VISUAL PHOTONICS EPITAXY CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 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.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

Opinion

We have audited the accompanying balance sheets of Visual Photonics Epitaxy Co., Ltd. (the "Company") as at December 31, 2016 and 2015, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Visual Photonics Epitaxy Co., Ltd. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

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

Appropriateness of cut-off of warehouse operating revenue

Description

For accounting policy of revenue recognition, please refer to Note 4(20).

The types of sale is separated into direct delivery from factory and warehouse operating revenue. The warehouse operating revenue involves shipping the goods to the warehouse in the USA or others first, then customer pick-up the goods. At this point, risk and reward have been transferred, and revenue is recognized. The Company's revenue is recognized in accordance with statements provided by sales customers or online shipping system information.

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

How our audit addressed the matter

We tailored the audit procedures as follows:

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

Valuation of inventories

Description

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

As of December 31, 2016, the Company's inventories and allowance for inventory valuation losses amounted to NT $414,148 thousand and NT $41,440 thousand, respectively.

The Company's inventories are mainly optoelectronics semiconductor Epi wafer products. Since the industry involves rapidly changing technology and are affected by the communications industry, there is higher risk of incurring inventory valuation losses or having obsolete inventory. The Company's inventories are measured at the lower of cost and net realisable value, and assesses inventories that are over a certain age and individually identifies obsolete or slow-moving inventories.

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

How our audit addressed the matter

We tailored the audit procedures as follows:

1. Assess the reasonableness and the consistency of provision policies on allowance for inventory valuation losses and procedures based on our understanding of the Company's operation and industry, including the classification of inventory for determining net realizable value and the reasonableness of determining the inventory obsolescence.
2. Obtain an understanding of the Company's warehousing control procedures. Review annual physical inventory count plan and participate in the annual inventory count event in order to assess the classification of obsolete inventory and effectiveness of obsolete inventory internal control.
3. Select samples to check the inventory clearance and historical data of inventory discount in order to evaluate the reasonableness of allowance of inventory valuation losses.
4. Test the appropriateness of the estimated basis that the Company adopted to evaluate net realizable value, select a sample of individual inventory data like inventory selling and accuracy of purchase price, and recalculate and evaluate the reasonableness of allowance for inventory valuation losses which were determined by management.

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

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

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

Those charged with governance, including audit committee [including supervisors], are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,

as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Chou, Hsiao-Tzu　　　　Lee, Hsiu-Ling

For and on behalf of PricewaterhouseCoopers, Taiwan
March 10, 2017

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.
As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

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

	Assets	Notes	December 31, 2016 AMOUNT	%	December 31, 2015 AMOUNT	%
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 981,833	30	$ 1,528,875	37
1150	Notes receivable, net		166	-	158	-
1170	Accounts receivable, net	6(3)	242,157	8	490,556	12
1200	Other receivables		11,878	-	1,359	-
130X	Inventories, net	6(4)	372,708	12	366,129	9
1410	Prepayments		35,383	1	30,887	1
11XX	**Current Assets**		1,644,125	51	2,417,964	59
	Non-current assets					
1523	Available-for-sale financial assets - noncurrent	6(2)	5,755	-	29,856	1
1600	Property, plant and equipment, net	6(5)	1,517,969	47	1,630,601	40
1780	Intangible assets		1,707	-	1,894	-
1840	Deferred income tax assets	6(14)	6,520	-	7,035	-
1915	Prepayments for business facilities		65,294	2	15,637	-
1920	Guarantee deposits paid		67	-	107	-
15XX	**Non-current assets**		1,597,312	49	1,685,130	41
1XXX	**Total assets**		$ 3,241,437	100	$ 4,103,094	100

(Continued)

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

	Liabilities and Equity	Notes	December 31, 2016 AMOUNT	%	December 31, 2015 AMOUNT	%
	Current liabilities					
2170	Accounts payable		$ 203,959	7	$ 248,099	6
2200	Other payables	6(6)	215,079	7	188,801	5
2230	Current income tax liabilities	6(14)	37,821	1	60,832	1
2300	Other current liabilities		7,447	-	7,366	-
21XX	**Current Liabilities**		464,306	15	505,098	12
	Non-current liabilities					
2570	Deferred income tax liabilities	6(14)	1,693	-	-	-
2640	Net defined benefit liability, non-current	6(7)	7,198	-	4,175	-
25XX	**Non-current liabilities**		8,891	-	4,175	-
2XXX	**Total Liabilities**		473,197	15	509,273	12
	Share capital	6(8)				
3110	Share capital - common stock		1,849,059	57	2,465,412	60
	Capital surplus	6(9)				
3200	Capital surplus		106,704	3	106,704	3
	Retained earnings	6(10)				
3310	Legal reserve		324,861	10	265,595	7
3350	Unappropriated retained earnings	6(14)	631,012	19	756,110	18
	Other equity interest					
3400	Other equity interest	6(2)	-	-	-	-
3500	Treasury stocks	6(8)	(143,396)	(4)	-	-
3XXX	**Total equity**		2,768,240	85	3,593,821	88
	Significant commitments and contingent liabilities	9				
	Significant events after the balance sheet date	11				
3X2X	**Total liabilities and equity**		$ 3,241,437	100	$ 4,103,094	100

