

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS AND**  
**REVIEW REPORT OF INDEPENDENT**  
**ACCOUNTANTS**  
**JUNE 30, 2020 AND 2019**

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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.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To GCS Holdings, Inc.

***Introduction***

We have reviewed the accompanying consolidated balance sheets of GCS Holdings, Inc. and subsidiaries (the “Group”) as of June 30, 2020 and 2019, and the related consolidated statements of comprehensive income for the three-month and six-month periods then ended, as well as the consolidated statements of changes in equity and of cash flows for the six-month periods then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

***Scope of our review***

Except as explained in the *Basis for Qualified Conclusion paragraph*, we conducted our reviews in accordance with the Statement of Auditing Standards No. 65 “Review of Financial Information Performed by the Independent Auditor of the Entity” in the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

***Basis for Qualified Conclusion***

As explained in Note 6(5), the amounts and information of financial statements of investments accounted for using the equity method were based solely on the financial statements prepared by the investee, which were not reviewed by independent accountants. The balance of investments accounted for using the equity method amounted to NT\$1,133,230 thousand and NT\$0 thousand, respectively, constituting 27% and 0% of the consolidated total assets as of June 30, 2020 and 2019; and the share of profit or loss



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of associates and joint ventures accounted for using the equity method amounted to (NT\$60,052) thousand, NT\$0 thousand, (NT\$101,333) thousand and NT\$0 thousand, respectively, constituting 119%, 0%, 495% and 0% of the consolidated total comprehensive (loss) income for the three-month and six-month periods then ended.

### *Qualified Conclusion*

Except for the adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had the financial statements of equity method investee been reviewed by independent accountants, that we might have become aware of had it not been for the situation described above, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2020 and 2019, and of its consolidated financial performance for the three-month and six-month periods then ended and its consolidated cash flows for the six-month periods then ended in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

*Cheng, Ya Huei*

Cheng, Ya-Huei

*Lin, Yu-Kuan*

Lin, Yu-Kuan

For and on behalf of PricewaterhouseCoopers, Taiwan

August 5, 2020

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The accompanying consolidated 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 consolidated 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.

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)  
(THE BALANCE SHEETS AS OF JUNE 30, 2020 AND 2019 ARE REVIEWED, NOT AUDITED)

Assets	Notes	June 30, 2020		December 31, 2019		June 30, 2019		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
<b>Current assets</b>								
1100	Cash and cash equivalents	6(1)	\$ 1,113,221	27	\$ 1,838,994	47	\$ 1,771,104	45
1150	Notes receivable, net		900	-	59	-	61	-
1170	Accounts receivable, net	6(2)	217,438	5	317,067	8	291,240	8
1200	Other receivables		23,566	1	19,687	-	22,510	1
1220	Current income tax assets		-	-	24,194	1	4,547	-
130X	Inventories	6(3)	368,263	9	352,983	9	368,755	9
1410	Prepayments		8,844	-	9,233	-	9,677	-
1470	Other current assets	8	179,531	4	30,951	1	94,186	2
11XX	<b>Total current Assets</b>		<u>1,911,763</u>	<u>46</u>	<u>2,593,168</u>	<u>66</u>	<u>2,562,080</u>	<u>65</u>
<b>Non-current assets</b>								
1517	Non-current financial assets at fair value through other comprehensive income	6(4)	-	-	159,531	4	165,278	4
1550	Investments accounted for using the equity method	6(5)	1,133,230	27	-	-	-	-
1600	Property, plant and equipment	6(6) and 8	768,824	19	775,808	20	742,591	19
1755	Right-of-use assets	6(7)	16,923	-	30,371	1	39,854	1
1780	Intangible assets	6(8)	192,172	5	197,032	5	204,745	5
1840	Deferred income tax assets		119,150	3	129,281	3	170,893	5
1990	Other non-current assets	6(9) and 8	6,418	-	17,808	1	51,731	1
15XX	<b>Total non-current assets</b>		<u>2,236,717</u>	<u>54</u>	<u>1,309,831</u>	<u>34</u>	<u>1,375,092</u>	<u>35</u>
1XXX	<b>Total assets</b>		<u>\$ 4,148,480</u>	<u>100</u>	<u>\$ 3,902,999</u>	<u>100</u>	<u>\$ 3,937,172</u>	<u>100</u>

(Continued)

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)  
(THE BALANCE SHEETS AS OF JUNE 30, 2020 AND 2019 ARE REVIEWED, NOT AUDITED)

Liabilities and Equity	Notes	June 30, 2020		December 31, 2019		June 30, 2019		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
<b>Current liabilities</b>								
2100	Short-term borrowings	6(10)	\$ 20,000	1	\$ 20,000	1	\$ 20,000	1
2130	Current contract liabilities	6(19)	7,632	-	11,875	-	11,869	-
2170	Accounts payable		19,234	-	15,872	-	15,881	-
2200	Other payables	6(11)	171,579	4	157,780	4	244,554	6
2230	Current income tax liabilities		8,310	-	90	-	51	-
2280	Current lease liabilities		6,011	-	10,219	-	13,329	-
2320	Long-term borrowings, current portion	6(12)	23,233	1	23,050	1	21,469	1
2399	Other current liabilities		2,388	-	608	-	1,413	-
21XX	<b>Total current Liabilities</b>		<u>258,387</u>	<u>6</u>	<u>239,494</u>	<u>6</u>	<u>328,566</u>	<u>8</u>
<b>Non-current liabilities</b>								
2540	Long-term borrowings	6(12)	123,053	3	42,195	1	47,210	1
2570	Deferred income tax liabilities		71,171	2	76,123	2	84,838	2
2580	Non-current lease liabilities		6,860	-	17,762	1	22,661	1
2600	Other non-current liabilities		-	-	317	-	318	-
25XX	<b>Total non-current liabilities</b>		<u>201,084</u>	<u>5</u>	<u>136,397</u>	<u>4</u>	<u>155,027</u>	<u>4</u>
2XXX	<b>Total liabilities</b>		<u>459,471</u>	<u>11</u>	<u>375,891</u>	<u>10</u>	<u>483,593</u>	<u>12</u>
<b>Equity</b>								
Equity attributable to owners of the parent								
Share capital								
3110	Common stock	6(15)	913,515	22	908,335	23	907,470	23
Capital surplus								
3200	Capital surplus	6(16)	1,688,770	41	1,447,954	37	1,437,961	37
Retained earnings								
3320	Special reserve	6(17)	6,821	-	6,821	-	6,821	-
3350	Unappropriated retained earnings		1,267,765	31	1,304,961	33	1,140,314	29
Other equity interest								
3400	Other equity interest	6(18)	( 96,992)	( 3)	( 55,884)	( 1)	44,283	1
3500	Treasury stocks	6(15)	( 90,870)	( 2)	( 90,870)	( 2)	( 90,870)	( 2)
31XX	<b>Equity attributable to owners of the parent</b>		<u>3,689,009</u>	<u>89</u>	<u>3,521,317</u>	<u>90</u>	<u>3,445,979</u>	<u>88</u>
36XX	Non-controlling interest		-	-	5,791	-	7,600	-
3XXX	<b>Total equity</b>		<u>3,689,009</u>	<u>89</u>	<u>3,527,108</u>	<u>90</u>	<u>3,453,579</u>	<u>88</u>
Significant contingent liabilities and unrecognized contract commitments								
3X2X	<b>Total liabilities and equity</b>		<u>\$ 4,148,480</u>	<u>100</u>	<u>\$ 3,902,999</u>	<u>100</u>	<u>\$ 3,937,172</u>	<u>100</u>

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

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)  
(REVIEWED, NOT AUDITED)

Items	Notes	Three months ended June 30				Six months ended June 30			
		2020		2019		2020		2019	
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000		\$ 412,013	100	\$ 465,346	100	\$ 779,365	100	\$ 843,255	100
5000	6(19)	( 224,187)	( 54)	( 226,273)	( 49)	( 431,641)	( 56)	( 468,122)	( 55)
5900		<u>187,826</u>	<u>46</u>	<u>239,073</u>	<u>51</u>	<u>347,724</u>	<u>44</u>	<u>375,133</u>	<u>45</u>
	6(22)(23)								
6100		( 7,289)	( 2)	( 11,009)	( 2)	( 15,833)	( 2)	( 21,984)	( 3)
6200		( 53,150)	( 13)	( 68,840)	( 15)	( 108,940)	( 14)	( 129,813)	( 15)
6300		( 42,151)	( 10)	( 45,564)	( 10)	( 87,158)	( 11)	( 89,996)	( 11)
6450	12(2)	600	-	( 4,053)	( 1)	247	-	( 10,153)	( 1)
6000		( <u>101,990</u> )	( <u>25</u> )	( <u>129,466</u> )	( <u>28</u> )	( <u>211,684</u> )	( <u>27</u> )	( <u>251,946</u> )	( <u>30</u> )
6900		<u>85,836</u>	<u>21</u>	<u>109,607</u>	<u>23</u>	<u>136,040</u>	<u>17</u>	<u>123,187</u>	<u>15</u>
7100		3,123	1	7,103	1	9,371	1	12,307	1
7020	6(20)	( 2,711)	( 1)	( 408)	-	( 2,124)	-	( 517)	-
7050	6(21)	( 855)	-	( 1,287)	-	( 1,849)	-	( 2,669)	-
7060	6(5)								
		( <u>60,052</u> )	( <u>15</u> )	<u>-</u>	<u>-</u>	( <u>101,333</u> )	( <u>13</u> )	<u>-</u>	<u>-</u>
7000		( <u>60,495</u> )	( <u>15</u> )	<u>5,408</u>	<u>1</u>	( <u>95,935</u> )	( <u>12</u> )	<u>9,121</u>	<u>1</u>
7900		25,341	6	115,015	24	40,105	5	132,308	16
7950	6(24)	( <u>19,391</u> )	( <u>4</u> )	( <u>28,377</u> )	( <u>6</u> )	( <u>31,600</u> )	( <u>4</u> )	( <u>32,677</u> )	( <u>4</u> )
8200		<u>\$ 5,950</u>	<u>2</u>	<u>\$ 86,638</u>	<u>18</u>	<u>\$ 8,505</u>	<u>1</u>	<u>\$ 99,631</u>	<u>12</u>
8361	6(18)	( \$ 56,548)	( 14)	\$ 26,393	6	( \$ 28,967)	( 4)	\$ 35,865	4
8300		( <u>\$ 56,548</u> )	( <u>14</u> )	<u>\$ 26,393</u>	<u>6</u>	( <u>\$ 28,967</u> )	( <u>4</u> )	<u>\$ 35,865</u>	<u>4</u>
8500		( <u>\$ 50,598</u> )	( <u>12</u> )	<u>\$ 113,031</u>	<u>24</u>	( <u>\$ 20,462</u> )	( <u>3</u> )	<u>\$ 135,496</u>	<u>16</u>
8610		\$ 5,950	2	\$ 88,189	18	\$ 8,427	1	\$ 102,931	12
8620		-	-	( 1,551)	-	78	-	( 3,300)	-
		<u>\$ 5,950</u>	<u>2</u>	<u>\$ 86,638</u>	<u>18</u>	<u>\$ 8,505</u>	<u>1</u>	<u>\$ 99,631</u>	<u>12</u>
8710		( \$ 50,598)	( 12)	\$ 114,931	24	( \$ 20,541)	( 3)	\$ 138,655	16
8720		-	-	( 1,900)	-	79	-	( 3,159)	-
		( <u>\$ 50,598</u> )	( <u>12</u> )	<u>\$ 113,031</u>	<u>24</u>	( <u>\$ 20,462</u> )	( <u>3</u> )	<u>\$ 135,496</u>	<u>16</u>
9750	6(25)	\$ 0.07		\$ 1.00		\$ 0.09		\$ 1.18	
9850		\$ 0.07		\$ 0.99		\$ 0.09		\$ 1.17	

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

GCS HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)  
(REVIEWED, NOT AUDITED)

