

Xintec Inc.

2016 Annual Report

Taiwan Stock Exchange Market Observation Post System :

<http://mops.twse.com.tw>

Company website : <http://www.xintec.com.tw>

Printed on April 30, 2017

(This document is prepared in accordance with the Chinese version and is for reference only. In the event of any inconsistency between the English version and the Chinese version, the Chinese version shall prevail.)

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Title : Vice President

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Title : Sr. Director, Finance

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IV. Contact information of the Certified Public Accountants for the Latest Financial Report :

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CPA firm : Deloitte & Touche

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V. Overseas trade places for listed negotiable securities : None**VI. Company Website : [http : //www.xintec.com.tw](http://www.xintec.com.tw)**

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I. A letter to Shareholders

Dear Shareholders,

In 2016, Xintec faced a tough situation that the front lens were packaged by high-pixel image sensors, however the wafer-level packaging solutions was not the mainstream of high-pixel image sensor. The demand for wafer-level packaging in the mobile image sensor market was declining. The more competitors and the more capacities led to oversupply and selling price eroded. In addition, product verification of 12-inch wafer-level packaging production line has been delayed, production progress was not as expected, and leading to annual revenue decline and net loss.

In response to the rapid growth demand of the privacy protection and mobilepay, Xintec continued to provide biometric sensor packaging services for existing customers, and developed new customers by new fingerprint packaging technology. Xintec also accelerated the development of new processes and production line conversion to provide other sensor packaging services and expected to go mass production in the next half year. Based on driving safety and Autonomous Driving trends, it is expected that the market demand for automotive image sensor packaging will continue to grow. With high-tech threshold, long product life, and stable revenue for the automotive packaging service, Xintec will continue to develop the automotive and monitoring image sensor customers and services, and expect to become stable growth revenues. Xintec's 12-inch wafer-level packaging production line has been entered the mass production stage and applied the automotive and monitoring image sensor packaging in the future. Such investment and technology will be applied in other sensor fields in the future, which will bring new opportunities for Xintec.

Revenue and Profit

Xintec's sales revenue was NT\$3,921 million in 2016 which represented a decrease of 19.6% over NT\$4,878 million in 2015; the net loss after tax of 2016 was NT\$637 million, which was a decrease of 534% compared to net income after tax NT\$147 million in the previous year; loss per share was NT\$2.36 in 2016.

Corporation Development

Sustainable development and growth are the commitments made for the shareholders and the society. Xintec coworks with IC design houses, wafer manufacturers and end customers to develop innovative wafer package technologies, and also expands the application of original technologies on different products, which makes contributions to surpass More than Moore law. The wafer level scale package and post passivation interconnect technologies of video sensor have been expanded to the vehicle electronics and monitoring devices. Another successful case is that the Through Silicon Via (TSV) technology is applied in Micro Electro Mechanical Systems (MEMS). With the rapid development of (Internet of Things, IoT), the demands for small Integrated Smart Sensor are more intensive.

The advanced integrated 3D wafer level scale package solution actively developed by Xintec becomes a critical technology for the customer to cut in the IoT market, which is also the core technology for Xintec's sustainable development.

Technology and Innovation

The development of advanced technologies and improvement of manufacturing technologies can elevate the competitiveness of the enterprise. Moreover, the brand-new technology can also bring breakthroughs for the customer and the market. The improved manufacturing technology can increase the yield rate. Both are Xintec's commitments made for the customer and the market. Xintec produced of consumer electronics image sensor by 12-inch wafer-level packaging technology, and also applied this technology to the development of other sensing products in 2016.

In 2017 Xintec will focus on the integration of advanced wafer level package technologies, combine with customer needs to expand the application of the updated level, develop Advanced 3D Wafer Based Stacking Technologies, so as to provide SiP package solution for the heterogeneous components. In this way, it can meet the intensive demands for highly-integrate and smaller smart devices in the IoT market. With such technology, the customer can reduce the product design complexity and simplify the product manufacturing process and cost for the end customer, assisting the end user to get the preemptive opportunities in IoT market.