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

	Items	Notes	2016 AMOUNT	2016 %	2015 AMOUNT	2015 %
4000	**Sales revenue**		$ 2,182,825	100	$ 2,391,899	100
5000	**Operating costs**	6(4)(12)(13)	(1,373,766)	(63)	(1,495,530)	(63)
5900	**Gross profit from operations**		809,059	37	896,369	37
	Operating expenses	6(12)(13)(16)				
6100	Selling expenses		(10,150)	(1)	(10,471)	-
6200	Administrative expenses		(96,336)	(4)	(101,068)	(4)
6300	Research and development expenses		(114,501)	(5)	(114,130)	(5)
6000	**Total operating expenses**		(220,987)	(10)	(225,669)	(9)
6900	**Net operating income**		588,072	27	670,700	28
	Non-operating income and expenses					
7010	Other income		3,521	-	15,248	1
7020	Other gains and losses	6(11)	(32,952)	(2)	5,010	-
7000	**Total non-operating income and expenses**		(29,431)	(2)	20,258	1
7900	**Profit before income tax**		558,641	25	690,958	29
7950	Income tax expense	6(14)	(91,534)	(4)	(98,301)	(4)
8200	**Profit**		$ 467,107	21	$ 592,657	25
	Other comprehensive income					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Losses on remeasurements of defined benefit plans		($ 3,465)	-	($ 5,245)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(14)	589	-	892	-
8310	**Components of other comprehensive income that will not be reclassified to profit or loss**		(2,876)	-	(4,353)	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8362	Unrealized loss on valuation of available-for-sale financial assets	6(2)	-	-	(7,200)	(1)
8399	Income tax relating to the components of other comprehensive income	6(14)	-	-	-	-
8360	**Components of other comprehensive income that will be reclassified to profit or loss**		-	-	(7,200)	(1)
8300	**Total other comprehensive loss**		($ 2,876)	-	($ 11,553)	(1)
8500	**Total comprehensive income**		$ 464,231	21	$ 581,104	24
9750	**Basic earnings per share**	6(15)	$	2.12	$	2.40
9850	**Diluted earnings per share**	6(15)	$	2.11	$	2.39

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

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

			Capital Surplus		Retained Earnings				
	Notes	Share capital - common stock	Additional paid-in capital	Treasury stock transactions	Legal reserve	Unappropriated retained earnings	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	Total equity
2015									
Balance at January 1, 2015		$ 2,465,412	$ 102,682	$ 4,022	$ 218,754	$ 707,729	$ 7,200	$ -	$ 3,505,799
Appropriation and distribution of earnings									
Legal reserve		-	-	-	46,841	(46,841)	-	-	-
Cash dividends	6(10)	-	-	-	-	(493,082)	-	-	(493,082)
Profit for the year		-	-	-	-	592,657	-	-	592,657
Other comprehensive loss for the year	6(2)	-	-	-	-	(4,353)	(7,200)	-	(11,553)
Balance at December 31, 2015		$ 2,465,412	$ 102,682	$ 4,022	$ 265,595	$ 756,110	$ -	$ -	$ 3,593,821
2016									
Balance at January 1, 2016		$ 2,465,412	$ 102,682	$ 4,022	$ 265,595	$ 756,110	$ -	$ -	$ 3,593,821
Appropriation and distribution of earnings									
Legal reserve		-	-	-	59,266	(59,266)	-	-	-
Cash dividends	6(10)	-	-	-	-	(530,063)	-	-	(530,063)
Profit for the year		-	-	-	-	467,107	-	-	467,107
Other comprehensive loss for the year	6(2)	-	-	-	-	(2,876)	-	-	(2,876)
Capital reduction	6(8)	(616,353)	-	-	-	-	-	-	(616,353)
Purchase of treasury shares	6(8)	-	-	-	-	-	-	(143,396)	(143,396)
Balance at December 31, 2016		$ 1,849,059	$ 102,682	$ 4,022	$ 324,861	$ 631,012	$ -	($ 143,396)	$ 2,768,240

Note 1: Compensation of directors and supervisors of $12,647 and employee bonus sharing of $33,726 in 2014 has been deducted from the statements of comprehensive income.
Note 2: Compensation of directors and supervisors of $23,291 and employee bonus sharing of $62,109 in 2015 has been deducted from the statements of comprehensive income.