	Notes	Equity Attributable to Owners of the Parent										Total Equity
		Retained Earnings			Other Equity Interest				Treasury Stocks	Total	Non-Controlling Interest	
		Common Stock	Capital Surplus	Special Reserve	Unappropriated Retained Earnings	Differences of Translation	Financial Statements Translation	Unearned Compensation Costs				
<b>Six-month period ended June 30, 2019</b>												
		\$ 821,691	\$ 1,092,635	\$ 6,821	\$ 1,143,944	\$ 43,005	(\$ 15,200)	(\$ 90,870)	\$ 3,002,026	\$ 10,759	\$ 3,012,785	
		-	-	-	102,931	-	-	-	102,931	( 3,300 )	99,631	
	6(18)	-	-	-	-	35,724	-	-	35,724	141	35,865	
		-	-	-	102,931	35,724	-	-	138,655	( 3,159 )	135,496	
Distribution of 2018 earnings:												
		-	-	-	( 106,561 )	-	-	-	( 106,561 )	-	( 106,561 )	
	6(17)	-	-	-	-	-	-	-	-	-	-	
	6(14)(16)(18)	-	6,046	-	-	-	14,697	-	20,743	-	20,743	
	6(14)(15)(16)(18)	5,700	28,992	-	-	-	( 34,692 )	-	-	-	-	
	6(14)(15)(16)(18)	( 105 )	( 644 )	-	-	-	749	-	-	-	-	
	6(14)(15)(16)	184	377	-	-	-	-	-	561	-	561	
	6(15)(16)	80,000	310,555	-	-	-	-	-	390,555	-	390,555	
		\$ 907,470	\$ 1,437,961	\$ 6,821	\$ 1,140,314	\$ 78,729	(\$ 34,446)	(\$ 90,870)	\$ 3,445,979	\$ 7,600	\$ 3,453,579	
<b>Six-month period ended June 30, 2020</b>												
		\$ 908,335	\$ 1,447,954	\$ 6,821	\$ 1,304,961	(\$ 42,043)	(\$ 13,841)	(\$ 90,870)	\$ 3,521,317	\$ 5,791	\$ 3,527,108	
		-	-	-	8,427	-	-	-	8,427	78	8,505	
	6(18)	-	-	-	-	( 28,968 )	-	-	( 28,968 )	1	( 28,967 )	
		-	-	-	8,427	( 28,968 )	-	-	( 20,541 )	79	( 20,462 )	
Distribution of 2019 earnings:												
		-	-	-	( 45,623 )	-	-	-	( 45,623 )	-	( 45,623 )	
	6(17)	-	-	-	-	-	-	-	-	-	-	
	6(14)(16)(18)	-	8,977	-	-	-	11,171	-	20,148	-	20,148	
	6(14)(15)(16)(18)	5,180	18,131	-	-	-	( 23,311 )	-	-	-	-	
		-	-	-	-	-	-	-	-	( 5,870 )	( 5,870 )	
	6(16)	-	213,708	-	-	-	-	-	213,708	-	213,708	
		\$ 913,515	\$ 1,688,770	\$ 6,821	\$ 1,267,765	(\$ 71,011)	(\$ 25,981)	(\$ 90,870)	\$ 3,689,009	\$ -	\$ 3,689,009	

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

GCS HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)  
(REVIEWED, NOT AUDITED)

	Notes	Six months ended June 30	
		2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 40,105	\$ 132,308
Adjustments			
Adjustments to reconcile profit (loss)			
Net impairment loss on financial assets	12(2)	( 247 )	10,153
Depreciation	6(6)(7)(22)	60,222	64,307
Amortization	6(8)(22)	3,311	2,071
Interest expense	6(21)	1,849	2,669
Interest income		9,371 )	( 12,307 )
Compensation cost of share-based payments	6(14)	20,148	20,743
Gain on disposal of property, plant and equipment	6(20)	( 213 )	-
Share of net loss of associates and joint ventures accounted for using the equity method	6(5)	101,333	-
Loss on subsidiary liquidation	6(20)	188	-
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		( 893 )	66
Accounts receivable		98,628	( 87,332 )
Other receivables		( 7,234 )	( 3,113 )
Inventories		( 22,214 )	( 34,555 )
Prepayments		3,085	337
Other current assets		-	( 589 )
Changes in operating liabilities			
Contract liabilities		( 4,155 )	( 4,601 )
Accounts payable		3,592	( 3,721 )
Other payables		( 22,485 )	( 7,434 )
Other current liabilities		1,641	103
Other non-current liabilities		147	-
Cash inflow generated from operations		267,437	79,105
Interest received		8,514	12,239
Interest paid		( 1,809 )	( 1,812 )
Income tax refund received		-	( 8,110 )
Net cash flows from operating activities		<u>274,142</u>	<u>81,422</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of non-current financial assets at fair value through other comprehensive income		-	( 164,000 )
Acquisition of investments accounted for using the equity method	6(5)	( 864,693 )	-
Acquisition of property, plant and equipment	6(26)	( 58,710 )	( 50,891 )
Proceeds from disposal of property, plant and equipment		256	-
Acquisition of intangible assets	6(8)	( 720 )	( 5,757 )
Increase in other current assets		( 150,801 )	-
Increase in other non-current assets		7,198	( 597 )
Disposal of a subsidiary - decrease in cash		( 11,707 )	-
Proceeds from liquidation of a subsidiary		5,924	-
Net cash flows used in investing activities		<u>( 1,073,253 )</u>	<u>( 221,245 )</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from short-term borrowings	6(27)	-	20,000
Repayments of short-term borrowings	6(27)	-	( 20,300 )
Proceeds from long-term borrowings	6(27)	94,159	-
Repayments of long-term borrowings	6(27)	( 11,432 )	( 9,983 )
Repayments of lease liabilities	6(27)	( 3,940 )	( 8,588 )
Decrease in guarantee deposit received		( 317 )	-
Proceeds from exercise of employee stock options		-	561
Proceeds from issuance of share capital - Global Depository Receipts		-	390,555
Net cash flows from financing activities		<u>78,470</u>	<u>372,245</u>
Effect of changes in exchange rates		( 5,132 )	25,819
Net (decrease) increase in cash and cash equivalents		( 725,773 )	258,241
Cash and cash equivalents at beginning of period	6(1)	1,838,994	1,512,863
Cash and cash equivalents at end of period	6(1)	<u>\$ 1,113,221</u>	<u>\$ 1,771,104</u>

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



**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED JUNE 30, 2020 AND 2019**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,**  
**EXCEPT AS OTHERWISE INDICATED)**  
**(REVIEWED, NOT AUDITED)**

**1. HISTORY AND ORGANIZATION**

GCS Holdings Inc. (the “Company”) was incorporated in the Cayman Islands on November 30, 2010, as a holding company for the purpose of registering its shares with the Taipei Exchange. The Company was approved by the Financial Supervisory Commission to be listed on the Taipei Exchange. The Company's common shares have been traded on the Taipei Exchange since September 15, 2014.

The Company and subsidiaries (collectively referred herein as the “Group”) are engaged in the manufacturing of compound semiconductor wafers and foundry related services as well as licensing of intellectual property. The Group is also engaged in the research, development, manufacture and sales of advanced optoelectronics technology products.

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

These consolidated financial statements were reported to the Board of Directors on August 5, 2020.

**3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS**

**(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRSs”) as endorsed by the Financial Supervisory Commission (“FSC”)**

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

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

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

**(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC that has not yet adopted**

None.

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

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

New Standards, Interpretations and Amendments	Effective date by IASB
Amendments to IFRS 4, 'Extension of the temporary exemption from applying IFRS 9'	January 1, 2021
Amendments to IFRS 3, 'Reference to the conceptual framework'	January 1, 2022
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by IASB
IFRS 17, 'Insurance contracts'	January 1, 2023
Amendments to IFRS 17, 'Insurance contracts'	January 1, 2023
Amendments to IAS 1, 'Classification of liabilities as current or non-current'	January 1, 2023
Amendments to IAS 16, 'Property, plant and equipment: proceeds before intended use'	January 1, 2022
Amendments to IAS 37, 'Onerous contracts — cost of fulfilling a contract'	January 1, 2022
Annual improvements to IFRS Standards 2018–2020	January 1, 2022

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are consistent with Note 4 in the consolidated financial statements for the year ended December 31, 2019, except for the compliance statement, basis of preparation, basis of consolidation and additional policies as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

- A. The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the IAS 34, 'Interim financial reporting' as endorsed by the FSC.
- B. These consolidated financial statements are to be read in conjunction with the consolidated financial statements for the year ended December 31, 2019.

(2) Basis of preparation

- A. Except for the non-current financial assets at fair value through other comprehensive income, the consolidated financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)			Note
			June 30, 2020	December 31, 2019	June 30, 2019	
The Company	Global Communication Semiconductors, LLC	1. Manufacturing of compound semiconductor wafers and foundry related services as well as granting royalty rights for intellectual property 2. Manufacturing and selling of advanced optoelectronics technology products	100	100	100	-
The Company	GCS Device Technologies, Co., Ltd.	Product design and research development services	100	100	100	-
The Company	Xiamen Global Advanced Semiconductor Co., Ltd.	Developing, manufacturing and selling of mobile phone radio frequency, filter, optical communication chip, power management and optical fiber	-	51	51	(Note)
The Company	GCOM Semiconductor Co., Ltd.	Wholesaling and retailing of electronic components, product design, and outsourcing management services	100	100	100	-
Global Communication Semiconductors, LLC	D-Tech Optoelectronics, Inc.	Developing, manufacturing and selling of positive, intrinsic, negative components and avalanche photo diodes for telecommunication systems and data communication networks	100	100	100	-
D-Tech Optoelectronics, Inc.	D-Tech Optoelectronics (Taiwan) Corporation	Manufacturing, retailing and wholesaling of telecommunications devices, and manufacturing and wholesaling of electronic components	100	100	100	-

Note: Xiamen Global had been terminated on March 12, 2020, and the liquidation in mainland China had been completed. The Company received the remaining investment amount repatriated back amounting to \$5,924 on June 8, 2020.

- C. Subsidiaries not included in the consolidated financial statements: None.
- D. Adjustments for subsidiaries with different balance sheet dates: None.
- E. Significant restrictions: None.
- F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Income tax

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

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

There have been no significant changes during the period. Please refer to Note 5 in the consolidated financial statements for the year ended December 31, 2019.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Cash on hand	\$ 116	\$ 123	\$ 134
Checking accounts and demand deposits	1,113,105	1,838,871	989,781
Time deposits	-	-	781,189
	<u>\$ 1,113,221</u>	<u>\$ 1,838,994</u>	<u>\$ 1,771,104</u>

A. The Group transacts with a variety of financial institutions with high credit quality to disperse credit risk and expects that the probability of counterparty default is remote.

B. The Group has no cash and cash equivalents pledged to others.

(2) Accounts receivable

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Accounts receivable	\$ 221,115	\$ 322,130	\$ 296,550
Less: Loss allowance	( 3,677)	( 5,063)	( 5,310)
	<u>\$ 217,438</u>	<u>\$ 317,067</u>	<u>\$ 291,240</u>

A. As of June 30, 2020, December 31, 2019 and June 30, 2019, accounts receivable were all from contracts with customers. And as of January 1, 2019, the balance of receivables from contracts with customers was \$212,806.

B. Information relating to credit risk of accounts receivable is provided in Note 12(2).

(3) Inventories

	<u>June 30, 2020</u>		
	<u>Cost</u>	<u>Allowance</u>	<u>Book value</u>
Raw materials	\$ 140,551	(\$ 22,229)	\$ 118,322
Work in progress	247,448	( 39,935)	207,513
Finished goods	46,274	( 3,846)	42,428
	<u>\$ 434,273</u>	<u>(\$ 66,010)</u>	<u>\$ 368,263</u>

	December 31, 2019		
	Cost	Allowance	Book value
Raw materials	\$ 129,722	(\$ 18,486)	\$ 111,236
Work in progress	220,891	( 28,855)	192,036
Finished goods	54,487	( 4,776)	49,711
	<u>\$ 405,100</u>	<u>(\$ 52,117)</u>	<u>\$ 352,983</u>

  

	June 30, 2019		
	Cost	Allowance	Book value
Raw materials	\$ 150,624	(\$ 19,025)	\$ 131,599
Work in progress	227,286	( 38,293)	188,993
Finished goods	52,070	( 3,907)	48,163
	<u>\$ 429,980</u>	<u>(\$ 61,225)</u>	<u>\$ 368,755</u>

Expenses and costs incurred as cost of operating revenue for the three-month and six-month periods ended June 30, 2020 and 2019 were as follows:

	Three-month periods ended June 30,	
	2020	2019
Cost of goods sold	\$ 237,389	\$ 242,414
Loss on (recovery of) market price decline	2,913	( 5,411)
Revenue from sale of scraps	( 16,115)	( 10,730)
	<u>\$ 224,187</u>	<u>\$ 226,273</u>

  

	Six-month periods ended June 30,	
	2020	2019
Cost of goods sold	\$ 446,240	\$ 494,210
Loss on (recovery of) market price decline	17,524	( 6,021)
Revenue from sale of scraps	( 32,123)	( 20,067)
	<u>\$ 431,641</u>	<u>\$ 468,122</u>

The Group recognized recovery of loss of market price decline for the three-month and six-month period ended June 30, 2019 because some of the inventories previously written down were sold.

