousand shares (including employee stock option of 15,000 thousand shares), and the paid-in capital were $2,465,412, with par value of $10 (in dollars) per share. All proceeds from shares issued have been collected. The outstanding common shares were the same throughout the three months ended March 31, 2016 and 2015.

B. On March 11, 2016, return of capital amounting to 25% of total shares was resolved by the Board of Directors. 61,635 thousand shares were estimated to be retired. This resolution will be subject to approval at the annual shareholders' meeting in 2016.

C. On April 29, 2016, the Board of Directors resolved to purchase treasury shares. Please refer to Note 11 for further information.

(10) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(11) <u>Retained Earnings</u>

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

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

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

E. The Company recognised dividends distributed to owners amounting to $493,082 (cash dividends of $2 (in dollars) per share) and $493,082 (cash dividends of $2 (in dollars) per share, including earnings distribution of cash dividend $1.8 (in dollars) per share and share capital distribution of $0.2 (in dollars) per share) for the years ended December 31, 2015 and 2014, respectively. On March 11, 2016, the Board of Directors resolved that total dividends for the appropriation of 2015 earnings would be $530,064 with cash dividends of $2.15 (in dollars) per share.

F. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(14).

(12) Other gains and losses

	Three months ended March 31,	
	2016	2015
Net currency exchange losses	($ 12,238)	($ 2,935)
Other losses	(28)	(17)
Total	($ 12,266)	($ 2,952)

(13) Expenses by nature

	Three months ended March 31,			
	2016		2015	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Change in inventory of finished goods and work in process	($ 28,574)	$ -	($ 62,144)	$ -
Raw materials and supplies used	306,962	-	277,263	-
Employee benefit expense	47,662	30,231	35,658	20,242
Depreciation charges on property, plant and equipment	42,872	8,894	39,407	12,145
Amortisation charges on intangible assets	-	151	-	112
Other expenses	34,072	16,206	29,843	18,013
Operating costs and expenses	$ 402,994	$ 55,482	$ 320,027	$ 50,512

As of March 31, 2016 and 2015, the Company had 202 and 189 employees, respectively.

(14) Employee benefit expense

	Three months ended March 31,			
	2016		2015	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Wages and salaries	41,435	28,308	30,359	$ 18,580
Labor and health insurance fees	2,425	872	2,202	788
Pension costs	1,186	418	1,047	383
Other personnel expenses	2,616	633	2,050	491
	47,662	30,231	35,658	20,242

A. In accordance with the Company's Articles of Incorporation, 5% to 15% of earnings should be distributed as employees' bonus, and 3% of earnings should be distributed as Directors' and Supervisors' remuneration.

However, in accordance with the Company Act amended on May 20, 2015, a company shall distribute employee remuneration, based on the current year's profit condition, in a fixed amount or a proportion of profits. If a company has accumulated deficit, earnings should be channeled to cover losses. A company may, by a resolution adopted by a majority vote at a meeting of board of directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation distributed in the form of shares or in cash; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting. Qualification requirements of employees, including the employees of subsidiaries of the company meeting certain specific requirements, entitled to receive aforementioned stock or cash may be specified in the Articles of Incorporation. The Company's Board of Directors has approved the amended Articles of Incorporation of the Company on March 11, 2016. According to the amended articles, 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 between 5% and 15% for employees' compensation and shall not exceed 3% for directors' and supervisors' remuneration.

B. For the three months ended March 31 2016 and 2015, employees' compensation was accrued at \$19,780 and \$10,002, respectively; directors' and supervisors' remuneration was accrued at \$7,410 and \$3,751, respectively. The aforementioned amounts were recognised in salary expenses.

For the three months ended March 31, 2016, the employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 8% and 3% of distributable profit of current year as of the end of reporting period. The employees' compensation and supervisors' and directors' remuneration were accrued based on the percentage as prescribed in the Company's Articles of Incorporation and profit after taking into consideration of legal reserves and etc. for the three months ended March 31, 2016.

Employees' compensation and directors' and supervisors' remuneration of 2015 as resolved by the meeting of Board of Directors were in agreement with those amounts recognised in the 2015 financial statements.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(15) Income tax

A. Income tax expense

(a) Components of income tax expense:

Items	Three months ended March 31, 2016	2015
Current tax:		
Current tax on profits for the period	$ 39,348	$ 24,658
Deferred tax：		
Origination and reversal of temporary differences	(6,296)	(5,020)
Income tax expense	$ 33,052	$ 19,638

(b) The income tax (charge) / credit relating to components of other comprehensive income: None.