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

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 558,641	$ 690,958
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(5)(12)	207,043	207,693
Amortization expense	6(12)	610	555
Interest income		(3,180)	(5,933)
Gain on disposal of property, plant and equipment	6(11)	(609)	(403)
Impairment loss on financial assets	6(2)(11)	24,101	29,344
Unrealized foreign exchange loss		(2,223)	(3,399)
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		(8)	(42)
Accounts receivable		248,399	(116,291)
Other receivables		(10,519)	1,867
Inventories, net		(6,579)	(10,559)
Prepayments		(4,496)	1,222
Changes in operating liabilities			
Accounts payable		(44,140)	(21,238)
Other payables		(6,203)	53,898
Other current liabilities		81	3,024
Other non-current liabilities		(442)	(1,070)
Cash inflow generated from operations		960,476	829,626
Interest received		3,180	5,933
Income tax paid		(111,748)	(75,359)
Net cash flows from operating activities		851,908	760,200
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	6(17)	(51,050)	(54,965)
Proceeds from disposal of property, plant and equipment		1,462	403
Acquisition of intangible assets		(423)	(1,307)
(Increase) decrease in prepayments for business facilities		(61,390)	2,750
Decrease (increase) in refundable deposits		40	(107)
Net cash flows used in investing activities		(111,361)	(53,226)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid	6(10)	(530,063)	(493,082)
Payments to acquire treasury shares	6(8)	(143,396)	-
Capital reduction payments to shareholders	6(8)	(616,353)	-
Net cash flows used in financing activities		(1,289,812)	(493,082)
Effect of exchange rate changes on cash and cash equivalents		2,223	3,399
Net (decrease) increase in cash and cash equivalents		(547,042)	217,291
Cash and cash equivalents at beginning of year	6(1)	1,528,875	1,311,584
Cash and cash equivalents at end of year	6(1)	$ 981,833	$ 1,528,875

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

VISUAL PHOTONICS EPITAXY CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 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 authorized for issuance by the Board of Directors on March 10, 2017.

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

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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
Disclosure initiative (amendments to IAS 1)	January 1, 2016
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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

All the above standards and interpretations have no significant impact to the Company's financial condition and operating result based on the Company's assessment.

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

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
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 International Accounting Standards Board
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 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and operating result based on the Company's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'revenue from contracts with customers' replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customers.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

B. Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from Contracts with Customers'

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a license should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

C. IFRS 16, 'Leases'

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

D. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

E. Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'

These amendments clarify the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, and they clarify several of the general principles underlying the accounting for deferred tax assets. The amendments clarify that a deductible temporary difference exists whenever an asset is measured at fair value and that fair value is below the asset's tax base. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, it considers a deductible temporary difference in combination with all of its other deductible temporary differences unless there are tax law restrictions, and the tax deduction resulting from temporary differences is excluded from estimated future taxable profits. The amendments are effective from January 1, 2017.

F. IFRIC 22, 'Foreign currency transactions and advance consideration'

The Interpretation states that the date of the transaction for a foreign currency-denominated contract should be the date of initial recognition of the non-monetary asset or non-monetary liability arising from the receipt or payment of the advance consideration.

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", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

A. Except for the following items, the consolidated 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 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 consolidated 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) <u>Classification of current and non-current items</u>

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realised within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be 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) Accounts receivable

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 company 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 company 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 reorganization;

(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:

(a) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b)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 labor, 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.

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, 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.

(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 and its subsidiaries operate and generate 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 consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition 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.

(18) <u>Share capital</u>

A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

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.

(19) <u>Dividends</u>

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.

(20) <u>Revenue recognition</u>

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.

(21) 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, 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

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

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

As of December 31, 2016, the carrying amount of inventories was $372,708.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand and revolving funds	$ 396	$ 433
Checking accounts and demand deposits	734,437	1,064,942
Time deposits	247,000	463,500
Total	$ 981,833	$ 1,528,875

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	December 31, 2016	December 31, 2015
Non-current items:		
Unlisted corporate stock		
Branchy Technology Co., Ltd.	$ 9,573	$ 9,573
Listed stock		
Hokuang Optics Co., Ltd.	59,200	-
Emerging stocks		
Hokuang Optics Co., Ltd.	-	59,200
Subtotal	68,773	68,773
Accumulated impairment	(63,018)	(38,917)
Total	$ 5,755	$ 29,856

A. The Company recognised $0 and ($7,200) in other comprehensive income for fair value change for the years ended December 31, 2016 and 2015, respectively.

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

C. The Company assessed that 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 separately recognised impairment loss of $24,101and $29,344 in the fourth quarter of 2016 and 2015, respectively.