Visions and Outlook

In the prospect of 2017, Xintec's 3D wafer package solution will be a sharp weapon for the customer to get into the key sensors such as video sensor component, biological recognition chip and environment sensors. Xintec will combine clients' demand and the market growth triggered by IoT to provide all sensors packaging service. In the part of Smart Car, a large number of video sensors are required to realize in-vehicle and out-vehicle monitoring or autonomous driving. As the globally unique supplier for vehicle video sensor wafer level scale package, it surely plays a critical role. In the future, Xintec will satisfy the existing customer service and will speed up to develop and provide the technologies upon market demands. Moreover, it will actively expand the existing technologies to more fields, and become the leader of advanced wafer level packaging service.

Finally, we would like to express our thankfulness to all shareholders for your continuing support and contributions to Xintec. We wish you all the best of health and prosperity in the year ahead.

Chairman and President, Robert Kuan

II. Company Introduction

A. Funding date : September 11, 1998

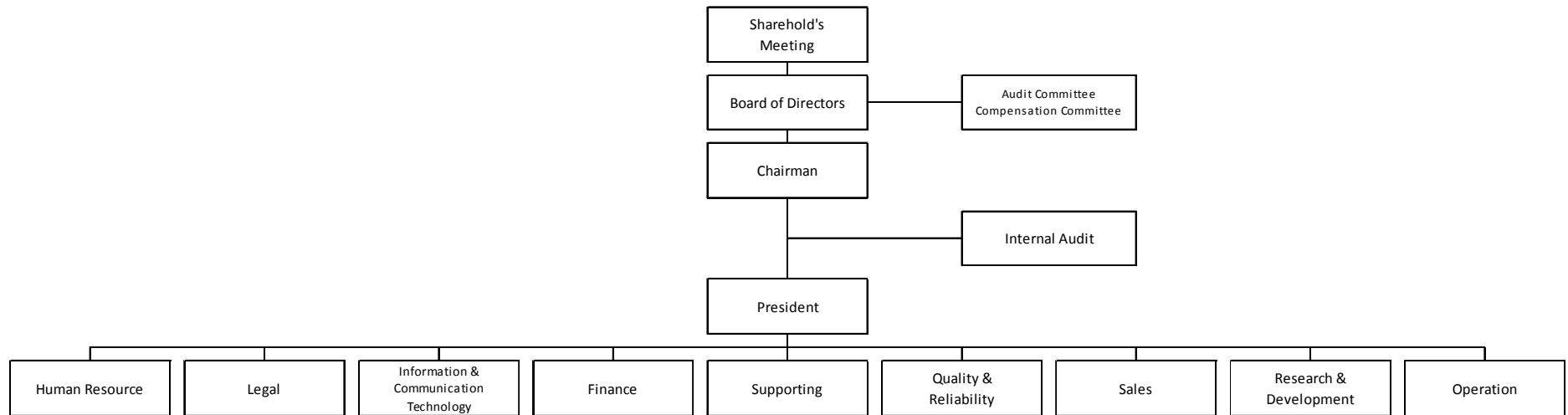
B. Formation History :

Year	Milestones
Sep, 1998	Xintec Inc. founded in capital NT\$280 million.
May, 2000	Signed technology licensing agreement with Engineering and IP Advanced Technologies Ltd. (Original ShellCase Ltd.) to engage in wafer level chip scale packaging.
Oct, 2000	Constructed facility in Zhongli Industrial District, Taoyuan City.
Oct, 2001	Commenced mass production.
Mar, 2002	ISO9000 certification.
Feb, 2003	QS9000 certification.
Dec, 2003	Xintec became a public company.
Jul, 2004	Became bonded factory.
Sep, 2004	Stock began trading on Emerging Stock Market.
Jan, 2005	ISO14001 EMS certification.
Dec, 2005	TL9000 QMS certification.
Dec, 2005	VisEra Holding Company (Cayman Islands) held 30% shares of Xintec and became the biggest shareholder.
Dec, 2005	8" CSP capacity reached 10,000 chips on Line-A plant.
Sep, 2006	8" CSP capacity reached 20,000 chips on Line-A plant.
Dec, 2006	Procured Line-B plant.
Jan, 2007	Strategic introduction of TSMC invested 43% shares of the Company to become the largest shareholder by private placement of securities.
Sep, 2007	8" CSP capacity reached 40,000 chips.
Dec, 2007	OHSAS18001 certification.
Dec, 2007	12" Capacity reached 2,000 chips on Hsinchu plant.
Jan, 2009	TOSHMS certification.
Nov, 2010	Line-A of the Zhongli factory received Good Performance Certificate from Occupational Safety and Health Administration, Council of Labor Affairs, Executive Yuan.
Dec, 2010	ISO/TS16949 QMS certification.
Feb, 2011	Procured Line-C plant.
Mar, 2011	Line-B of the Zhongli factory received Good Performance Certificate from Occupational Safety and Health Administration, Council of Labor Affairs, Executive Yuan.
Jul, 2011	Canceled Hsinchu branch and moved back Hsinchu plant to Zhongli plant.
Jul, 2012	The Zhongli factory passed the Greenhouse Gas Inventory Assessment and was assured by external auditors.
Sep, 2012	The Zhongli factory passed the Main Products Carbon Footprint Assessment and was assured by external auditors.
Aug, 2013	8" Capacity of Biometric sensors build.
Mar, 2015	Stock began trading on OTC.
Apr, 2017	Ranked in top 5% in Corporate Governance Evaluation.