B. The Company's income tax returns through 2013 have been assessed and approved by the Tax Authority.

C. Unappropriated retained earnings:

	March 31, 2016	December 31, 2015	March 31, 2015
Earnings generated in and after 1998	$ 916,469	$ 756,110	$ 840,745

D. As of March 31, 2016, December 31, 2015 and March 31, 2015, the balance of the imputation tax credit account was $62,677, $62,677 and $67,443, respectively. The creditable tax rate was 14.84% for 2014 and is estimated to be 8.29% for 2015.

(16) Earnings per share

	Three months ended March 31, 2016		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per Share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders	$ 160,359	246,541	$ 0.65
Diluted earnings per share			
Profit attributable to ordinary shareholders	$ 160,359	246,541	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	756	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 160,359	247,297	$ 0.65

	Three months ended March 31, 2015		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per Share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders	$ 133,016	246,541	$ 0.54
Diluted earnings per share			
Profit attributable to ordinary shareholders	$ 133,016	246,541	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	1,191	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 133,016	247,732	$ 0.54

(17) Supplemental cash flow information

Investing activities with partial cash payments

	Three months ended March 31,	
	2016	2015
Purchase of property, plant and equipment	$ 270	$ -
Add: opening balance of payable on equipment	5,431	35
Less: ending balance of payable on equipment	(546)	-
Cash paid during the period	$ 5,155	$ 35

(18) Seasonality of operations

The Company is an epi-wafer provider in the upstream of compound semiconductor industry. The products are applied in power amplifier and microwave switches etc. In the upstream of supply chain of wireless communication industry, product demand is affected by the following factors:

A. Mobile phone makers: the timing of launching new mobile phones and their sales performance.

B. Direct customers (Integrated Device Manufacturers & Foundry): Design-in cycle time, Delivery lead time, capacity planning, inventory policy, stock level in different seasons, and speed of inventory close-out.

C. Due to the number of components and modules in the bill of materials of mobile devices and their interdependence, shortage of some components may cause delay in demand of the Company's products and thus revenue volatility.

7. RELATED PARTY TRANSACTIONS

(1) Significant related party transactions

None.

(2) Key management compensation

	Three months ended March 31,	
	2016	2015
Salaries and other short-term employee benefits	$ 22,774	$ 10,161
Post-employment benefits	128	103
Total	$ 22,902	$ 10,264

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

For related information, please refer to Note 12(4).

(2) Commitments

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

	March 31, 2016	December 31, 2015	March 31, 2015
Property, plant and equipment	$ 21,107	$ 11,974	$ 15,723

B. Guarantee for customs duties

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

March 31, 2016	December 31, 2015	March 31, 2015
$ 10,000	$ 10,000	$ 10,000

10. SIGNIFICANT DISATER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On April 29, 2016, the Board of Directors of the Company adopted a resolution to purchase 3,000 thousand treasury shares. The price range is between $35 and $79 (in dollars) and the acquisition period is from May 2 to July 1, 2016.

12. OTHERS

(1) Capital management

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

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amount of financial instruments which are not measured at fair value (including cash and cash equivalents, notes and accounts receivable, other receivables, accounts payable, other payables, refundable deposits and guarantee deposits received) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

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. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position and financial performance.

(b) Risk management is carried out by the Company's treasury department under policies approved by the Board of Directors. The treasury department identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

i. The Company's businesses involve some non-functional currency operations (the Company's functional currency is NTD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	March 31, 2016		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 29,261	32.19	$ 941,765
Financial liabilities			
Monetary items			
USD:NTD	$ 7,858	32.19	$ 252,910

	December 31, 2015		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 23,892	32.83	$ 784,255
Financial liabilities			
Monetary items			
USD:NTD	$ 6,171	32.83	$ 202,563

	March 31, 2015		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 25,476	31.30	$ 797,399
Financial liabilities			
Monetary items			
USD:NTD	$ 7,372	31.30	$ 230,744

ii. The unrealised exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Company for the three months ended March 31, 2016 and 2015 are as follows:

	Three months ended March 31,	
	2016	2015
Financial assets	($ 22,368)	($ 2,080)
Financial liabilities	6,860	1,655
	($ 15,508)	($ 425)

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

	Three months ended March 31, 2016		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 9,418	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 2,529	$ -

	Three months ended March 31, 2015		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	$ 7,974	$ -
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	$ 2,307	$ -

<u>Price risk</u>

Not applicable.

<u>Interest rate risk</u>

Not applicable.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, the Company is responsible for managing and analysing the credit risk for each of new clients before 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 management. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to outstanding receivables.

ii. For the three months ended March 31, 2016 and 2015, no credit limits were exceeded, and management does not expect any significant losses from nonperformance by these counterparties.

iii. The Company's accounts receivable that are neither past due nor impaired are fully performing in line with the credit standards prescribed based on counterparties' industrial characteristics, scale of business and profitability.