D. The Company has no circumstances in which available-for-sale financial assets has been provided as pledge.

(3) Accounts receivable, net

	December 31, 2016	December 31, 2015
Accounts receivable	$ 242,737	$ 491,136
Less: allowance for bad debts	(580)	(580)
	$ 242,157	$ 490,556

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:

	December 31, 2016	December 31, 2015
Up to 30 days	$ 20,355	$ 49,925
31 to 90 days	766	4,963
91 to 180 days	-	1,738
	$ 21,121	$ 56,626

The above ageing analysis was based on past due date.

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

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

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

(4) Inventories

	December 31, 2016		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 125,553	($ 2,905)	$ 122,648
Work in process	36,401	(430)	35,971
Finished goods	252,194	(38,105)	214,089
Total	$ 414,148	($ 41,440)	$ 372,708

	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

	Years ended December 31	
	2016	2015
Cost of goods sold	$ 1,373,766	$ 1,495,530
Gain on reversal of decline in market value	(3,579)	-
Recognised as research and development expenses	37,123	34,306

The Company's gain on recovery of inventory valuation loss for 2016 is primarily due to the sale of products that had already been provisioned valuation losses, resulting in a recovery of their net realizable value.

(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	-	(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	-	18,365	54,701	258	10,207	83,531
Disposals	-	-	-	-	(853)	(853)
Reclassification	-	-	11,733	-	-	11,733
Depreciation	-	(37,390)	(161,683)	(204)	(7,766)	(207,043)
December 31	$ 141,004	$ 395,915	$ 955,708	$ 410	$ 24,932	$ 1,517,969
At December 31, 2016						
Cost	$ 141,004	$ 888,179	$ 2,481,649	$ 20,722	$ 152,464	$ 3,684,018
Accumulated depreciation	-	(492,264)	(1,525,941)	(20,312)	(127,532)	(2,166,049)
	$ 141,004	$ 395,915	$ 955,708	$ 410	$ 24,932	$ 1,517,969

	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	-	(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
Additions	-	6,036	43,958	-	10,367	60,361
Reclassification	-	-	-	-	4,255	4,255
Depreciation	-	(38,027)	(160,728)	(339)	(8,599)	(207,693)
December 31	$ 141,004	$ 414,940	$ 1,050,957	$ 356	$ 23,344	$ 1,630,601
At December 31, 2015						
Cost	$ 141,004	$ 869,814	$ 2,416,622	$ 20,464	$ 147,374	$ 3,595,278
Accumulated depreciation	-	(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

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

(6) Other payables

	December 31, 2016	December 31, 2015
Wages, salaries and bonus payable	$ 166,821	$ 172,209
Payable on machinery and equipment	37,912	5,431
Other	10,346	11,161
	$ 215,079	$ 188,801

(7) 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 Taoyuan City Government informing that the retirement fund is sufficient for future retirement withdrawal. Therefore, Taoyuan City Government agreed that the Company temporarily stop monthly contributions from April 1, 2015 to March 31, 2016, and then start contributing on April 1, 2016.

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

	December 31, 2016	December 31, 2015
Present value of defined benefit obligations	($ 21,555)	($ 17,919)
Fair value of plan assets	14,357	13,744
Net defined benefit liability	($ 7,198)	($ 4,175)

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2016			
Balance at January 1	($ 17,919)	$ 13,744	($ 4,175)
Interest (expense) income	(313)	240	(73)
	(18,232)	13,984	(4,248)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(142)	(142)
Change in demographic assumptions	(1,422)	-	(1,422)
Change in financial assumptions	(835)	-	(835)
Experience adjustments	(1,066)	-	(1,066)
	(3,323)	(142)	(3,465)
Pension fund contribution	-	515	515
Balance at December 31	($ 21,555)	$ 14,357	($ 7,198)

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2015			
Balance at January 1	($ 12,338)	$ 13,386	$ 1,048
Interest (expense) income	(246)	268	22
	(12,584)	13,654	1,070
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	90	90
Change in demographic assumptions	(1,739)	-	(1,739)
Change in financial assumptions	(1,347)	-	(1,347)
Experience adjustments	(2,249)	-	(2,249)
	(5,335)	90	(5,245)
Balance at December 31	($ 17,919)	$ 13,744	($ 4,175)

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2016 and 2015 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

	Years ended December 31,	
	2016	2015
Discount rate	1.50%	1.75%
Future salary increases	2.75%	2.75%

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

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

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2016				
Effect on present value of defined benefit obligation	($ 878)	$ 923	$ 899	($ 860)
December 31, 2015				
Effect on present value of defined benefit obligation	($ 754)	$ 794	$ 775	($ 740)

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

(f) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2017 amounts to $19,385.