III. Corporate Governance Report

A. Company Organization

1. Organization Chart



2.Department functions :

Department	Functions
Internal Audit	Responsible for assisting the board of directors and managers to review the internal control system and to measure the effectiveness and efficiency of operations, and provide recommendations timely to ensure implement internal control system effectively and as a proof to review the internal control system.
Human Resource	Responsible for manpower planning, recruitment & staffing, compensation & benefit, training & development, employee services and relations.
Legal	Responsible for IP legal affairs and negotiation, contract review and negotiation, corporate legal affairs, legal disputes or litigation management.
Information & Communication Technology	Planning, developing and maintaining information infrastructure, communication systems ,logistics information systems and operational related systems \ build the policy, systems for protection of information property protection.
Finance	Responsible for financial and accounting service, tax management, investment management, financial planning, capital allocation and annual performance evaluation.
Supporting	Responsible for material requirements planning, procurement management, import/export management, warehouse management, capacity and planning.
Quality & Reliability	Responsible for quality and reliability management.
Sales	Responsible for business development, customer negotiation, pricing and business support.
Research & Development	Responsible for project leading-in, new process development, technology research and mask design, demand forecasting, market information gathering, product roadmap planning.
Operation	Responsible for manufacturing, production engineering, equipment maintenance, process integration, factory affairs, ESH and risk management.

B. Information on the company's directors, supervisors, general manager, assistant general manager, deputy assistant general manager, and the chiefs of all the company's divisions and branches

1. Directors:

(1) Directors information:

April 9, 2017

Title	Name	Nationality or Place of Registration	Gender	First Elected Date	Elected Date	Term (year)	Shareholding when elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Education & Selected Past Positions	Selected Current Positions	Managers Are Spouse or Within Second-degree Relative of Consanguinity to Each Other		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	Robert Kuan	R.O.C.	Male	4/29/2011	6/14/2016	3	0	0	240,000	0.09	0	0	0	0	Special Project Director, Taiwan Semiconductor Manufacturing Company Ltd.(TSMC) Backend Technology and Service Division Director, Taiwan Semiconductor Manufacturing Company Ltd.(TSMC) Operation Vice president, Systems on Silicon Manufacturing Co. Master, Department of Materials Science and Engineering, National Tsing Hua University B.S. degree in Department of materials Science and Engineering, National Cheng Kung University	President, Xintec Inc. Chairman & CEO, VisEra Technology Company, Ltd.	None	None	None
	Representative of TSMC	R.O.C.		3/5/2007	6/14/2016	3	94,950,005	40.18	111,281,925	40.89	0	0	0	0	-	-	-	-	-
Director	J.K. Lin	R.O.C.	Male	1/10/2014	6/14/2016	3	0	0	0	0	0	0	0	0	Senior Director of mainstream Fabs, TSMC Fab12 Director, Fab6 Director, and Fab3 Director, TSMC B.S. degree in Industrial Education & Technology, National Changhua University of Education	Vice President, Operations / Mainstream Fabs of TSMC Director, Subsidiaries of TSMC	None	None	None
	Representative of TSMC	R.O.C.		3/5/2007	6/14/2016	3	94,950,005	40.18	111,281,925	40.89	0	0	0	0	-	-	-	-	-
Independent Director	Wen-Yeu Wang	R.O.C.	Male	6/13/2013	6/14/2016	3	0	0	0	0	0	0	0	0	Professor of College of Law at National Taiwan University Director, IAACL Taiwan Branch Independent Director, KGI Bank Independent Director, Global Unichip Corp. Independent Director, President Chain Store Corporation Ph. D., Stanford Law School	Chairman of Compensation Committee, Xintec Professor of College of Law at National Taiwan University Director, IAACL Taiwan Branch Independent Director, KGI Bank Independent Director, Global Unichip Corp. Independent Director, President Chain Store Corporation	None	None	None