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

Items	June 30, 2020	December 31, 2019	June 30, 2019
Non-current items:			
Equity instruments			
Unlisted stocks	\$ -	\$ 164,000	\$ 164,000
Net exchange difference	-	( 4,469)	1,278
Total	<u>\$ -</u>	<u>\$ 159,531</u>	<u>\$ 165,278</u>

- A. The Group has elected to classify financial assets that are considered to be strategic investments or steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$159,531 and \$165,278 as of December 31, 2019 and June 30, 2019, respectively.
- B. On January 30, 2020, the Group participated in Unikorn Semiconductor Corporation's ("Unikorn") issuance of common stocks for cash amounting to \$400,000 (USD 13,793 thousand). Through the completion of participation in Unikorn's issuance of common stocks, the Group holds 36.06% of Unikorn's common stocks issued, which resulted in the Group having a significant influence in Unikorn; therefore, the investment in Unikorn was reclassified from financial assets measured at fair value through other comprehensive income to investments accounted for using the equity method. Please refer to Note 6(5) for details.

(5) Investments accounted for using the equity method

	2020	2019	
At January 1	\$ -	\$ -	-
Transfer from financial assets at fair value through other comprehensive income	164,000		-
Addition of investments accounted for using the equity method	864,693		-
Share of net loss of investments accounted for using the equity method	( 101,333)		-
Changes in capital surplus	213,708		-
Net exchange difference	( 7,838)		-
At June 30	<u>\$ 1,133,230</u>	<u>\$ -</u>	<u>-</u>
	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Joint venture			
Unikorn Semiconductor Corporation	\$ 457,177	\$ -	\$ -
Changzhou Neo-Episky Co., Ltd.	676,053	-	-
	<u>\$ 1,133,230</u>	<u>\$ -</u>	<u>\$ -</u>

A. Joint venture

- (a) To meet the requirements of production location expected by customers in different regions, expand operation scale, increase profits and strengthen its competitiveness, the Group invested in Changzhou Neo-Episky Co., Ltd. for RMB 110 million (US\$ 15,479 thousand) in May 2020.

(b) The basic information of the joint venture that is material to the Group is as follows:

Company name	Principal place of business	Shareholding ratio			Nature of relationship	Methods of measurement
		June 30, 2020	December 31, 2019	June 30, 2019		
		Unikorn Semiconductor Corporation ("Unikorn")	Taiwan	36.06%		
Changzhou Neo-Episky Co., Ltd. ("Neo-Episky")	China	35.06%	-	-	Joint venture Equity method	

(c) The summarized financial information of the joint venture that is material to the Group is as follows:

Balance sheet

	Unikorn	
	June 30, 2020	
Current assets	\$	74,221
Non-current assets		1,193,446
Current liabilities	(	524,566)
Non-current liabilities	(	8,662)
Total net assets	\$	734,439
	Neo-Episky	
	June 30, 2020	
Current assets	\$	1,976,762
Non-current assets		2,118
Current liabilities	(	49,192)
Non-current liabilities	(	1,139)
Total net assets	\$	1,928,549

Statement of comprehensive income

	Unikorn	
	Three-month period ended June 30, 2020	
Net loss/ total comprehensive loss	(\$	163,043)
	Unikorn	
	January 30, 2020 (acquisition date) to June 30, 2020	
Net loss/ total comprehensive loss	(\$	277,523)
	Neo-Episky	
	May 13, 2020 (acquisition date) to June 30, 2020	
Net loss/ total comprehensive loss	(\$	3,590)

(d) The balance as of June 30, 2020 and the profit and loss of investment for the six-month period ended June 30, 2020 of the above investees accounted for using the equity method were based on the financial statements prepared by the investees, which were not reviewed by independent accountants.



(6) Property, plant and equipment

	Land	Buildings	Machinery equipment	Computer and communication equipment	Research equipment	Office equipment	Leasehold improvements	Construction in progress	Total
At January 1, 2020									
Cost	\$ 138,058	\$ 92,039	\$ 1,189,695	\$ 10,647	\$ 99,712	\$ 11,514	\$ 293,827	\$ 104,363	\$ 1,939,855
Accumulated depreciation	-	( 11,614)	( 840,230)	( 8,895)	( 50,181)	( 10,271)	( 242,856)	-	( 1,164,047)
<u>2020</u>	<u>\$ 138,058</u>	<u>\$ 80,425</u>	<u>\$ 349,465</u>	<u>\$ 1,752</u>	<u>\$ 49,531</u>	<u>\$ 1,243</u>	<u>\$ 50,971</u>	<u>\$ 104,363</u>	<u>\$ 775,808</u>
Opening net book amount	\$ 138,058	\$ 80,425	\$ 349,465	\$ 1,752	\$ 49,531	\$ 1,243	\$ 50,971	\$ 104,363	\$ 775,808
Additions	-	-	4,719	106	3,542	-	-	49,411	57,778
Transfers (Note 2)	-	-	98,482	-	-	-	-	( 98,482)	-
Disposals	-	-	( 26)	-	-	( 17)	-	-	( 43)
Depreciation charges	-	( 1,316)	( 42,189)	( 504)	( 5,824)	( 365)	( 3,815)	-	( 54,013)
Impairment loss	-	-	( 1,897)	-	-	( 4)	-	-	( 1,901)
Net exchange differences	( 1,612)	( 923)	( 4,581)	( 16)	( 503)	( 8)	( 548)	( 614)	( 8,805)
<u>Closing net book amount</u>	<u>\$ 136,446</u>	<u>\$ 78,186</u>	<u>\$ 403,973</u>	<u>\$ 1,338</u>	<u>\$ 46,746</u>	<u>\$ 849</u>	<u>\$ 46,608</u>	<u>\$ 54,678</u>	<u>\$ 768,824</u>
At June 30, 2020									
Cost	\$ 136,446	\$ 90,964	\$ 1,274,926	\$ 10,540	\$ 101,682	\$ 11,257	\$ 290,493	\$ 54,678	\$ 1,970,986
Accumulated depreciation and impairment	-	( 12,778)	( 870,953)	( 9,202)	( 54,936)	( 10,408)	( 243,885)	-	( 1,202,162)
	<u>\$ 136,446</u>	<u>\$ 78,186</u>	<u>\$ 403,973</u>	<u>\$ 1,338</u>	<u>\$ 46,746</u>	<u>\$ 849</u>	<u>\$ 46,608</u>	<u>\$ 54,678</u>	<u>\$ 768,824</u>

	Land	Buildings	Machinery equipment	Computer and communication equipment	Research equipment	Office equipment	Leasehold improvements	Construction in progress	Total
At January 1, 2019									
Cost	\$ 141,466	\$ 94,310	\$ 1,174,986	\$ 10,547	\$ 100,089	\$ 11,738	\$ 43,175	\$ 300,876	\$ 1,877,187
Accumulated depreciation	-	( 9,207)	( 820,064)	( 8,254)	( 39,736)	( 9,413)	( 30,183)	( 236,689)	( 1,153,546)
	141,466	85,103	354,922	2,293	60,353	2,325	12,992	64,187	723,641
Effect of initial application of IFRS 16 (Note 1)									
	-	-	-	-	-	-	( 12,992)	-	( 12,992)
	\$ 141,466	\$ 85,103	\$ 354,922	\$ 2,293	\$ 60,353	\$ 2,325	\$ -	\$ 64,187	\$ 710,649
2019									
Opening net book amount	\$ 141,466	\$ 85,103	\$ 354,922	\$ 2,293	\$ 60,353	\$ 2,325	\$ -	\$ 64,187	\$ 710,649
Additions	-	-	18,053	362	1,837	-	-	-	20,252
Transfers (Note 2)	-	-	61,507	-	-	-	-	-	61,507
Disposals	-	-	( 637)	-	-	-	-	-	( 637)
Depreciation charges	-	( 1,359)	( 42,659)	( 561)	( 5,736)	( 553)	-	( 6,164)	( 57,032)
Net exchange differences	1,565	939	4,008	23	603	21	-	693	7,852
Closing net book amount	\$ 143,031	\$ 84,683	\$ 395,194	\$ 2,117	\$ 57,057	\$ 1,793	\$ -	\$ 58,716	\$ 742,591
At June 30, 2019									
Cost	\$ 143,031	\$ 95,354	\$ 1,243,451	\$ 10,941	\$ 102,940	\$ 11,841	\$ -	\$ 304,114	\$ 1,911,672
Accumulated depreciation	-	( 10,671)	( 848,257)	( 8,824)	( 45,883)	( 10,048)	-	( 245,398)	( 1,169,081)
	\$ 143,031	\$ 84,683	\$ 395,194	\$ 2,117	\$ 57,057	\$ 1,793	\$ -	\$ 58,716	\$ 742,591

Note 1: Please refer to Note 6(7) for the information about the adjustment of initial application of IFRS 16 on January 1, 2019.

Note 2: Transferred from prepayments for equipment (shown as "Other non-current assets").

A. Amount of borrowing costs capitalized as part of property, plant and equipment for the six-month periods ended June 30, 2020 and 2019: None.

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

(7) Leasing arrangements—lessee

A. The Group leases various assets including plant, office premises and machinery equipment. Lease agreements are typically made for periods of 1 to 8 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants. Short-term leases with a lease term of 12 months or less comprise office premises and parking spaces. Low-value assets comprise of office equipment.

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
	<u>Carrying amount</u>	<u>Carrying amount</u>	<u>Carrying amount</u>
Buildings	\$ 12,666	\$ 23,712	\$ 29,019
Machinery equipment	4,257	6,659	10,835
	<u>\$ 16,923</u>	<u>\$ 30,371</u>	<u>\$ 39,854</u>

	<u>Three-month periods ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
	<u>Depreciation charge</u>	<u>Depreciation charge</u>
Buildings	\$ 1,736	\$ 2,364
Machinery equipment	1,106	1,153
	<u>\$ 2,842</u>	<u>\$ 3,517</u>

	<u>Six-month periods ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
	<u>Depreciation charge</u>	<u>Depreciation charge</u>
Buildings	\$ 3,856	\$ 4,711
Machinery equipment	2,353	2,294
	<u>\$ 6,209</u>	<u>\$ 7,005</u>

C. The information on income and expense accounts relating to lease agreements is as follows:

	<u>Three-month periods ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 215	\$ 454
Expense on short-term lease agreements	489	290
Expense on leases of low-value assets	-	22

	<u>Six-month periods ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 524	\$ 938
Expense on short-term lease agreements	866	579
Expense on leases of low-value assets	20	46

D. For the six-month periods ended June 30, 2020 and 2019, the Group's total cash outflow for leases amounted to \$5,350 and \$9,294, respectively.

(8) Intangible assets

	<u>Software</u>	<u>Goodwill</u>	<u>Total</u>
<u>At January 1, 2020</u>			
Cost	\$ 78,068	\$ 174,186	\$ 252,254
Accumulated amortization and impairment	( 55,222)	-	( 55,222)
	<u>\$ 22,846</u>	<u>\$ 174,186</u>	<u>\$ 197,032</u>
<u>2020</u>			
At January 1	\$ 22,846	\$ 174,186	\$ 197,032
Additions	720	-	720
Amortization charges	( 3,311)	-	( 3,311)
Net exchange differences	( 236)	( 2,033)	( 2,269)
At June 30	<u>\$ 20,019</u>	<u>\$ 172,153</u>	<u>\$ 192,172</u>
<u>At June 30, 2020</u>			
Cost	\$ 77,878	\$ 172,153	\$ 250,031
Accumulated amortization and impairment	( 57,859)	-	( 57,859)
	<u>\$ 20,019</u>	<u>\$ 172,153</u>	<u>\$ 192,172</u>
	<u>Software</u>	<u>Goodwill</u>	<u>Total</u>
<u>At January 1, 2019</u>			
Cost	\$ 62,791	\$ 178,486	\$ 241,277
Accumulated amortization and impairment	( 55,788)	-	( 55,788)
	<u>\$ 7,003</u>	<u>\$ 178,486</u>	<u>\$ 185,489</u>
<u>2019</u>			
At January 1	\$ 7,003	\$ 178,486	\$ 185,489
Additions	5,757	-	5,757
Transfers (Note)	13,363	-	13,363
Amortization charges	( 2,071)	-	( 2,071)
Net exchange differences	231	1,976	2,207
At June 30	<u>\$ 24,283</u>	<u>\$ 180,462</u>	<u>\$ 204,745</u>
<u>At June 30, 2019</u>			
Cost	\$ 81,704	\$ 180,462	\$ 262,166
Accumulated amortization and impairment	( 57,421)	-	( 57,421)
	<u>\$ 24,283</u>	<u>\$ 180,462</u>	<u>\$ 204,745</u>

Note: Transferred from prepayments for equipment (shown as "Other non-current assets").