(g) As of December 31, 2016, the weighted average duration of that retirement plan is 16.8 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	$ 166
1-2 year(s)	40
2-5 years	406
Over 5 years	4,630
	$ 5,242

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

(b) The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2016 and 2015, were $6,542 and $6,048, respectively.

(8) Share capital

A. As of December 31, 2016, the Company's authorized capital was $2,600,000, consisting of 260,000 thousand shares of ordinary stock (including 15,000 thousand shares reserved for employee stock options), and the paid-in capital was $1,849,059 with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows (in thousands of shares):

	2016	2015
At January 1	246,541	246,541
Capital reduction	(61,635)	-
Share reacquisition	(2,250)	-
At December 31	182,656	246,541

B. On June 21, 2016, the Company's Board of Directors resolved for a capital reduction in which reduced shares were reimbursed in cash. The capital reduction rate was 25%, cancelling 61,635 thousand shares. Paid-in capital after the capital reduction was $1,849,059. The registration of the capital reduction was completed on August 24, 2016.

C. Treasury shares

(a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows (There were no treasury shares as of December 31, 2015):

		December 31,2016	
Name of company holding the shares	Reason for reacquisition	Number of shares (In thousands)	Carrying amount
The Company	To be reissued to employees	2,250	$ 143,396

(b) Pursuant to the R.O.C. Securities and Exchange Law, 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 realized capital reserve.

(c) Pursuant to the R.O.C. Securities and Exchange Law, 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 Law, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired.

(9) 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.

(10) Retained earnings

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 $530,063 (cash dividends of $2.15 (in dollars) per share) and $493,082 (cash dividends of $2 (in dollars) per share) for the years ended December 31, 2016 and 2015, respectively. On March 10, 2017, the Board of Directors resolved that total dividends for the appropriation of 2016 earnings would be $462,265 with cash dividends of $2.53 (in dollars) per share.

F. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(13).

(11) Other gains and losses

	Years ended December 31,	
	2016	2015
Impairment loss on financial assets	($ 24,101)	($ 29,344)
Net currency exchange (losses) gains	(9,253)	34,109
Gains on disposals of property, plant and equipment	609	403
Other losses	(207)	(158)
Total	($ 32,952)	$ 5,010

(12) Expenses by nature

	Year ended December 31, 2016		Year ended December 31, 2015	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Change in inventory of finished goods and work in process	$ 13,151	$ -	$ 3,673	$ -
Raw materials and supplies used	912,968	-	1,027,536	-
Employee benefit expense	160,949	94,279	163,070	100,695
Depreciation charges on property, plant and equipment	159,769	47,274	159,915	47,778
Amortisation charges on intangible assets	-	610	-	555
Other expenses	126,929	78,824	141,336	76,641
Operating costs and expenses	$ 1,373,766	$ 220,987	$ 1,495,530	$ 225,669

As of December 31, 2016 and 2015, the Company has 211 and 210 employees, respectively.

(13) Employee benefit expense

	Year ended December 31, 2016		Year ended December 31, 2015	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Wages and salaries	$ 136,288	$ 86,145	$ 139,085	$ 92,955
Labor and health insurance	9,897	3,996	10,013	3,838
Pension costs	4,883	1,732	4,487	1,561
Other personnel expenses	9,881	2,406	9,485	2,341
	$ 160,949	$ 94,279	$ 163,070	$ 100,695

A. In accordance with the Company's Articles of Incorporation, when distributing earnings, employees' compensation shall be at least 5 ~ 15% of the distributed earnings. Directors and supervisors' remuneration shall not exceed 3% of the distributed earnings.

B. For the years ended December 31, 2016 and 2015, employees' compensation was accrued at $50,215 and $62,109, respectively; directors' and supervisors' remuneration was accrued at $18,831 and $23,291, respectively. The aforementioned amounts were recognised in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 8% and 3% of distributable profit of current year for the year ended December 31, 2016, which were in agreement with those amounts resolved by the meeting of Board of Directors.