Title	Name	Nationality or Place of Registration	Gender	First Elected Date	Elected Date	Term (year)	Shareholding when elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Education & Selected Past Positions	Selected Current Positions	Managers Are Spouse or Within Second-degree Relative of Consanguinity to Each Other		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Independent Director	Robert Hsieh	R.O.C.	Male	6/13/2013	6/14/2016	3	0	0	0	0	0	0	0	0	Finance Vice President, Vanruard International Semiconductor Co. Vice President, Country Banking Head, Bank of America, NTSA MBA, National Taiwan University B. S. degree in Department of Nuclear Engineering, National Tsing Hua University	Chairman of the Audit Committee and a member of Compensation Committee, Xintec Independent Director, Anpec Electronics Corporation Independent Director, Pou Sheng International (Holdings) Limited A member of Compensation Committee, Motech Industries Inc	None	None	None
Independent Director	Stella Wen	R.O.C.	Female	6/14/2016	6/14/2016	3	0	0	0	0	0	0	0	0	B.S., M.S. and Ph.D. degrees in Department of Electrical Engineering, National Cheng-Kung University CEO, Strategic Development Office, National Chiao-Tung University; Vice Professor, Department of Electrical Engineering, National Chiao-Tung University	A member of Compensation Committee, Xintec Independent Director, ChipMOS Technologies Inc. Professor, Department of Electrical Engineering, National Chiao-Tung University CEO, Strategic Development Office, National Chiao-Tung University Associate Vice President, Office of Research and Development, National Chiao-Tung University	None	None	None

(2) Major Shareholders of the Institutional Shareholders:

As of 07/03/2016 (last record date)

Institutional Shareholder	Major Shareholders of the Institutional Shareholders	Percentage
Taiwan Semiconductor Manufacturing Company, Ltd.	ADR-Taiwan Semiconductor Manufacturing Company, Ltd.	20.68%
	National Development Fund, Executive Yuan	6.38%
	Government of Singapore	2.64%
	JPMorgan Chase Bank N.A. Taipei Branch in Custody for Saudi Arabian Monetary Agency	1.51%
	JPMorgan Chase Bank N.A. Taipei Branch in Custody for EuroPacific Growth Fund	1.37%
	Norges Bank	1.20%
	JPMorgan Chase Bank, N.A., Taipei Branch in Custody for Stichting Depository APG Emerging Markets Equity Pool	0.98%
	Vanguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds	0.97%
	JPMorgan Chase Bank N.A. Taipei Branch in Custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	0.93%
	JPMorgan Chase Bank N.A. Taipei Branch in Custody for ABU DHABI Investment Authority	0.92%

(3) Institutional Shareholder Representatives for Major Shareholders of the Institutional Shareholders: None

(4) Independence Analysis of Board Members under Taiwan SFC Criteria:

Name	Qualification			Independence Attribute (See Notes Below)										Current Positions at Other Companies
	Has over five years work experience and following professional qualifications	College Instructor or Higher Level in Business, Legal, Finance, Accounting or company business related area	Cort Judge, Prosecutor, Attorney, CPA or other Certified Professional expert related to company business	Business, Legal, Finance, Accounting or company business required working Experience	1	2	3	4	5	6	7	8	9	
Robert Kuan			✓		✓	✓	✓		✓	✓	✓	✓		None
J.K. Lin			✓	✓	✓	✓	✓			✓	✓	✓		None
Wen-Yeu Wang	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Robert Hsieh			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Stella Wen	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

Notes: The Directors and Supervisors comply with the following conditions from two years before being elected and during his tenure in office:

- (1) Not an employee of this Company or its affiliates.
- (2) Not a Director or Supervisor of the Company or its affiliates. (However, this does not apply, in cases where the person is an Independent Director of the company, its parent company, or any subsidiary in which the company directly or indirectly holds more than 50% of the voting shares.)
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of outstanding shares of the Company or ranking in the top ten in holdings.
- (4) Not a spouse, second-degree relative or fifth degree relative of those listed in the above three items.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
- (6) Not a director, supervisor, manager or a shareholder holding five percent or more of the shares of a company or institution that has a business or financial relationship with the Company.
- (7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the company, or a spouse thereof.
- (8) Not a spouse of or a second degree relative of any other Director of the Company.
- (9) No violations of Article 30 of the Company Act.
- (10) Not a governmental, judicial person or its representative as defined by Article 27 of the Company Act.