A. Details of amortization on intangible assets are as follows:

	Three-month periods ended June 30,	
	2020	2019
Cost of operating revenue	\$ 1,620	\$ 1,015
General and administrative expenses	47	49
	<u>\$ 1,667</u>	<u>\$ 1,064</u>
	Six-month periods ended June 30,	
	2020	2019
Cost of operating revenue	\$ 3,215	\$ 1,973
General and administrative expenses	96	98
	<u>\$ 3,311</u>	<u>\$ 2,071</u>

B. Goodwill is tested annually for impairment. The recoverable amount is determined based on the value-in-use.

As of June 30, 2020, the Group's assumptions used for impairment testing did not change significantly. Please refer to Note 6(7) for the goodwill impairment testing in the consolidated financial statements for the year ended December 31, 2019.

(9) Non-current assets

Item	June 30, 2020	December 31, 2019	June 30, 2019
Prepayments for equipment	\$ 1,619	\$ 7,723	\$ 43,233
Refundable deposits (Note 1)	2,418	4,568	4,694
Reserve account-demand deposits (Note 2)	2,064	2,311	-
Time deposits (Note 2)	317	314	314
Other non-current assets	-	2,892	3,490
	<u>\$ 6,418</u>	<u>\$ 17,808</u>	<u>\$ 51,731</u>

Note 1: Please refer to Note 8 for the information of the contracts secured by refundable deposits.

Note 2: Please refer to Note 8 for the information of the Group's pledged assets.

(10) Short-term borrowings

Type of borrowings	June 30, 2020	December 31, 2019	June 30, 2019	Interest rate range	Collateral
Bank borrowings					
Secured borrowings	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>	1.66%~1.70%	Time deposit (Note)

Note: Please refer to Note 8 for the information of the Group's assets pledged to secure borrowings.

(11) Other payables

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Accrued salaries and bonuses	\$ 58,368	\$ 66,189	\$ 32,174
Dividends payable	45,623	-	106,561
Accrued unused compensated absences	26,615	25,670	26,953
Accrued employees' compensation and directors' remuneration	12,318	24,208	38,536
Payables for equipment	5,655	12,691	8,248
Accrued utilities	3,286	2,515	3,255
Accrued professional service fees	1,874	2,483	1,826
Accrued outsourcing manufacturing services charges	1,316	2,394	2,128
Other accrued expenses	16,524	21,630	24,873
	<u>\$ 171,579</u>	<u>\$ 157,780</u>	<u>\$ 244,554</u>

(12) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate	Collateral	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary- Global Communication Semiconductor, LLC						
Secured borrowings (Note 1)	(Note 3)	4.00%	Land and buildings (Note 7)	\$ 45,036	\$ 56,041	\$ 68,679
Non-secured borrowings	(Note 5)	1.00%		85,856	-	-
Subsidiary- D-Tech Optoelectronics (Taiwan) Corporation						
Secured borrowings (Note 1)	(Note 4)	2.57~ 2.67%	(Note 2)	8,252	9,204	-
Subsidiary- D-Tech Optoelectronics Corporation						
Non-secured borrowings	(Note 6)	1.00%		7,142	-	-
				<u>146,286</u>	<u>65,245</u>	<u>68,679</u>
Less: Current portion				<u>( 23,233)</u>	<u>( 23,050)</u>	<u>( 21,469)</u>
				<u>\$ 123,053</u>	<u>\$ 42,195</u>	<u>\$ 47,210</u>

Note 1: According to the secured loan contract, the Group was required to comply with certain financial covenants by maintaining certain financial ratios, such as debt coverage ratio, on an annual basis. As of June 30, 2020, December 31, 2019 and June 30, 2019, the Group had

not violated any of the required financial covenants.

- Note 2: The Group commits to hold 100% equity interests of outstanding shares in its wholly-owned subsidiary, D-Tech Optoelectronics (Taiwan) Corporation, and to maintain its management right throughout the duration of the secured loan contract. In addition, the Group deposited 20% and 30% of demand deposit to the reserve account for drawing amount under and over \$10,000, respectively. Please refer to Note 8 for the information of the Group's assets pledged for secured borrowings.
- Note 3: Borrowing period is from August 6, 2015 to August 6, 2022; interest and principal are repayable monthly.
- Note 4: Borrowing period is from September 4, 2019 to July 4, 2021; interest and principal are repayable monthly.
- Note 5: It refers to Paycheck Protection Program ("PPP") applied from banks with the loan period from April 20, 2020 to April 20, 2022. The PPP loan must be used for operating expenses such as salary, rent and other expenses as specified in the loan agreement in order to apply for loan forgiveness.
- Note 6: It refers to Paycheck Protection Program ("PPP") applied from banks with the loan period from April 29, 2020 to April 29, 2022. The PPP loan must be used for operating expenses such as salary, rent and other expenses as specified in the loan agreement in order to apply for loan forgiveness.
- Note 7: Please refer to Note 8 for the information of the Group's assets pledged for secured borrowings.

(13) Pension plan

- A. The Group's US subsidiary has established a 401(K) pension plan (the "Plan") covering substantially all employees. The Plan provides voluntary salary reduction contributions by eligible participants in accordance with Section 401(K) of the Internal Revenue Code (IRC), as well as discretionary matching contributions below 15% of employees' salaries from the Company's subsidiary to its employees' individual pension accounts.
- B. The Group's Taiwan 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's Taiwan subsidiaries contribute 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.
- C. The pension costs under the above pension plans of the Group for the three-month and six-month periods ended June 30, 2020 and 2019 amounted to \$4,584, \$4,251, \$10,143 and \$9,516, respectively.

(14) Share-based payment-employee compensation plan

A. Through June 30, 2020, December 31, 2019 and June 30, 2019, the Group's share-based payment transactions are set forth below:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting condition
Employee stock options	April 2013	1,538,000 shares	10 years	(Note 1)
Employee stock options	October 2013	538,000 shares	10 years	(Note 1)
Employee stock options	November 2014	75,000 shares	10 years	(Note 1)
Employee stock options	January 2015	30,000 shares	10 years	(Note 1)
Employee stock options	February 2015	652,200 shares	10 years	(Note 1)
Employee stock options	March 2016	5,000 shares	10 years	(Note 1)
Employee stock options	August 2016	895,000 shares	10 years	(Note 1)
Employee stock options	November 2016	34,000 shares	10 years	(Note 1)
Employee stock options	February 2017	15,000 shares	10 years	(Note 1)
Employee stock options	August 2017	215,000 shares	10 years	(Note 1)
Employee stock options	January 2018	13,000 shares	10 years	(Note 1)
Employee stock options	February 2018	355,000 shares	10 years	(Note 1)
Employee stock options	August 2018	27,000 shares	10 years	(Note 1)
Employee stock options	November 2018	5,000 shares	10 years	(Note 1)
Employee stock options	March 2019	578,000 shares	10 years	(Note 1)
Employee stock options	August 2019	40,000 shares	10 years	(Note 1)
Employee stock options	March 2020	250,000 shares	10 years	(Note 1)
Restricted stocks to employees (Note 3)	August 2017	180,000 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	February 2018	398,000 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	September 2018	28,000 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	March 2019	570,000 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	March 2020	518,000 shares	2 years	(Note 2)

Note 1: Some employee stock options shall be vested and become exercisable up to 50% of the shares after fulfilling two years of service, and in accordance with the agreement, the remaining 50% of such options will be vested ratably in equal installments as of the last day of each of the succeeding 24 months.

Note 2: Some restricted stocks to employees shall be vested up to 50% of the shares after one year of service, and the remaining 50% of such shares to be vested after fulfilling two years of service.

Note 3: The restricted stocks to employees are restricted from transferring within vesting period, but are allowed for voting rights and rights to receive dividends. The Company will recover restricted stocks at no consideration and cancel registration if employees resign or die not due to occupational hazards. However, employees do not need to return



dividends already received.

B. Details of the employee stock options are set forth below:

	Six-month period ended June 30, 2020		
	No. of options	Currency	Weighted average exercise price (in dollars)
Options outstanding at beginning of the period	2,523,079	NTD	\$ 58.45
Options granted	250,000	NTD	45.20
Options forfeited	(48,146)	NTD	42.18
Options outstanding at end of the period	<u>2,724,933</u>	NTD	57.52
Options exercisable at end of the period	<u>1,619,287</u>	NTD	56.33

	Six-month period ended June 30, 2019		
	No. of options	Currency	Weighted average exercise price (in dollars)
Options outstanding at beginning of the period	2,029,457	NTD	\$ 58.48
Options granted	578,000	NTD	60.70
Options exercised	(18,396)	NTD	30.20
Options forfeited	(5,000)	NTD	64.00
Options outstanding at end of the period	<u>2,584,061</u>	NTD	58.92
Options exercisable at end of the period	<u>1,202,269</u>	NTD	48.91

C. No stock options were exercised for the six-month period ended June 30, 2020. The weighted-average stock price of stock options at exercise dates for the six-month period ended June 30, 2019 was \$58.59 (in dollars).

D. As of June 30, 2020, December 31, 2019 and June 30, 2019, the range of exercise prices of stock options outstanding are as follows:

Grant date	Expiry date	June 30, 2020		
		No. of Shares	Currency	Stock options exercise price (in dollars)
April 2013	April 2023	146,834	NTD	\$ 11.10
October 2013	October 2023	8,230	NTD	17.30
November 2014	November 2024	52,000	NTD	31.90
February 2015	February 2025	253,869	NTD	40.20
March 2016	March 2026	5,000	NTD	69.20
August 2016	August 2026	793,000	NTD	64.10
November 2016	November 2026	26,000	NTD	62.70
February 2017	February 2027	15,000	NTD	55.70
August 2017	August 2027	205,000	NTD	64.80
January 2018	January 2028	13,000	NTD	84.50
February 2018	February 2028	315,000	NTD	81.40
August 2018	August 2028	19,000	NTD	62.30
November 2018	November 2028	5,000	NTD	48.20
March 2019	March 2029	578,000	NTD	59.50
August 2019	August 2029	40,000	NTD	58.00
March 2020	March 2030	250,000	NTD	45.20
		<u>2,724,933</u>		

December 31, 2019				
Grant date	Expiry date	No. of Shares	Currency	Stock options exercise price (in dollars)
April 2013	April 2023	160,146	NTD	\$ 11.10
October 2013	October 2023	12,397	NTD	17.30
November 2014	November 2024	53,667	NTD	31.90
February 2015	February 2025	257,869	NTD	40.20
March 2016	March 2026	5,000	NTD	69.20
August 2016	August 2026	815,000	NTD	64.10
November 2016	November 2026	26,000	NTD	62.70
February 2017	February 2027	15,000	NTD	55.70
August 2017	August 2027	205,000	NTD	64.80
January 2018	January 2028	13,000	NTD	84.50
February 2018	February 2028	315,000	NTD	81.40
August 2018	August 2028	22,000	NTD	62.30
November 2018	November 2028	5,000	NTD	48.20
March 2019	March 2029	578,000	NTD	59.50
August 2019	August 2029	40,000	NTD	58.00
		<u>2,523,079</u>		

June 30, 2019				
Grant date	Expiry date	No. of Shares	Currency	Stock options exercise price (in dollars)
April 2013	April 2023	170,396	NTD	\$ 11.35
October 2013	October 2023	24,835	NTD	17.63
November 2014	November 2024	54,188	NTD	32.50
January 2015	January 2025	7,500	NTD	41.90
February 2015	February 2025	303,142	NTD	41.00
March 2016	March 2026	5,000	NTD	70.60
August 2016	August 2026	840,000	NTD	65.40
November 2016	November 2026	26,000	NTD	64.00
February 2017	February 2027	15,000	NTD	56.80
August 2017	August 2027	205,000	NTD	66.10
January 2018	January 2028	13,000	NTD	86.20
February 2018	February 2028	315,000	NTD	83.10
August 2018	August 2028	22,000	NTD	63.60
November 2018	November 2028	5,000	NTD	49.20
March 2019	March 2029	578,000	NTD	60.70
		<u>2,584,061</u>		

E. Details of the restricted stocks to employees are set forth below:

Employee restricted stocks	Six-month periods ended June 30,	
	2020	2019
	No. of shares	No. of shares
Outstanding at beginning of the period	768,000	510,500
Granted (Notes 1 and 2)	518,000	570,000
Vested	( 475,500)	( 193,500)
Retired	-	( 18,000)
Outstanding at end of the period	<u>810,500</u>	<u>869,000</u>

Note 1: For the restricted stocks granted with the compensation cost accounted for using the fair value method, the fair values on the grant date are calculated based on the closing price on the grant date.