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 at the meeting of Board of Directors and the shareholders' meeting will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(14) Income tax

A. Income tax expense

(a) Components of income tax expense:

Items	Years ended December 31, 2016	2015
Current tax:		
Current tax on profits for the period	$ 87,633	$ 98,475
Prior year income tax underestimation	1,104	131
Total current tax	88,737	98,606
Deferred tax :		
Origination and reversal of temporary differences	2,797	(305)
Income tax expense	$ 91,534	$ 98,301

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

	Years ended December 31, 2016	2015
Remeasurement of defined benefit obligations	($ 589)	($ 892)

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2016	2015
Tax calculated based on profit before tax and statutory tax rate	$ 94,969	$ 117,463
Changes from the estimation of the realizability of the deferred tax assets	(4,539)	4,892
10% levied on unappropriated retained earnings	-	-
Prior year income tax underestimation	1,104	131
Tax exempted income by tax regulation	-	(24,185)
Income tax expense	$ 91,534	$ 98,301

C. Amounts of deferred tax assets or liabilities as a result of temporary difference and investment tax credit are as follows:

	Year ended December 31, 2016			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets:				
Inventory at hub recognized as gross profit	$ 6,902	($ 1,560)	$ -	$ 5,342
Remeasurement of defined benefit obligations	725	-	589	1,314
Other	(592)	456	-	(136)
Subtotals	$ 7,035	($ 1,104)	$ 589	$ 6,520
-Deferred tax liabilities:				
Other	$ -	($ 1,693)	$ -	($ 1,693)
Total	$ 7,035	($ 2,797)	$ 589	$ 4,827

	Year ended December 31, 2015			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets:				
Inventory at hub recognized as gross profit	$ 7,002	($ 100)	$ -	$ 6,902
Remeasurement of defined benefit obligations	-	-	725	725
Others	(997)	405	-	(592)
Subtotals	$ 6,005	$ 305	$ 725	$ 7,035
-Deferred tax liabilities:				
Remeasurement of defined benefit obligations	(167)	-	167	-
Total	$ 5,838	$ 305	$ 892	$ 7,035

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

	December 31, 2016	December 31, 2015
Deductible temporary differences	$ 91,146	$ 93,793

E. The Company is in compliance with the provisions of the Regulations on the Promotion of Industrial Upgrading before Completion, which is entitled to the exemption of profit tax for five consecutive years from January 2011, and the duty-free products are compound semiconductor chip products.

F. The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

G. The Company's unappropriated retained earnings were all incurred after 1998.

H. Unappropriated retained earnings

	December 31, 2016	December 31, 2015
Earnings generated in and after 1998	$ 631,012	$ 756,110

I. As of December 31, 2016 and 2015, the balance of the imputation tax credit account was $125,575 and $62,677, respectively. The creditable tax rate was 16.47% for 2015 and is estimated to be 19.90% for 2016.

(15) Earnings per share

	Year ended December 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	$ 467,107	219,947	$ 2.12
Diluted earnings per share			
Profit attributable to ordinary shareholders	$ 467,107	219,947	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	1,621	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 467,107	221,568	$ 2.11

	Year ended December 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	$ 592,657	246,541	$ 2.40
Diluted earnings per share			
Profit attributable to ordinary shareholders	$ 592,657	246,541	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	1,822	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 592,657	248,363	$ 2.39

(16) Operating leases

The Company's transportation equipment is obtained through operating leases. The lease terms were between 1 to 3 years. Rent expenses recognized through current profit or loss for 2016 and 2015, was $2,461 and $1,043, respectively.

(17) Supplemental cash flow information

Investing activities with partial cash payments

	Years ended December 31,	
	2016	2015
Purchase of property, plant and equipment	$ 83,531	$ 60,361
Add: opening balance of payable on equipment	5,431	35
Less: ending balance of payable on equipment	(37,912)	(5,431)
Cash paid during the period	$ 51,050	$ 54,965

(18) Seasonality of operations

The Company is an epi-wafer provider which is the upstream of the compound semiconductor industry. Our products are applied in power amplifier and microwave switches etc. that are crucial components in mobile devices. As we are one of the upstream supply chain vendors of wireless communication industry, our product demand is affected by the following factors:

A. Mobile brand makers: the timing of launching new mobile phones and their sales performance.
B. Direct customers (IDM & Foundry): Design-in cycle time, Delivery lead time, capacity planning, inventory policy, stock level of different seasons, and speed of inventory digestion.
C. Due to many components and modules in mobile BOM table and their interdependence, shortage of the above may result in our products demand delay as well as revenue volatility.

7. RELATED PARTY TRANSACTIONS

(1) Significant related party transactions

None.

(2) Key management compensation

	Years ended December 31,	
	2016	2015
Salaries and other short-term employee benefits	$ 56,454	$ 54,001
Post-employment benefits	514	504
Total	$ 56,968	$ 54,505

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:

	December 31, 2016	December 31, 2015
Property, plant and equipment	$ 42,021	$ 11,974

B. Guarantee for customs duties

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

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

10. SIGNIFICANT DISATER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On March 10, 2017, the Board of Directors proposed the appropriation of 2016 earnings. For details of the appropriation, please refer to Note 6(10).