2. Executive Officers:

April 9, 2017

Title	Name	Nationality	Inauguration date	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Education & Selected Past Positions	Selected Current Positions	Managers Are Spouse or Within Second-degree Relative of Consanguinity to Each Other		
				Shares	%	Shares	%	Shares	%			Title	Name	Relation
President	Robert Kuan	R.O.C.	9/2/2011	240,000	0.09	0	0	0	0	Director, Special Projects, TSMC Vice President, Operation, SSMC Master, Materials Science and Engineering, National Tsing Hua University	Chairman & CEO, VisEra	None	None	None
Sales Vice President	CA Lin	R.O.C.	1/6/2006	302,162	0.11	0	0	0	0	Sr. Director, HannStar Manager, Thin Film Tech. Committee, TSMC Master, Materials Science and Engineering, National Cheng Kung University	None	None	None	None
Research & Development Vice President	Yens Ho	R.O.C.	8/2/2010	186,586	0.07	0	0	0	0	Manager, F6 Diffusion Engineering, TSMC Assistant Professor, Electrical Engineering, National Kaohsiung University of Applied Sciences Ph.D., Electrical Engineering, National Tsing Hua University	None	None	None	None
Quality & Reliability Vice President	LS Yeou	R.O.C.	11/10/2008	139,000	0.05	0	0	0	0	Manager, QR, TSMC Master, Materials Science and Engineering, University of Houston	None	None	None	None
Operation Vice President	Davis Chou	R.O.C.	2/17/2017	0	0	0	0	0	0	Deputy Director, Technical committee, TSMC Master, Chemical Engineering, National Taiwan University Master EMBA, National Chiao Tung University	Deputy Director, Technical committee, TSMC	None	None	None
Finance Sr. Director	Simon Lin	R.O.C.	8/1/2001	138,012	0.05	0	0	0	0	Manager, Accounting, GVC Principal, Accounting, LITEON Bachelor, Accounting, Soochow University	None	None	None	None
Internal Audit Director	LK Huang	R.O.C.	3/6/2014	29,313	0.01	0	0	0	0	Director, PMM & IT, Xintec Director, Supply Chain, Hannspree Manager, Manufacturing Technology, TSMC Ph.D., Industrial Engineer and Engineering, National Tsing Hua University	None	None	None	None

3. Remuneration to Directors, Supervisors and Management Team

(1) Remuneration to Directors:

December 31, 2016, Unit: NT\$Thousand; Thousand shares

Title	Name	Remuneration to Directors								A+B+C+D as % of Net Income		Compensation Earned by a Director Who is an employee of Xintec								A+B+C+D+E+F+G as % of Net Income		Other Remuneration
		Remuneration (A)		Retirement pay(B)		Compensation to Directors(C)		Transportation (D)				Salary and Bonus (E) (Note 2)		Retirement Pay (F)		Employee Compensation (G)						
		Xintec	Xintec & Affiliates	Xintec	Xintec & Affiliates	Xintec	Xintec & Affiliates	Xintec	Xintec & Affiliates	Xintec	Xintec & Affiliates	Xintec	Xintec & Affiliates	Xintec		Xintec & Affiliates		Xintec	Xintec & Affiliates			
												Cash	Stock	Cash	Stock							
Chairman	Robert Kuan Representative of TSMC	0	0	0	0	0	0	120	120	-0.0%	-0.0%	3,183	3,183	0	0	0	0	0	0	-0.5%	-0.5%	None
Director	J.K. Lin Representative of TSMC	0	0	0	0	0	0	120	120	-0.0%	-0.0%	0	0	0	0	0	0	0	0	-0.0%	-0.0%	None
Independent Director	Wen-Yeu Wang	600	600	0	0	0	0	120	120	-0.1%	-0.1%	0	0	0	0	0	0	0	0	-0.1%	-0.1%	None
Independent Director	C.S. Hsu	272	272	0	0	0	0	60	60	-0.1%	-0.1%	0	0	0	0	0	0	0	0	-0.1%	-0.1%	None
Independent Director	Robert Hsieh	600	600	0	0	0	0	120	120	-0.1%	-0.1%	0	0	0	0	0	0	0	0	-0.1%	-0.1%	None
Independent Director	Stella Wen	328	328	0	0	0	0	70	70	-0.1%	-0.1%	0	0	0	0	0	0	0	0	-0.1%	-0.1%	None

Note1: Mr. C.S. Hsu's tenure expired on June 14, 2016 because he was not re-elected at the 2016 Annual Shareholders' Meeting.