Note 2: The fair value of restricted stocks granted in March 2020 and 2019 was \$45.20 (in dollars) and \$60.70 (in dollars), respectively.

F. For the stock options granted with the compensation cost accounted for using the fair value method, their fair value on the grant date is estimated using the Black-Scholes option-pricing model and discounted cash flow valuation. The parameters used in the estimation of the fair value are as follows:

Type of arrangement	Grant date	Currency	Fair value (in dollars)	Exercise price (in dollars)	Expected price volatility	Expected option period (years)	Expected dividend yield rate	Risk-free interest rate	Weighted average fair value (in dollars)
Employee stock options	March 2019	NTD	\$ 57.58	\$ 60.70	37.33%	6.26	1.00%	0.78%	\$ 36.30
Employee stock options	August 2019	NTD	58.36	59.20	24.47%	6.26	1.00%	0.66%	29.14
Employee stock options	March 2020	NTD	63.11	45.20	50.77%	6.26	1.00%	0.48%	42.83

G. Expenses incurred on share-based payment transactions are shown below:

	Three-month periods ended June 30,	
	2020	2019
Equity-settled	<u>\$ 13,341</u>	<u>\$ 13,840</u>
	Six-month periods ended June 30,	
	2020	2019
Equity-settled	<u>\$ 20,148</u>	<u>\$ 20,743</u>

(15) Common stock

A. As of June 30, 2020, the Company's paid-in capital was \$913,515, consisting of 91,351,504 shares with a par value of \$10 (in dollars) per share.

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

Unit: Numbers of shares

	<u>2020</u>	<u>2019</u>
Outstanding ordinary shares at January 1	89,456,504	80,789,626
Exercise of employee stock options	-	18,396
Issuance of restricted stocks to employees	518,000	570,000
Retirement of restricted stocks to employees	-	( 8,000)
Restricted stocks retrieved from employees and to be cancelled	-	( 10,000)
Issuance of share capital - Global Depositary Receipts	-	8,000,000
Outstanding ordinary shares at June 30	89,974,504	89,360,022
Treasury stocks	1,377,000	1,377,000
Restricted stocks retrieved from employees and to be cancelled	-	10,000
Issued ordinary shares at June 30	<u>91,351,504</u>	<u>90,747,022</u>

B. On June 1, 2017, the shareholders adopted a resolution to reserve 1,000,000 shares for the purpose of granting employee restricted stocks with par value of \$10 (in dollars) per shares, with the effective date filed with the regulator on August 8, 2017. The subscription price is \$0 (in dollar) per share. The employee restricted stocks issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. On August 21, 2017 and February 27, 2018, the Board of Directors adopted a resolution to grant 180,000 and 398,000 employee restricted stocks, respectively. In January and July 2019, the Company had retrieved 8,000 and 1,500 employee restricted stocks, respectively, due to the employees' resignation, and the retrieved shares have been retired.

C. On May 15, 2018, the shareholders adopted a resolution to reserve 1,000,000 shares for the purpose of granting employee restricted stocks with par value of \$10 (in dollars) per shares, with the effective date filed with the regulator on August 16, 2018. The subscription price is \$0 (in dollar) per share. The employee restricted stocks issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. On August 2, 2018 and March 5, 2019, the Board of Directors resolved to grant 28,000 and 570,000 employee restricted stocks, respectively. In May and September 2019, the Company had retrieved 13,000 employee restricted stocks in total due to the employees' resignation, and the retrieved shares have been retired.

D. On April 2, 2018, the Board of Directors resolved to increase cash capital by issuing ordinary shares for participating in issuance of Global Depositary Receipts ("GDRs") in order to fund the purchase of plant, machinery and equipment, and overseas purchases of raw materials. On July 31, 2018, the Company received the official letter No. 1070326367 from the FSC of approval of

the issuance of ordinary shares for participating in issuance of GDRs, while on October 31, 2018, the Company received another official letter No.1070118798 for the extension of three months to complete the aforementioned issuance. On December 19, 2018, the Board of Directors resolved to adjust the number of shares to be issued from the range of 15,000,000 to 25,000,000 ordinary shares to 8,000,000 to 25,000,000 ordinary shares. The aforementioned adjustment was approved by the FSC with the receipt of the official letter No.1070121974. The Company's GDRs began trading on the Luxembourg Stock Exchange on January 21, 2019.

The actual units of GDRs for this offering were 1,600,000 and each GDR represents five of the Company's ordinary shares, which in the aggregate representing 8,000,000 ordinary shares. The offering price per GDR was US\$8.20 (in dollars). The actual cash received was US\$12,989 thousand (approximately \$400,717) after deducting issuance costs. The fundraising had been fully collected by the Company as of January 22, 2019, and the change registration of this capital increase had been completed. As of June 30, 2020, the outstanding GDRs were 1,200 thousand units, or 6,000 thousand shares of common stock, representing 6.56% of the Company's total common stocks.

The terms of GDR are as follows:

(a) Voting rights

The voting right of GDR holders may, pursuant to the Depositary Agreement and the relevant laws and regulations of the R.O.C., exercise the voting rights pertaining to the underlying common shares represented by the GDRs.

(b) Dividends, stocks warrant and other rights

GDR holders and common shareholders are all entitled to receive dividends, stock warrants and other rights.

E. Treasury stocks

(a) Reason for share repurchase and the number of the Company's treasury stocks are as follows:

		<u>June 30, 2020</u>	
<u>Name of company holding the shares</u>	<u>Reason for repurchase</u>	<u>Number of shares</u>	<u>Carrying amount</u>
The Company	To be reissued to employees	1,377,000	\$ 90,870

  

		<u>December 31, 2019</u>	
<u>Name of company holding the shares</u>	<u>Reason for repurchase</u>	<u>Number of shares</u>	<u>Carrying amount</u>
The Company	To be reissued to employees	1,377,000	\$ 90,870

  

		<u>June 30, 2019</u>	
<u>Name of company holding the shares</u>	<u>Reason for repurchase</u>	<u>Number of shares</u>	<u>Carrying amount</u>
The Company	To be reissued to employees	1,377,000	\$ 90,870

- (b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares repurchased as treasury shares 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 surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Act, treasury stocks should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Act, treasury stocks should be reissued to the employees within five years from the date of repurchase, and shares not reissued within the five-year period are to be retired. Treasury stocks to enhance the Company's credit rating and the shareholders' equity should be retired within six months of repurchase.

(16) Capital surplus

Capital surplus can be used to cover accumulated deficit or distributed as dividend as proposed by the Board of Directors and resolved by the shareholders.

	2020					
	Share premium	Employee stock options	Employee restricted stocks	Recognized changes in equity of associates	Others	Total
At January 1	\$ 1,306,536	\$ 64,747	\$ 45,119	\$ -	\$ 31,552	\$ 1,447,954
Compensation costs of share-based payment	-	8,977	-	-	-	8,977
Issuance of restricted stocks to employees	-	-	18,131	-	-	18,131
Restricted stocks to employees vested	27,769	-	( 27,769)	-	-	-
Recognized changes in equity of associates	-	-	-	213,708	-	213,708
At June 30	<u>\$ 1,334,305</u>	<u>\$ 73,724</u>	<u>\$ 35,481</u>	<u>\$ 213,708</u>	<u>\$ 31,552</u>	<u>\$ 1,688,770</u>

	2019			
	Share premium	Employee stock options	Employee restricted stocks	Others
At January 1	\$ 965,170	\$ 57,456	\$ 38,457	\$ 31,552
Compensation costs of share-based payment	-	6,046	-	-
Issuance of restricted stocks to employees	-	-	28,992	-
Restricted stocks to employees vested	14,719	-	( 14,719)	-
Retrieve restricted stocks from employees	-	-	( 644)	-
Exercise of employee stock options	1,222	( 845)	-	-
Issuance of share capital - GDRs	310,555	-	-	-
At June 30	<u>\$ 1,291,666</u>	<u>\$ 62,657</u>	<u>\$ 52,086</u>	<u>\$ 31,552</u>

(17) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset losses incurred in previous years and then a special reserve as required by the applicable securities authority under the applicable public company rules in Taiwan. After combining accumulated undistributed earnings in the previous years and setting aside a certain amount of remaining profits of such financial year as a reserve or reserves for development purposes as the Board of Directors may from time to time deem appropriate, subject to the compliance with the Cayman Islands Companies Law, the Company shall distribute no less than 10% of the remaining profit as dividends to the shareholders. The amendments to the Company's Articles of Incorporation has been approved by the Company's shareholders in its meeting held on June 5, 2019, which stipulates distribution of earnings by way of cash dividends should be approved by the Company's Board of Directors and reported to the Company's shareholders in its meeting.
- B. The Company's dividend policy is as follows: As the Company operates in a capital intensive industry and in the stable growth stage, the residual dividend policy is adopted taking into consideration the Company's operation scale, cash flow demand and future expansion plans, and cash dividends shall account for at least 10% of the total dividends distributed.
- C. The appropriations of 2019 earnings had been resolved by the shareholders' meeting on June 5, 2020 and the appropriations of 2018 earnings had been resolved by the shareholders' meeting on June 5, 2019. Details are summarized below:



	2019		2018	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Cash dividends	\$ 45,623	\$ 0.51	\$ 106,561	\$ 1.20

(18) Other equity interest

	2020		
	Currency translation differences	Unearned employee compensation	Total
At January 1	(\$ 42,043)	(\$ 13,841)	(\$ 55,884)
Currency translation differences	( 28,968)	-	( 28,968)
Compensation costs of share-based payment	-	11,171	11,171
Issuance of restricted stocks to employees	-	( 23,311)	( 23,311)
At June 30	(\$ 71,011)	(\$ 25,981)	(\$ 96,992)

	2019		
	Currency translation differences	Unearned employee compensation	Total
At January 1	\$ 43,005	(\$ 15,200)	\$ 27,805
Currency translation differences	35,724	-	35,724
Compensation costs of share-based payment	-	14,697	14,697
Issuance of restricted stocks to employees	-	( 34,692)	( 34,692)
Retrieve restricted stocks from employees	-	749	749
At June 30	\$ 78,729	(\$ 34,446)	\$ 44,283

(19) Operating revenue

	Three-month periods ended June 30,	
	2020	2019
Revenue from contracts with customers	\$ 412,013	\$ 465,346
	Six-month periods ended June 30,	
	2020	2019
Revenue from contracts with customers	\$ 779,365	\$ 843,255

A. Disaggregation of revenue from contracts with customers

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

	Three-month period ended June 30, 2020		
	Sales revenue	Royalty revenue	Total
China	\$ 221,740	\$ -	\$ 221,740
United States	92,253	-	92,253
Taiwan	38,366	2,810	41,176
Others	56,844	-	56,844
	<u>\$ 409,203</u>	<u>\$ 2,810</u>	<u>\$ 412,013</u>

	Three-month period ended June 30, 2019			
	Sales revenue	Service revenue	Royalty revenue	Total
China	\$ 239,675	\$ 3,891	\$ 224	\$ 243,790
United States	181,513	-	-	181,513
Taiwan	18,114	-	3,514	21,628
Others	18,415	-	-	18,415
	<u>\$ 457,717</u>	<u>\$ 3,891</u>	<u>\$ 3,738</u>	<u>\$ 465,346</u>

	Six-month period ended June 30, 2020		
	Sales revenue	Royalty revenue	Total
China	\$ 415,011	\$ 1,357	\$ 416,368
United States	214,418	-	214,418
Taiwan	58,470	4,410	62,880
Others	85,699	-	85,699
	<u>\$ 773,598</u>	<u>\$ 5,767</u>	<u>\$ 779,365</u>

	Six-month period ended June 30, 2019			
	Sales revenue	Service revenue	Royalty revenue	Total
China	\$ 427,279	\$ 7,745	\$ 224	\$ 435,248
United States	334,439	-	-	334,439
Taiwan	38,795	-	5,531	44,326
Others	29,242	-	-	29,242
	<u>\$ 829,755</u>	<u>\$ 7,745</u>	<u>\$ 5,755</u>	<u>\$ 843,255</u>

## B. Contract liabilities

The Group has recognized the following revenue-related contract liabilities:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>	<u>January 1, 2019</u>
Contract liabilities				
– advance sales receipts	\$ 7,632	\$ 11,875	\$ 11,869	\$ 16,302

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

	<u>Three-month periods ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Contract liabilities – advance sales receipts	\$ 2,317	\$ 3,840

	<u>Six-month periods ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Contract liabilities – advance sales receipts	\$ 11,736	\$ 12,116

### (20) Other gains and losses

	<u>Three-month periods ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Loss on disposal of property, plant and equipment	\$ -	(\$ 637)
Net currency exchange (losses) gains	( 650)	757
Loss on liquidation of a subsidiary	( 188)	-
Other losses	( 1,873)	( 528)
	<u>(\$ 2,711)</u>	<u>(\$ 408)</u>