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 program focuses on the unpredictability of financial markets and seeks to minimize 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:

	December 31, 2016		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ 15,955	32.25	$ 514,549
Financial liabilities			
Monetary items			
USD:NTD	$ 5,196	32.25	$ 167,571

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

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

	Years ended December 31,	
	2016	2015
Financial assets	$ 5,940	$ 7,815
Financial liabilities	(2,780)	(1,848)

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

	Year ended December 31, 2016		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 5,145	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 1,676	$ -

	Year ended December 31, 2015		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 7,843	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 2,026	$ -

Price risk

Not applicable.

Interest rate risk

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 analyzing 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 utilization 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 years ended December 31, 2016 and 2015, no credit limits were exceeded, and management does not expect any significant losses from nonperformance by these counterparties.

(c) Liquidity risk

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

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

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

Non-derivative financial liabilities:		
December 31, 2016	Less than 1 year	Over 1 year
Accounts payable	$ 203,959	$ -
Other payables	215,079	-

December 31, 2015	Less than 1 year	Over 1 year
Accounts payable	$ 248,099	$ -
Other payables	188,801	-

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. 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 December 31, 2016 and 2015, is as follows:

December 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Available-for-sale financial assets	$ -	$ -	$ 5,755	$ 5,755

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

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 years ended December 31, 2016 and 2015, there was no transfer between Level 1 and Level 2.

F. The following chart is the movement of Level 3 for the years ended December 31, 2016 and 2015:

	2016 Non-derivative equity instrument	2015 Non-derivative equity instrument
At January, 1	$ -	$ -
Recognized impairment loss (Note)	(24,101)	-
Transfers into level 3	29,856	-
At December, 31	$ 5,755	$ -

Note: Recorded as impairment loss for available-for-sale financial assets.

G. Because the shares of Hokuang Optics Co.,Ltd. was delisted from the Taiwan Emerging Stock market on May, 17, 2016, and there is insufficient observable market information, the Company has transferred the fair value from Level 1 into Level 3 at the end of month when the event occurred.

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31,2016	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Nonderivative equity instrument:					
Unlisted shares	$ 5,755	Net asset value	Not applicable	Not applicable	Not applicable

(4) Other/Contingences

The Company was introduced by Tosho Asset Management Consultant Ltd. (abbreviated as TONGSHENG), which is registered in Taiwan, to purchase Tosho Foreign Currency Exchange Fund, amounting to US$13,000 thousand from Tosho Asset Management Consultant Ltd. (abbreviated as TOSHO), which is registered in British Virgin Islands. TOSHO was not able to perform the contract 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. 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 December 31, 2016, TONGSHENG has repaid $10,750 and the Company recognised this repayment as 'other revenue', remaining $29,032 uncollected.

On June 14, 2016, 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 claimed an appeal, and thus the case is still 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) Information about segment profit or loss, assets and liabilities

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

(4) 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.

(5) Information on products and services

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

(6) Geographical information

Geographical information for the years ended December 31, 2016 and 2015 is as follows:

	Year ended December 31, 2016		Year ended December 31, 2015	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	$ 1,006,276	$ 1,590,725	$ 1,255,709	$ 1,677,988
USA	1,074,850	-	1,073,176	-
Others	101,699	-	63,014	-
Total	$ 2,182,825	$ 1,590,725	$ 2,391,899	$ 1,677,988

(7) Major customer information

Major customer information of the Company for the years ended December 31, 2016 and 2015 is as follows:

2016			2015		
Customer	Net sales	%	Customer	Net sales	%
Company A	$ 579,968	27	Company A	$ 694,673	29
Company B	399,808	18	Company B	396,068	17
Company C	274,254	13	Company C	191,669	8
Company D	232,993	11	Company D	310,173	13

Visual Photonics Epitaxy Co., Ltd.

Holding of marketable securities at the end of the period

December 31, 2016

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer	General ledger account	As of December 31, 2016				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
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 Company's key management	Available-for-sale financial assets - non-current	1,767,124	5,755	3	5,755	

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'.

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2016

Details table 1 | Expressed in thousands of New Taiwan dollars

Items	Summary	Amount	Note
Cash on hand and revolving funds		$ 396	
Demand deposits and checking accounts			
- TWD deposits		455,779	
- Foreign currency deposits	USD 8,549 thousand dollars	275,677	Exchange rate 32.25
	JPY 8,112 thousand dollars	2,236	Exchange rate 0.2756
	HKD 178 thousand dollars	745	Exchange rate 4.158
Time deposits		247,000	
		$ 981,833	

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VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2016

Details table 2

Expressed in thousands of New Taiwan dollars

Customer	Amount		Note
Third parties:			
L-021	$	60,038	
O-114		23,326	
O-022		23,093	
L-201		18,457	
L-007		14,360	
O-214		14,216	
L-073		13,669	
Others		75,578	Each item does not exceed 5% of account balance
		242,737	
Less: allowance for bad debts	(	580)	
	$	242,157	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF INVENTORIES
DECEMBER 31, 2016