Note2: The Company reversed total expenses of NT\$1,157 thousand in respect of the SARs for the years ended December 31, 2016.

Range of Remunerations

Range of Remunerations to Directors (NT\$)	Name of directors			
	Summation of the first 4 items (A+B+C+D)		Summation of the first 7 items (A+B+C+D+E+F+G)	
	Xintec	Xintec & Affiliates	Xintec	Xintec & Affiliates
Less than 2,000,000	Robert Kuan: Representative of TSMC, J.K. Lin: Representative of TSMC, Wen-Yeu Wang, C.S. Hsu, Robert Hsieh, Stella Wen	Robert Kuan: Representative of TSMC, J.K. Lin: Representative of TSMC, Wen-Yeu Wang, C.S. Hsu, Robert Hsieh, Stella Wen	J.K. Lin: Representative of TSMC, Wen-Yeu Wang, C.S. Hsu, Robert Hsieh, Stella Wen	J.K. Lin: Representative of TSMC, Wen-Yeu Wang, C.S. Hsu, Robert Hsieh, Stella Wen
2,000,000 (included) ~ 5,000,000 (excluded)	-	-	Robert Kuan: Representative of TSMC	Robert Kuan: Representative of TSMC
5,000,000 (included) ~ 10,000,000 (excluded)	-	-	-	-
10,000,000 (included) ~ 15,000,000 (excluded)	-	-	-	-
15,000,000 (included) ~ 30,000,000 (excluded)	-	-	-	-
30,000,000 (included) ~ 50,000,000 (excluded)	-	-	-	-
50,000,000 (included) ~ 100,000,000(excluded)	-	-	-	-
Over than 100,000,000	-	-	-	-
Total	6	6	6	6

(2) Remuneration to Supervisors: None

(3) Remuneration to President and Vice Presidents:

December 31, 2016, Unit: NT\$thousand

Title	Name	Salary (A) (Note 1)		Retirement pay (B) (Note 2)		Bonus (C)		Employee Compensation (D) (Note3)				A+B+C+D as % of Net Income		Other Remuneration
		Xintec	Xintec & Affiliates	Xintec	Xintec & Affiliates	Xintec	Xintec & Affiliates	Xintec		Xintec & Affiliates		Xintec	Xintec & Affiliates	
								Cash	Stock	Cash	Stock			
President	Robert Kuan													
Vice President	CA Lin													
Vice President	Nick Wen (Note 3)													
Vice President	Yens Ho	21,113	21,113	585	585	457	457	0	0	0	0	-3.5%	-3.5%	None
Vice President	LS Yeou													
Vice President	WL Fang (Note 4)													
Sr. Director	Simon Lin													

Note1: The Company reversed total expenses of NT\$1,157 thousand in respect of the SARs for the years ended December 31, 2016.

Note2: The amount was the Company makes contributions to employees' pension account.

Note3: Nick Wen, Vice President resigned on June 1, 2016.

Note4: WL Fang, Vice President resigned on January 16, 2017.

Range of Remunerations

Range of Remunerations to President and Vice Presidents (NT\$)	Name of President and Vice Presidents	
	Xintec	Xintec
Less than 2,000,000	Nick Wen	Nick Wen
2,000,000 (included) ~ 5,000,000 (excluded)	Robert Kuan , CA Lin , , Yens Ho, LS Yeou, WL Fang, Simon Lin	Robert Kuan , CA Lin , , Yens Ho, LS Yeou, WL Fang, Simon Lin
5,000,000 (included) ~ 10,000,000 (excluded))	-	-
10,000,000 (included) ~ 15,000,000 (excluded))	-	-
15,000,000 (included) ~ 30,000,000 (excluded)	-	-
30,000,000 (included) ~ 50,000,000 (excluded))	-	-
50,000,000 (included) ~ 100,000,000(excluded))	-	-
Over than 100,000,000	-	-
Total	7	7