	<u>Six-month periods ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Loss on disposal of property, plant and equipment	\$ 213	(\$ 637)
Net currency exchange (losses) gains	( 189)	648
Loss on liquidation of a subsidiary	( 188)	-
Other losses	( 1,960)	( 528)
	<u>(\$ 2,124)</u>	<u>(\$ 517)</u>

(21) Finance costs

	Three-month periods ended June 30,	
	2020	2019
Interest expense	\$ 638	\$ 833
Lease liabilities - Interest expense	217	454
	<u>\$ 855</u>	<u>\$ 1,287</u>

	Six-month periods ended June 30,	
	2020	2019
Interest expense	\$ 1,325	\$ 1,731
Lease liabilities - Interest expense	524	938
	<u>\$ 1,849</u>	<u>\$ 2,669</u>

(22) Expenses by nature

	Three-month periods ended June 30,	
	2020	2019
Employee benefit expense	<u>\$ 156,910</u>	<u>\$ 201,579</u>
Depreciation charge on property, plant and equipment and right-of-use assets	<u>\$ 28,792</u>	<u>\$ 32,455</u>
Amortization charge on intangible assets (recognized as cost of operating revenue and operating expenses)	<u>\$ 1,667</u>	<u>\$ 1,064</u>

	Six-month periods ended June 30,	
	2020	2019
Employee benefit expense	<u>\$ 322,656</u>	<u>\$ 389,620</u>
Depreciation charge on property, plant and equipment and right-of-use assets	<u>\$ 60,222</u>	<u>\$ 64,037</u>
Amortization charge on intangible assets (recognized as cost of operating revenue and operating expenses)	<u>\$ 3,311</u>	<u>\$ 2,071</u>

(23) Employee benefit expense

	Three-month periods ended June 30,	
	2020	2019
Wages and salaries	\$ 126,028	\$ 166,696
Compensation costs of share-based payment	13,341	13,840
Insurance expenses	12,823	16,331
Pension costs	4,584	4,251
Other personnel expenses	134	461
	<u>\$ 156,910</u>	<u>\$ 201,579</u>

  

	Six-month periods ended June 30,	
	2020	2019
Wages and salaries	\$ 265,371	\$ 327,368
Compensation costs of share-based payment	20,148	20,743
Insurance expenses	26,520	31,089
Pension costs	10,143	9,516
Other personnel expenses	474	904
	<u>\$ 322,656</u>	<u>\$ 389,620</u>

- A. According to the Articles of Incorporation of the Company, when distributing earnings, an amount equal to the ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be higher than 15% and lower than 5% for employees' compensation and shall not be higher than 2% for directors' remuneration.
- B. For the three-month and six-month periods ended June 30, 2020 and 2019, employees' compensation was accrued at \$1,362, \$6,183, \$2,156 and \$7,113, respectively; directors' remuneration was accrued at \$544, \$2,473, \$862 and \$2,845, respectively. The aforementioned amounts were recognized in wages and salaries. The employees' compensation and directors' remuneration were estimated and accrued based on 5% and 2% of distributable profit of current period from January 1 to June 30, 2020. Employees' compensation and directors' remuneration of 2019 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2019 financial statements. The employees' compensation will be distributed in the form of cash.
- C. Information about employees' compensation and directors' remuneration of the Company as proposed by the Board of Directors and resolved by the shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(24) Income tax

A. Income tax expense

Components of income tax expense:

	Three-month periods ended June 30,	
	2020	2019
Current tax:		
Current tax on profit for the period	\$ 12,936	\$ 27,622
Tax on undistributed surplus earnings	-	335
Total current tax	<u>12,936</u>	<u>27,957</u>
Deferred tax:		
Origination and reversal of temporary differences	6,455	420
Total deferred tax	<u>6,455</u>	<u>420</u>
Income tax expense	<u>\$ 19,391</u>	<u>\$ 28,377</u>

	Six-month periods ended June 30,	
	2020	2019
Current tax:		
Current tax on profit for the period	\$ 19,442	\$ 30,712
Tax on undistributed surplus earnings	-	335
Total current tax	<u>19,442</u>	<u>31,047</u>
Deferred tax:		
Origination and reversal of temporary differences	12,158	1,630
Total deferred tax	<u>12,158</u>	<u>1,630</u>
Income tax expense	<u>\$ 31,600</u>	<u>\$ 32,677</u>

B. Through June 30, 2020, the assessment of income tax returns of the Taiwan subsidiaries are as follows:

<u>Name of subsidiary</u>	<u>Assessment of income tax returns</u>
Global Device Technologies, Co., Ltd.	Assessed and approved up to 2018
D-Tech Optoelectronics (Taiwan) Corporation	Assessed and approved up to 2018

(25) Earnings per share (EPS)

Details of ordinary stocks per share are as follows:

	Three-month period ended June 30, 2020		
	Amount after tax	Weighted average outstanding stocks (in thousand of shares)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 5,950	89,164	\$ 0.07
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 5,950	89,164	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	18	
Employee stock options	-	203	
Employee restricted stocks	-	96	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 5,950	89,481	\$ 0.07
	Three-month period ended June 30, 2019		
	Amount after tax	Weighted average outstanding stocks (in thousand of shares)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 88,189	88,501	\$ 1.00
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 88,189	88,501	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	112	
Employee stock options	-	275	
Employee restricted stocks	-	281	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 88,189	89,169	\$ 0.99

	Six-month period ended June 30, 2020		
	Amount after tax	Weighted average outstanding stocks (in thousand of shares)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 8,427	88,986	\$ 0.09
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 8,427	88,986	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	180	
Employee stock options	-	227	
Employee restricted stocks	-	280	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 8,427	89,673	\$ 0.09

	Six-month period ended June 30, 2019		
	Amount after tax	Weighted average outstanding stocks (in thousand of shares)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 102,931	87,295	\$ 1.18
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 102,931	87,295	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	276	
Employee stock options	-	273	
Employee restricted stocks	-	269	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 102,931	88,113	\$ 1.17



(26) Supplemental cash flow information

A. Investing activities with partial cash payments:

	Six-month periods ended June 30,	
	2020	2019
Acquisition of property, plant and equipment (including transfers)	\$ 57,778	\$ 81,759
Add: Ending balance of prepayments for equipment (Note)	1,619	43,233
Less: Beginning balance of prepayments for equipment (Note)	( 7,723)	( 106,676)
Add: Beginning balance of prepayments for equipment being transferred to intangible assets	-	13,363
Less: Ending balance of payables for equipment	( 5,655)	( 8,248)
Add: Beginning balance of payables for equipment	12,691	27,460
Cash paid	<u>\$ 58,710</u>	<u>\$ 50,891</u>

Note: Shown as "Other non-current assets".

B. Financing activities with no cash flow effect:

	Six-month periods ended June 30,	
	2020	2019
Cash dividends	\$ 45,623	\$ 106,561
Less: Other payables	( 45,623)	( 106,561)
Dividends paid	<u>\$ -</u>	<u>\$ -</u>

(27) Changes in liabilities from financing activities

	Short-term borrowings	Lease liabilities	Long-term borrowings (including current portion)	Dividends payable	Liabilities from financing activities
At January 1, 2020	\$ 20,000	\$ 27,981	\$ 65,245	\$ -	\$ 113,226
Changes in cash flow					
from financing activities	-	( 3,940)	82,727	-	78,787
Interest expense	-	524	-	-	524
Interest paid	-	( 524)	-	-	( 524)
Lease modifications	-	( 11,019)	-	-	( 11,019)
Declaration of cash dividends	-	-	-	45,623	45,623
Net exchange differences	-	( 151)	( 1,686)	-	( 1,837)
At June 30, 2020	<u>\$ 20,000</u>	<u>\$ 12,871</u>	<u>\$ 146,286</u>	<u>\$ 45,623</u>	<u>\$ 224,780</u>

	Short-term borrowings	Lease liabilities	Long-term borrowings (including current portion)	Liabilities from financing activities
At January 1, 2019	\$ 20,300	\$ 43,420	\$ 78,242	\$ 141,962
Changes in cash flow				
from financing activities	( 300)	( 8,588)	( 9,983)	( 18,871)
Interest expense	-	938	-	938
Interest paid	-	( 81)	-	( 81)
Net exchange differences	-	301	420	721
At June 30, 2019	<u>\$ 20,000</u>	<u>\$ 35,990</u>	<u>\$ 68,679</u>	<u>\$ 124,669</u>

## 7. RELATED PARTY TRANSACTIONS

### Key management compensation

	Three-month periods ended June 30,	
	2020	2019
Salaries and other short-term employee benefits	\$ 24,068	\$ 19,333
Post-employment benefits	360	455
Compensation costs of share-based payment	4,664	6,067
	<u>\$ 29,092</u>	<u>\$ 25,855</u>

	Six-month periods ended June 30,	
	2020	2019
Salaries and other short-term employee benefits	\$ 55,400	\$ 54,913
Post-employment benefits	1,565	1,825
Compensation costs of share-based payment	8,269	9,421
	<u>\$ 65,234</u>	<u>\$ 66,159</u>

## 8. PLEDGED ASSETS

As of June 30, 2020, December 31, 2019 and June 30, 2019, the Group's assets pledged as collateral were as follows:

Assets	June 30, 2020	December 31, 2019	June 30, 2019	Purpose
Land	\$ 136,446	\$ 138,058	\$ 143,031	Long-term borrowings
Buildings	78,186	80,425	84,683	Long-term borrowings
Time deposits (Shown as "Other current assets")	31,381	30,951	32,066	Short-term borrowings
Reserve account-demand deposits (Shown as "Other non-current assets")	2,064	2,311	-	Long-term borrowings
Time deposits (Shown as "Other non-current assets")	317	314	314	Custom guarantee for imported goods
Refundable deposits (Shown as "Other non-current assets")	2,418	4,568	4,694	Deposits for office rental and waste water treatment

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

Capital expenditures contracted for at the balance sheet date but not yet incurred and are cancellable without cause are as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Property, plant and equipment	\$ 4,966	\$ 45,732	\$ 75,995

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

None.

12. OTHERS

(1) Capital management

In order to safeguard the Group's ability to adapt to the changes in the industry and to accelerate the new product development, the Company's objective when managing capital is to maintain the sufficient financial resources to support the operating capital, capital expenditures, research and development activities, repayment of debts and dividend paid to shareholders, etc.

(2) Financial instruments

A. Financial instruments by category

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
<u>Financial assets</u>			
Financial assets measured at fair value through other comprehensive income	\$ -	\$ 159,531	\$ 165,278
Financial assets at amortized cost			
Cash and cash equivalents	\$ 1,113,221	\$ 1,838,994	\$ 1,771,104
Notes receivable	900	59	61
Accounts receivable	217,438	317,067	291,240
Other receivables	23,566	19,687	22,510
Guarantee deposits paid	2,418	4,568	4,694
Reserve account- demand deposits (Shown as "Other non-current assets")	2,064	2,311	-
Time deposits (over three-month period) (Shown as "Other current and non-current assets")	179,531	31,265	94,500
	<u>\$ 1,539,138</u>	<u>\$ 2,213,951</u>	<u>\$ 2,184,109</u>

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
<u>Financial liabilities</u>			
Financial liabilities at amortized cost			
Short-term borrowings	\$ 20,000	\$ 20,000	\$ 20,000
Accounts payable	19,234	15,872	15,881
Other payables	171,579	157,780	244,554
Long-term borrowings (including current portion)	146,286	65,245	68,679
	<u>\$ 357,099</u>	<u>\$ 258,897</u>	<u>\$ 349,114</u>
Lease liabilities	<u>\$ 12,871</u>	<u>\$ 27,981</u>	<u>\$ 35,990</u>

#### B. Financial risk management policies

- a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk.
- b) Risk management is carried out by the Group's finance team under policies approved by the Board of Directors. The Group's finance team identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units.

#### C. Significant financial risks and degrees of financial risks

##### a) Market risk

###### Foreign exchange risk

The Group's businesses are mainly conducted in its functional currency. Therefore, the foreign exchange risk is deemed minimal.

###### Cash flow and fair value interest rate risk

- i. The Group's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the six-month periods ended June 30, 2020 and 2019, the Group's borrowings at variable rate were denominated in the NTD.
- ii. Based on the simulations performed, the impact on post-tax profit of a 1% shift, with all other variables held constant, would be a maximum increase or decrease of \$665 and \$80 for the six-month periods ended June 30, 2020 and 2019, respectively, as a result of the decrease or increase in interest expense which is affected by variable rates.