(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:

March 31, 2016	Less than 1 month	1 month to 12 months	Over 1 year
Accounts payable	$ 166,252	$ 134,561	$ -
Other payables	54,928	120,557	24,275
Other current assets	9,315	-	-

Non-derivative financial liabilities:

December 31, 2015	Less than 1 month	1 month to 12 months	Over 1 year
Accounts payable	$ 118,987	$ 129,112	$ -
Other payables	57,084	131,717	-
Other current assets	7,366	-	-

Non-derivative financial liabilities:

March 31, 2015	Less than 1 month	1 month to 12 months	Over 1 year
Accounts payable	$ 145,661	$ 127,066	$ -
Other payables	41,333	91,583	-
Other current assets	9,620	-	-

iv. The Company does not expect the timing of the cash flows estimated in the maturity date analysis will be significantly brought forward, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

A. Details of the fair value of the Company's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A.

B. 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.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at March 31, 2016, December 31, 2015 and March 31, 2015, is as follows:

March 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Available-for-sale financial assets	$ 21,856	$ -	$ -	$ 21,856

December 31, 2015	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Available-for-sale financial assets	$ 29,856	$ -	$ -	$ 29,856

March 31, 2015	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Available-for-sale financial assets	$ 69,088	$ -	$ -	$ 69,088

D. The method and assumptions the Company used to measure fair value are as follows:

The Company used market quoted prices of emerging stocks as their fair values (that is, Level 1).

E. For the three months ended March 31, 2016 and 2015, there was no transfer between Level 1 and Level 2.

(4) Other/Contingences

The Company was introduced by Tosho Asset Management Consultant Ltd. (herein referred to as "TONGSHENG"), which is registered in Taiwan, to purchase Tosho Foreign Currency Exchange Fund, amounting to US$ 13,000 thousand from Tosho Asset & Finance Investment Ltd. (herein referred to as "TOSHO"), which is registered in the British Virgin Islands. TOSHO was not able to perform its contract obligations and return the principal to the Company. Thus, the Company filed a complaint against TONGSHENG in Taiwan Taipei District Court in July 2011.

The Company obtained certain assets and commercial paper amounting to US$ 13,000 thousand from TONGSHENG's responsible person as collateral. Also, the Company has priority claims over collaterals and when the collateral value is insufficient, the joint-debtor is responsible for the insufficient amount. TONGSHENG has repaid $1,520 in 2011 and the Company has recognised the loss of $38,262 (shown as 'miscellaneous expense') in the same year. As of March 31, 2016, TONGSHENG has repaid $10,750 and the Company recognised this repayment as 'other revenue'. On April 14, 2015, the Taiwan High Court ruled that the responsible persons of TONGSHENG and TOSHO shall be sentenced to imprisonment for 34 months and 6 months, respectively. The prosecutor and the responsible persons of TONGSHENG and TOSHO filed an appeal, and thus the case is still pending under judgement of the Supreme Court.

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, excluding subsidiaries, associates and joint ventures: Please refer to table 1.

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company's paid-in capital: None.

E. Acquisition of real estate reaching $300 million or 20% of the Company's paid-in capital or more: 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 Company allocates resources and assesses performance of the Company as a whole, has identified that the Company has only one reportable operating segment.

(2) Segment information

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 Company allocates resources and assesses performance of the Company as a whole, has identified that the Company has only one reportable operating segment. Therefore, reconciliation is not applicable.

Visual Photonics Epitaxy Co., Ltd.

Holding of securities at the end of the period, excluding subsidiaries, associates and joint ventures

March 31, 2016

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

				As of March 31, 2016				
Securities held by	Securities （Note 1）	Relationship with the security issuer （Note 2）	General ledger account	Number of shares	Book value （Note 3）	Ownership (%)	Fair value	Footnote （Note 4）
Visual Photonics Epitaxy Co., Ltd.	Stocks - Branchy Technology Co., Ltd.	None.	Available-for-sale financial assets - non-current	342,529	$ -	0	$ -	
Visual Photonics Epitaxy Co., Ltd.	Stocks - Hokuang Optics Co., Ltd.	Entity that is controlled by the Company's key management	Available-for-sale financial assets - non-current	3,200,000	21,856	4	21,856	

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities within the scope of IAS 39 'Financial instruments: recognition and measurement'.
Note 2: If the security issuer is not a related party, fill in 'None.'
Note 3: Fill in the amount after adjusted with fair value and deducted by accumulated impairment for securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for securities not measured at fair value.
Note 4: If securities are pledged as collateral for loans or under any contractural restricitions, number of pledged shares, guarantee amount, and restriction conditions shall be disclosed.