(4) Employee compensation granted to the management team

Unit: NT\$Thousand

	Title	Name	Stock	Cash	Total	Remunerations as of Net Income
Management team	President	Robert Kuan	0	0	0	0
	Vice President	CA Lin				
	Vice President	Nick Wen				
	Vice President	Yens Ho				
	Vice President	LS Yeou				
	Vice President	WL Fang				
	Sr. Director	Simon Lin				

4. Analysis of the proportion of the total remuneration of directors, supervisors, general managers and deputy general managers of the Company paid by the Company and all companies in the consolidated financial statement to net profit after tax in individual financial statements of the recent two years.

The remuneration paid to directors were NT\$5,307 thousand and NT\$2,410 thousand in 2015 and 2016, the proportion of remuneration to net income were 3.6% and -0.4%, mainly were remunerations from performing duties, allowance for transportation, remuneration from distribution of earnings according to Company's Articles. Remuneration policy set forth in Company's Articles of Incorporation was resolved by the shareholders' meeting. It was set up depend on the directors' degree of involvement to the company's operation, contribution value, industry standard and was resolved by Board of Directors and Remuneration Committee meetings.

The remuneration paid to general managers and deputy general manager were NT\$40,847 thousand and NT\$22,155 thousand in 2015 and 2016, the proportion of remuneration to net income were 27.8% and -3.5%. Remuneration was depending on Regulations for Management of recruitment and appointment and was resolved by Compensation Committee and Bord of Directors.

The policy of compensation was set up depend on personal ability and performance, contribution of the Company's operations and industry standard. The company had controled the future risks so the compensation policy had low relation with the furture risks.

C. Implementation of Corporate Governance

1. Information on implementation of Board of Directors:

A total of nine (A) meetings of the Board of Directors were held in 2016. The attendance of director and supervisor were as follows:

Title	Name	Attendance In person(B)	By Proxy	Attendance rate (%) (B/A)	Remarks
Chairman	Robert Kuan: Representative of TSMC	9	0	100%	He was re-elected at the 2016 Annual Shareholders' Meeting
Director	J.K. Lin: Representative of TSMC	9	0	100%	He was re-elected at the 2016 Annual Shareholders' Meeting
Independent Director	Wen-Yeu Wang	9	0	100%	He was re-elected at the 2016 Annual Shareholders' Meeting
Independent Director	C.S. Hsu	1	2	33%	He was not re-elected at the 2016 Annual Shareholders' Meeting
Independent Director	Robert Hsieh	9	0	100%	He was re-elected at the 2016 Annual Shareholders' Meeting
Independent Director	Stella Wen	6	0	100%	She was elected at the 2016 Annual Shareholders' Meeting

Other mentionable items:

1.If there are circumstances referred to in Article 14-3 of the Securities and Exchange Act and resolutions of the directors' meetings objected to by independent directors or subject to qualified opinion and recorded or declared in writing, the dates of the meetings, sessions, contents of motion, all independent directors' opinions and the company's response should be specified: None

2.If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified:

- (1) Board of Directors approved remuneration paid to individual directors of 2015 on February 3, 2016. Individual directors avoided voting causes for avoidance of motions in conflict of interest.
- (2) Board of Directors approved remuneration and compensation for directors of 2015 and 2016 on February 3, 2016. Individual directors avoided voting causes for avoidance of motions in conflict of interest.
- (3) Board of Directors approved performance evaluation and remuneration of 2015, salary adjustment and remuneration of 2016, Employee compensation of 2015 for manager with the identity of director on February 3, 2016. Robert Kuan, Chairman and President avoided voting causes for avoidance of motions in conflict of interest.

3.Measures taken to strengthen the functionality of the board:

- (1) The Company set up Remuneration Committee on November 11, 2011, which assisted the Board in executing and evaluating the Company's compensation and benefit policies, and the directors' and executives' compensation.
- (2) The Company set up Audit committee in 2013, made up by three independent directors to strengthen the functionality of the board.