##### b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the credit risk of financial assets at amortized cost.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with a minimum rating of "BBB+" are accepted. According to the Group's credit policy, each local entity

in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored.

- iii. The Group does not hold any collateral as security for notes receivable and accounts receivable. As of June 30, 2020, December 31, 2019 and June 30, 2019, with no collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the Group's notes receivable was \$900, \$59 and \$61, respectively, and the maximum exposure to credit risk in respect of the Group's accounts receivable was \$217,438, \$317,067 and \$291,240, respectively.
- iv. The Group adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 90 days.
- v. The Group adopts the assumption under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:  
If the contract payment were past due over 30 days, based on the terms, there would be a significant increase in credit risk on that instrument since initial recognition.
- vi. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
  - a. It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
  - b. The disappearance of an active market for that financial asset because of financial difficulties;
- vii. The Group wrote off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights.
- viii. Estimation of expected credit loss for notes receivable and accounts receivable:
  - a) The Group classifies customers' notes receivable and accounts receivable in accordance with credit risk on trade. The Group applies the simplified approach using loss rate methodology to estimate expected credit loss.

b)The Group used the forecastability of external research report to adjust historical and timely information for a specific period to assess the default possibility of notes receivable and accounts receivable. As of June 30, 2020, December 31, 2019 and June 30, 2019, the loss rate methodology is as follows:

<u>Notes receivable</u>	Not past due				
<u>At June 30, 2020</u>					
Expected loss rate	0%				
Total book value	<u>\$ 900</u>				
Loss allowance	<u>\$ -</u>				
<u>Accounts receivable</u>	Not past due	Less than 90 days past due	Less than 180 days and more than 90 days past due	More than 180 days past due	Total
<u>At June 30, 2020</u>					
Expected loss rate	0%-1%	1%-15%	16%-31%	31%-100%	
Total book value	<u>\$ 185,969</u>	<u>\$ 30,407</u>	<u>\$ -</u>	<u>\$ 4,739</u>	<u>\$ 221,115</u>
Loss allowance	<u>\$ 19</u>	<u>\$ 313</u>	<u>\$ -</u>	<u>\$ 3,345</u>	<u>\$ 3,677</u>
<u>Notes receivable</u>	Not past due				
<u>At December 31, 2019</u>					
Expected loss rate	0%				
Total book value	<u>\$ 59</u>				
Loss allowance	<u>\$ -</u>				
<u>Accounts receivable</u>	Not past due	Less than 90 days past due	Less than 180 days and more than 90 days past due	More than 180 days past due	Total
<u>At December 31, 2019</u>					
Expected loss rate	0%-1%	1%-15%	16%-31%	31%-100%	
Total book value	<u>\$ 237,419</u>	<u>\$ 75,581</u>	<u>\$ 2,721</u>	<u>\$ 6,409</u>	<u>\$ 322,130</u>
Loss allowance	<u>\$ 24</u>	<u>\$ 778</u>	<u>\$ 735</u>	<u>\$ 3,526</u>	<u>\$ 5,063</u>
<u>Notes receivable</u>	Not past due				
<u>At June 30, 2019</u>					
Expected loss rate	0%				
Total book value	<u>\$ 61</u>				
Loss allowance	<u>\$ -</u>				

<u>Accounts receivable</u>	Not past due	Less than 90 days past due	Less than 180 days and more than 90 days past due	More than 180 days past due	Total
<u>At June 30, 2019</u>					
Expected loss rate	0%-1%	1%-15%	16%-31%	31%-100%	
Total book value	<u>\$ 232,759</u>	<u>\$ 56,802</u>	<u>\$ 272</u>	<u>\$ 6,717</u>	<u>\$ 296,550</u>
Loss allowance	<u>\$ 23</u>	<u>\$ 568</u>	<u>\$ 48</u>	<u>\$ 4,671</u>	<u>\$ 5,310</u>

c) Movements in relation to the Group applying the simplified approach to provide loss allowance for notes and accounts receivable was as follows:

	<u>2020</u>
	<u>Notes and accounts receivable</u>
At January 1	\$ 5,063
Write-offs due to uncollectible accounts	( 1,098)
Reversal of impairment loss	( 247)
Effect of foreign exchange	( 41)
At June 30	<u>\$ 3,677</u>
	<u>2019</u>
	<u>Notes and accounts receivable</u>
At January 1	\$ 627
Provision for impairment	10,153
Write-offs	( 5,504)
Effect of foreign exchange	34
At June 30	<u>\$ 5,310</u>

vii. The Group used the forecastability of external research report to adjust historical and timely information for a specific period to assess the default possibility of other receivables. As of June 30, 2020, December 31, 2019 and June 30, 2019, the loss rate methodology is as follows:

	<u>Not past due</u>
<u>At June 30, 2020</u>	
Expected loss rate	0%-100%
Total book value	<u>\$ 23,566</u>
Loss allowance	<u>\$ -</u>

	<u>Not past due</u>
<u>At December 31, 2019</u>	
Expected loss rate	0%-100%
Total book value	<u>\$ 19,687</u>
Loss allowance	<u>\$ -</u>

	<u>Not past due</u>
<u>At June 30, 2019</u>	
Expected loss rate	0%-100%
Total book value	<u>\$ 22,510</u>
Loss allowance	<u>\$ -</u>

c) Liquidity risk

- i. Cash flow forecasting is performed by the operating entities of the Group and aggregated by the Group's finance team. The Group's finance team monitors rolling forecasts of the Group's liquidity requirements to ensure the Group has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements.
- ii. Surplus cash held by the operating entities over and above balance required for working capital management are managed for investment appropriately. The instruments chosen would be with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.
- iii. The Group has the following undrawn borrowing facilities:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Floating rate:			
Expiring within one year	<u>\$ 17,748</u>	<u>\$ 16,796</u>	<u>\$ 26,000</u>

Note: The facilities expiring within one year are annual facilities subject to renegotiation at various dates during 2021.



- iv. The table below analyzes the Group's non-derivative financial liabilities and net-settled or gross-settled derivative 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 and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>Less than 1 year</u>	<u>Over 1 year</u>
<u>Non-derivative financial liabilities:</u>		
June 30, 2020		
Short-term borrowings	\$ 20,166	\$ -
Accounts payable	19,234	-
Other payables	171,579	-
Lease liabilities	6,659	7,672
Long-term borrowings (including current portion)	71,888	67,984
	<u>Less than 1 year</u>	<u>Over 1 year</u>
<u>Non-derivative financial liabilities:</u>		
December 31, 2019		
Short-term borrowings	\$ 20,029	\$ -
Accounts payable	15,872	-
Other payables	157,780	-
Lease liabilities	10,830	18,680
Long-term borrowings (including current portion)	25,421	45,641
	<u>Less than 1 year</u>	<u>Over 1 year</u>
<u>Non-derivative financial liabilities:</u>		
June 30, 2019		
Short-term borrowings	\$ 20,205	\$ -
Accounts payable	15,881	-
Other payables	244,554	-
Lease liabilities	14,003	24,351
Long-term borrowings (including current portion)	23,866	51,288

### (3) Fair value information

- A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted in active markets for identical assets or liabilities that the entity can access at the measurement date.) A market is regarded as active where a market in which transactions for the asset or liability takes place with sufficient

frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

**B. Financial instruments not measured at fair value**

Except for the item listed in the table below, the carrying amounts measured at amortized cost approximate the fair values of the Group's financial instruments, including cash and cash equivalents, notes receivable, accounts receivable, other receivables, guarantee deposits paid, time deposits (over three-month period), short-term borrowings, current contract liabilities, accounts payable, other payables, lease liabilities, and long-term borrowings (including current portion).

**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 are as follows:**

(a) The related information of natures of the assets is as follows:

June 30, 2020: None

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2019			
<u>Recurring fair value measurements</u>			
Financial assets measured at fair value through other comprehensive income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 159,531</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2019			
<u>Recurring fair value measurements</u>			
Financial assets measured at fair value through other comprehensive income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,278</u>

**D. The following chart is the movement of Level 3 financial instruments for the six-month periods ended June 30, 2020 and 2019:**

	<u>Financial assets measured at fair value through other comprehensive income</u>	
	<u>2020</u>	<u>2019</u>
At January 1	\$ 159,531	\$ -
Transfer to investments accounted for using the equity method during the period	( 164,000)	-
Acquired in the period	-	164,000
Net exchange differences	4,469	1,278
At June 30	<u>\$ -</u>	<u>\$ 165,278</u>

- E. For the six-month periods ended June 30, 2020 and 2019, there was no transfer into or out from Level 3 financial instruments.
- F. The Group's Accounting Department is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.
- G. The following is the quantitative information and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

June 30, 2020: None

	Fair value at December 31, 2019	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of input to fair value
Non-derivative equity instrument:					
Unlisted stocks	\$ 159,531	Market comparable companies	Price to book ratio multiple	4.69	The higher the multiple, the higher the fair value.
			Discount for lack of marketability	20% - 30%	The higher the discount for lack of marketability, the lower the fair value.
	Fair value at June 30, 2019	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of input to fair value
Non-derivative equity instrument:					
Unlisted stocks	\$ 165,278	Market comparable companies	Price to book ratio multiple	3.35	The higher the multiple, the higher the fair value.
			Discount for lack of marketability	20% - 30%	The higher the discount for lack of marketability, the lower the fair value.

- H. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from

financial assets and liabilities categorized within Level 3 if the inputs used to valuation models have changed:

June 30, 2020: None

		December 31, 2019			
		Recognized in profit or loss		Recognized in other comprehensive income	
		Favourable	Unfavourable	Favourable	Unfavourable
Input	Change	change	change	change	change
Financial assets					
Unlisted stocks	multiple	±1%	\$ -	\$ -	\$ 3,226 (\$ 3,260)
		June 30, 2019			
		Recognized in profit or loss		Recognized in other comprehensive income	
		Favourable	Unfavourable	Favourable	Unfavourable
Input	Change	change	change	change	change
Financial assets					
Unlisted stocks	multiple	± 1%	\$ -	\$ -	\$ 2,815 (\$ 2,723)

#### (4) Others

The Company's significant subsidiary, Global Communication Semiconductors, LLC ("GCS LLC"), which is located in Torrance, California, United States of America. In March 2020, the Safer at Home order was issued by the local government of California to respond to the outbreak of the COVID-19 pandemic and the restrictions in the order were relaxed subsequently. However, a new order was issued in July 2020. GCS LLC is allowed to continue its operation as its operation nature meets the definition of an essential business set by the local government of California. Although the number of working days has been slightly shortened to meet the relevant government requirements, the impact on GCS LLC's operation was immaterial. As of the reporting date, the COVID-19 pandemic had no significant impact to the overall operations and on the financial statements of the Company.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

- (a) Loans to others: Please refer to table 1.
- (b) Provision of endorsements and guarantees to others: Please refer to table 2.
- (c) Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.
- (d) Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: Please refer to table 4.
- (e) Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.

- (f) Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- (g) Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: None.
- (h) Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- (i) Derivative financial instruments: None.
- (j) Significant inter-company transactions: Please refer to table 9.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in mainland China): Please refer to table 10.

(3) Information on investments in mainland China

Information on investments in mainland China: Please refer to table 11.

(4) Major shareholders information

Major shareholders information: Please refer to table 12.

14. SEGMENT INFORMATION

(1) General information

The Company operates business only in a single industry. The Chief Operating Decision-Maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Company has only one reportable operating segment.

(2) Segment information

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

	Six-month periods ended June 30,	
	2020	2019
Revenue from external customers	\$ 779,365	\$ 843,255
Inter-segment revenue	-	-
Total segment revenue	<u>\$ 779,365</u>	<u>\$ 843,255</u>
Segment income (Note)	<u>\$ 40,105</u>	<u>\$ 132,308</u>
Segment assets	<u>\$ 4,148,480</u>	<u>\$ 3,937,172</u>
Segment liabilities	<u>\$ 459,471</u>	<u>\$ 483,593</u>

Note: Exclusive of income tax.

(3) Reconciliation for segment income (loss)

The Company and its subsidiaries engage in a single industry. The Chief Operating Decision-Maker assesses performance and allocates resources of the whole group. The Company is regarded as a single operating segment. Therefore, there is no inter-segment revenue. The revenue from external parties reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income. The amount provided to the Chief Operating

Decision-Maker with respect to total assets is measured in a manner consistent with that in the balance sheet.

GCS HOLDINGS, INC.