Details table 3

Expressed in thousands of New Taiwan dollars

Items	Amount Cost	Market value	Note
Raw materials	$ 125,553	$ 138,935	Replacement cost as net realizable value
Work in process	36,401	54,276	Market price as net realizable value
Finished goods	252,194	380,056	Market price as net realizable value
	414,148	$ 573,267	
Less: Provision for decline in market value	(41,440)		
	$ 372,708		

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VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 2016

Details table 4

Expressed in thousands of New Taiwan dollars

Items	Opening net book amount as at January 1, 2016	Additions	Deductions	Transfer	Closing net book amount as at December 31, 2016	Notes
Cost						
Land	$ 141,004	$ -	$ -	$ -	$ 141,004	None
Buildings and structures	869,814	18,365	-	-	888,179	〃
Machinery	2,416,622	54,701	(1,407)	11,733	2,481,649	〃
Office equipment	20,464	258	-	-	20,722	〃
Others	147,374	10,207	(5,117)	-	152,464	〃
	$ 3,595,278	$ 83,531	($ 6,524)	$ 11,733	$ 3,684,018	
Accumulated depreciation						
Buildings and structures	($ 454,874)	($ 37,390)	$ -	$ -	($ 492,264)	
Machinery	(1,365,665)	(161,683)	1,407	-	(1,525,941)	
Office equipment	(20,108)	(204)	-	-	(20,312)	
Others	(124,030)	(7,766)	4,264	-	(127,532)	
	(1,964,677)	($ 207,043)	$ 5,671	$ -	(2,166,049)	
	$ 1,630,601				$ 1,517,969	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF ACCOUNTS PAYABLE
DECEMBER 31, 2016

Details table 5

Expressed in thousands of New Taiwan dollars

Suppliers	Amount	Note
PW001	$ 73,932	
PW004	59,050	
PW005	29,250	
PG004	15,032	
Others	26,695	Each item does not exceed 5% of account balance
	$ 203,959	

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VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF OPERATING REVENUE
YEAR ENDED DECEMBER 31, 2016

Details table 6

Expressed in thousands of New Taiwan dollars

Items	Quantity	Amount	Notes
Operating revenue			
Compound semiconductor wafer product and other items	256,283(pcs)	$ 2,214,528	
Less: Sales returns		(1,200)	
Less: Sales allowance		(30,503)	
		$ 2,182,825	

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VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF OPERATING COSTS
YEAR ENDED DECEMBER 31, 2016

Details table 7 Expressed in thousands of New Taiwan dollars

Items		Amount	Note
Opening raw materials	$	109,402	
Add: Current purchases		979,304	
Less: Closing raw materials	(	125,553)	
Cost of sales of raw materials	(	5,384)	
Transfer as expenses	(	7,677)	
Transfer as other accounts	(	37,123)	
Current used raw materials		912,969	
Direct labor		17,788	
Production overheads		436,552	
Production costs		1,367,309	
Add: Opening work in progress		53,946	
Less: Closing work in progress	(	36,401)	
Cost of finished goods		1,384,854	
Add: Opening finished goods		247,800	
Less: Closing finished goods	(	252,194)	
Transfer as expenses	(	8,373)	
Current cost of manufacture and sales		1,372,087	
Add: Cost of sales of raw materials		5,525	
Others	(	3,846)	
Current operating costs	$	1,373,766	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF PRODUCTION OVERHEADS
YEAR ENDED DECEMBER 31, 2016

Details table 8

Expressed in thousands of New Taiwan dollars

Items	Summary	Amount	Notes
Depreciation expense		$ 159,769	
Wages and salaries		118,500	
Repair and maintenance expense		46,521	
Utility fee		38,214	
Indirect materials		22,596	
Other expenses		50,952	Each item does not exceed 5% of account balance
		$ 436,552	

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VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF ADMINISTRATIVE EXPENSES
YEAR ENDED DECEMBER 31, 2016

Details table 9 | Expressed in thousands of New Taiwan dollars

Items	Summary	Amount	Notes
Wages and salaries		$ 67,154	
Depreciation expense		6,061	
Other expenses		23,121	Each item does not exceed 5% of account balance
		$ 96,336	

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VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF RESEARCH AND DEVELOPMENT EXPENSES
YEAR ENDED DECEMBER 31, 2016

Details table 9 | Expressed in thousands of New Taiwan dollars

Items	Summary	Amount	Notes
Depreciation expense		$ 41,206	
R&D materials		37,229	
Wage and salaries		23,459	
Sample expense		8,368	
Other expenses		4,239	Each item does not exceed 5% of account balance
		$ 114,501	

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