Loans to others

Six-month period ended June 30, 2020

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 1

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the six-month period ended June 30, 2020 (Note 3)	Balance at June 30, 2020	Actual amount drawn down	Interest rate	Nature of loan (Note 2)	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Ceiling on total loans granted	Footnote
													Item	Value		
0	GCS Holdings, Inc.	GCS Device Technologies, Co., Ltd.	Other receivable - related party	Yes	\$ 60,500	\$ 59,260	\$ -	Settle by contract	2	\$ -	Operation	\$ -	None	\$ -	\$ 1,475,603	-
1	Global Communication Semiconductors, LLC	D-Tech Optoelectronics (Taiwan) Corporation	Other receivable - related party	Yes	40,000	20,000	-	Settle by contract	2	-	Operation	-	None	-	821,007	821,007
1	Global Communication Semiconductors, LLC	D-Tech Optoelectronics, Inc.	Other receivable - related party	Yes	60,500	59,260	-	Settle by contract	2	-	Operation	-	None	-	821,007	821,007

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1)The Company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: The column of 'Nature of loan' shall fill in 'Business transaction or 'Short-term financing'.

(1)The business transaction is '1'.

(2)The short-term financing is '2'.

Note 3: According to the Company's "Procedures for Lending Funds to Other Parties", the total amount available for lending purpose shall not exceed forty percent (40%) of the net worth of the Company. The total amount for lending to a company having business relationship with the Company shall not exceed the total transaction amount between the parties during the period of twelve (12) months prior to the time of lending (For the purpose of this Procedure, the "transaction amount" shall mean the sales or purchasing amount between the parties, whichever is higher), and shall not exceed ten percent (10%) of the net worth of the Company. The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of the Company. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth, provided that this restriction will not apply to subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company. The total amount for fund-lending between the subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company will not be subject to the limit of forty percent (40%) of the net worth of the lending subsidiary.

GCS HOLDINGS, INC.

Provision of endorsements and guarantees to others

Six-month period ended June 30, 2020

Table 2

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Company name (Note 2)	Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount for the six-month period ended June 30, 2020	Outstanding endorsement/ guarantee amount at June 30, 2020	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in mainland China	Footnote
0	GCS Holdings, Inc.	GCS Device Technologies, Co., Ltd.	2	\$ 1,475,603	\$ 30,250	\$ 29,630	\$ 20,000	\$ 29,630	0.80%	\$ 1,475,603	Y	N	N	-

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

- (1)The Company is '0'.
- (2)The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories; fill in the number of category each case belongs to:

- (1)Having with which it does business.
- (2)The endorser/guarantor parent company owns directly or indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.
- (3)The endorser/guarantor parent company owns directly or indirectly more than 50% voting shares of the endorsed/guaranteed company.
- (4)The endorsed/guaranteed parent company owns directly or indirectly more than jointly 90% voting shares of the endorser/guarantor company.
- (5)Mutual guarantee of the trade or co-contractor as required by the construction contract.
- (6)Due to joint venture, mutual shareholder provides endorsements/guarantees to the endorsed/guaranteed company in ratio to its ownership.
- (7)Companies in the same industry provide among themselves joint and several security for a performance guarantee of sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3: According to the Company's "Procedures for Endorsement and Guarantee", the total amount of endorsement/guarantee provided by the Company is limited to forty percent (40%) of the Company's net worth, and the total amount of the guarantee provided by the Company to any individual entity is limited to ten percent (10%) of the Company's net worth. The total amount of the guarantee provided by the Company to any subsidiary whose voting shares are 100% owned, directly or indirectly, by the Company shall not exceed forty percent (40%) of the Company's net worth. The aggregate total amount of endorsement/guarantee provided by the Company and its subsidiaries shall not exceed fifty percent (50%) of the Company's net worth.



GCS HOLDINGS, INC.

Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital

Six-month period ended June 30, 2020

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 4

Investor	Marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship with the investor (Note 2)	Balance as at January 1, 2020		Addition (Note 3)		Disposal (Note 3)		Balance as at June 30, 2020		
					Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Gain (loss) on disposal	Number of shares	Amount
GCS Holdings, Inc.	Unikom Semiconductor Corporation	Investment accounted for using equity method	Unikom Semiconductor Corporation	Related party	16,400,000	\$ 164,000	40,000,000	\$ 400,000	-	\$ -	-	56,400,000	\$ 457,177
GCS Holdings, Inc.	Changzhou Neo-Episky Co., Ltd.	Investment accounted for using equity method	Epicrystal Corporation (ChangZhou) Ltd.	Related party	-	-	464,693	-	-	-	-	-	676,053

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Fill in the columns the counterparty and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.

Note 3: Aggregate purchases and sales amounts should be calculated separately at their market values to verify whether they individually reach NT\$300 million or 20% of paid-in capital or more.

Note 4: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20% of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

GCS HOLDINGS, INC.

Significant inter-company transactions during the reporting period

Six-month period ended June 30, 2020

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 9

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction		Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	
1	D-Tech Optoelectronics, Inc.	Global Communication Semiconductors, LLC	3	Sales revenue	\$ 4,894	0.63%
2	D-Tech Optoelectronics (Taiwan) Corporation	Global Communication Semiconductors, LLC	3	Service revenue	18,298	2.35%
2	D-Tech Optoelectronics (Taiwan) Corporation	Global Communication Semiconductors, LLC	3	Other receivable - related party	2,353	0.06%
2	D-Tech Optoelectronics (Taiwan) Corporation	D-Tech Optoelectronics, Inc.	3	Service revenue	2,370	0.30%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1)Parent company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

(1)Parent company to subsidiary.

(2)Subsidiary to parent company.

(3)Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: The Company may decide to disclose or not to disclose transaction details in this table based on the Materiality Principle.

**GCS HOLDINGS, INC.**  
Information on investees (not including investees in mainland China)  
Six-month period ended June 30, 2020

Table 10

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Investee (Note 1 - 2)	Location	Main business activities	Initial investment amount		Shares held as at June 30, 2020		Book value	Net profit (loss) of the investee for the six-month period ended June 30, 2020 (Note 2(2))	Investment income (loss) recognized by the Company for the six-month period ended June 30, 2020 (Note 2(3))	Footnote
				Balance as at June 30, 2020 \$	Balance as at December 31, 2019	Number of shares	Ownership (%)				
GCS Holdings, Inc.	Global Communication Semiconductors, LLC	Los Angeles, USA	1. Manufacturing of high-end radio frequency ICs, optoelectronic device compound semiconductor wafer and foundry related services as well as granting royalty rights for intellectual property. 2. Manufacturing and selling of advanced optoelectronics technology products.	403,975 \$	403,975	-	100%	2,052,518 \$	127,044	127,044 \$	Subsidiary
GCS Holdings, Inc.	GCS Device Technologies, Co., Ltd.	Taiwan	Product design and research development services	12,000	12,000	-	100%	27,220 (	244)	( 244)	Subsidiary
GCS Holdings, Inc.	GCOM Semiconductor Co., Ltd.	Taiwan	Wholesaling and retailing of electronic components, product design, and outsourcing management services	50,000	50,000	5,000,000	100%	49,663 (	49)	( 49)	Subsidiary
GCS Holdings, Inc.	Unikom Semiconductor Corporation	Taiwan	Specialized OEM of III-V compound semiconductors	564,000	164,000	56,400,000	36.06%	457,177 (	277,523)	( 277,523)	Investee company of parent company
Global Communication Semiconductors, LLC	D-Tech Optoelectronics, Inc.	Los Angeles, USA	Developing, manufacturing and selling of positive, intrinsic, negative components and avalanche photo diodes for telecommunication systems and data communication networks	393,380	393,380	360,000	100%	367,644 (	24,720)	( 24,720)	Subsidiary
D-Tech Optoelectronics, Inc.	D-Tech Optoelectronics (Taiwan) Corporation	Taiwan	Manufacturing, retailing and wholesaling of telecommunication devices, and manufacturing and wholesaling of electronic components	89,840	89,840	5,800,000	100%	51,586 (	8,126)	( 8,126)	Subsidiary

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

- (1) The columns of 'Investee', 'Location', 'Main business activities', 'Initial investment amount' and 'Shares held as at June 30, 2020' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column.
- (2) The 'Net profit (loss)' of the investee for the six-month period ended June 30, 2020' column should fill in amount of net profit (loss) of the investee for this period.
- (3) The 'Investment income (loss) recognized by the Company for the six-month period ended June 30, 2020' column should fill in the Company (public company) recognized investment income (loss) of its direct subsidiary and recognized investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognized by regulations.

GCS HOLDINGS, INC.  
Information on investments in mainland China  
Six-month period ended June 30, 2020

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 11

Investee in mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from Taiwan to mainland China/		Accumulated amount of remittance from Taiwan to mainland China as of June 30, 2020	Net income of investee for the six-month period ended June 30, 2020	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the six-month period ended June 30, 2020 (Note 2(C))	Book value of investments in mainland China as of June 30, 2020	Accumulated amount of investment income remitted back to Taiwan as of June 30, 2020	Footnote
				Accumulated amount of remittance from Taiwan to mainland China as of June 30, 2020	Remitted to mainland China as of June 30, 2020							
Xiamen Global Advanced Semiconductor Co., Ltd.	Developing, manufacturing and selling of mobile phone radio frequency, filter, optical communication chip, power management and optical fiber	\$ 30,633	2	\$ -	\$ -	\$ -	\$ 159	51%	\$ 81	\$ -	\$ -	(Note 4)
Changzhou Neo-Episky Co., Ltd.	Researching, developing, manufacturing, consulting of optoelectronic devices, integrated circuits, semiconductor discrete devices, LED chips, and LED epitaxial wafers, also LED production equipment leasing.	1,325,611	2	\$ -	\$ -	\$ -	\$ (3,590)	35.06%	\$ (1,258)	\$ 676,053	\$ -	(Note 5)
Company name				Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in mainland China imposed by the Investment Commission of MOEA							
Xiamen Global Advanced Semiconductor Co., Ltd.		\$ -	-	\$ -	-	\$ -						
Changzhou Neo-Episky Co., Ltd.		\$ -	-	\$ -	-	\$ -						

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

- (1) Directly invest in a company in mainland China.
- (2) Through investing in an existing company in the third area, which then invested in the investee in mainland China.
- (3) Others

Note 2: In the 'Investment income (loss) recognised by the Company for the six-month period ended June 30, 2020' column:

- (1) It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.
- (2) Indicate the basis for investment income (loss) recognition in the number of one of the following three categories:
  - A. The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
  - B. The financial statements that are audited and attested by R.O.C. parent company's CPA.
  - C. Others.

Note 3: The numbers in this table are expressed in New Taiwan Dollars.

Note 4: The Company was incorporated in Cayman Islands and investment amount of \$14,906 was transferred from the Company's U.S. bank account to mainland China on June 23, 2017. In addition, the company acquired the additional 2% shareholding of Xiamen Global Advanced Semiconductor Co., Ltd. in the amount of US\$ 80 thousands (NT\$ 2,442 thousands) in September 2018. Xiamen Global had been terminated on March 12, 2020, and the liquidation in mainland China had been completed. The Company received the remaining investment amount repatriated back amounting to \$5,924 on June 8, 2020.

Note 5: The Company was incorporated in Cayman Islands and investment amount of RMB 110 million (approximately \$464,693) was transferred from the Company's U.S. bank account to Changzhou Neo-Episky Co., Ltd. on May 11, 2020.

GCS HOLDINGS, INC.  
Major shareholders information  
June 30, 2020

Table 12

Name of major shareholders	Number of shares	Ownership (%)
The Bank of New York Mellon signed a depositary contract for the participation of GCS Holdings, Inc. in the issuance of overseas depositary receipts, registered as the joint representative of the depositary receipt holders and the depositary institution	6,000,000	6.56%

Note: (1) The main shareholder information using total number of ordinary shares and preferred shares held by the shareholders who have completed the company's non-physical registration and delivery (including treasury shares) is more than 5% on the last business day at the end of each quarter. As for the share capital recorded in the company's financial report and the number of shares which the company actually has completed the non-physical registration and delivery, may be different from computational basis.  
 (2) Above information, if belonging to shareholders who deliver the shares to a trust, will be disclosed based on the principal individual account of the trustee which opened the trust account. As for shareholders under the declaration of insider equity holding more than 10% of their shares in accordance with the Securities and Exchange Act, their shareholdings include their shareholdings plus their delivery of trust and shares with the right to make decisions on trust property, etc. Please refer to the information on the website of the Taiwan Stock Exchange for insider equity declaration information.  
 (3) The compiling principle of this table is to calculate the distribution of the surplus of each credit transaction according to the register of securities owners whose transfers are suspended at the extraordinary shareholders meeting.  
 (4) Ownership (%) = The total number of shares held by this shareholder / The total number of shares that have been delivered without physical registration.  
 (5) The total number of shares that have been delivered without physical registration (including treasury stocks) are 91,351,504 = 91,351,504 (common shares) + 0 (preferred shares).