2. Information on implementation of Audit Committee:

The Company had established an Audit Committee on Jun 13, 2013. This term is from Jun 14, 2016 to Jun 13, 2019. Robert Hsieh, Chairman of the Audit Committee, convened five regular meetings and two special meetings in 2016. The attendance status of independent directors is shown in the following:

Title	Name	Attendance In person(B)	By Proxy	Attendance rate (%) (B/A)	Remarks
Independent director	Wen-Yeu Wang	7	0	100%	
Independent director	C.S. Hsu (Note 1)	2	1	67%	
Independent director	Robert Hsieh	7	0	100%	
Independent director	Stella Wen (Note 2)	3	1	75%	

Other mentionable items:

1. If there are the circumstances referred to in Article 14-5 of the Securities and Exchange Act and resolutions which were not approved by the Audit Committee but were approved by two thirds or more of all directors, the dates of meetings, sessions, contents of motion, resolutions of the Audit Committee and the Company's response to the Audit Committee's opinion should be specified: None
2. If there are independent directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified: None
3. Communications between the independent directors, the Company's chief internal auditor and CPAs:
 - (1)The Company's chief internal auditor has communicated the result of the audit reports to the members of the Audit Committee periodically, and has presented the findings of all audit reports.
 - (2)The CPAs are required to communicate to the Audit Committee the findings for the financial reports, as well as those matters communication of which is required by law.

Note 1: Mr. C.S. Hsu's tenure expired on June 14, 2016 because he was not re-elected at the 2016 Annual Shareholders' Meeting.

Note 2: Ms. Stella Wen was elected as the Company's independent director at the 2016 Annual Shareholders' Meeting on June 14, 2016.

3. Attendance of Supervisors at Board Meetings:

The Board had been reelected on Jun 13, 2013, and set up Audit Committee make up by three independent directors, and abolished Supervisors.

4. Corporate Governance Implementation Status and Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
1. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”?	V		The Company has established the Corporate Governance Best-Practice Principles and disclosed on the Company’s website and Taiwan Stock Exchange Market Observation Post System.	No difference
2. Shareholding structure & shareholders’ rights (1) Does the company establish an internal operating procedure to deal with shareholders’ suggestions, doubts, disputes and litigations, and implement based on the procedure? (2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	V V		(1)The Company has created the spokesman and deputy spokesman system to deal with shareholders’ suggestions, doubts and disputes. (2)The Company acquired the statement of shareholding changes from directors and shareholders holding more than ten percent of the total shares of the company to process the list of major shareholders of the actual control of the company.	No difference

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(3) Does the company establish and execute the risk management and firewall system within its conglomerate structure?	V		(3)The Company set up and implemented the internal control system and relevant rules. Internal auditors supervised the status of implement periodically.	
(4) Does the company establish internal rules against insiders trading with undisclosed information?	V		(4)The Company established the procedure for processing internal significant information against insiders trading with undisclosed information and advocacy regularly of no trading of the Company’s securities with undisclosed information.	
3. Composition and Responsibilities of the Board of Directors				No difference
(1) Does the Board develop and implement a diversified policy for the composition of its members?	V		(1) In determining the board composition of the company, we have ensured the diversity of board members by taking into account various factors including (but not limited to) gender, age, cultural and educational background, and professional experience, expertise and knowledge. The appointment of board members is based on their talents and merits and the nomination is made with consideration to both the objective conditions and the diversity of board composition.	
(2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?		V	(2)The Company doesn’t establish other functional committees, but it can supervise operation of the company by Bord of directors and audit committees.	

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(3) Does the company establish a standard to measure the performance of the Board, and implement it annually?	V		(3)The Company has established regulations for measure the performance of the directors and implements it periodically.	
(4) Does the company regularly evaluate the independence of CPAs?	V		(4)The Company evaluates independence and suitability of CPAs periodically. The Company acquired statement of independence of CPAs and filled the evaluation form of independent and suitable to check it. There is no other financial interest and business relationship between the accountant and the Company except for the audit fees and non-audit fees of the Company. The accountant's family members do not violate the requirements of independence. So CPAs meet the requirements of independence and suitability and approved by the audit committees and Bord of directors.	

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
4. Does the Company established a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnish information required for business execution by directors, handle matters relating to board meetings and shareholders’ meetings according to laws, handle corporate registration and amendment registration, produce (or record?) minutes of board meetings and shareholders meetings, etc.	V		The Chairman appointed the Sr. Director of Finance as the Company’s Board secretariat. Finance Division is in charge of assisting in related affairs, including furnishing information required for business decisions by Directors, handling matters relating to Board meetings and Shareholders’ meetings, recording minutes of relevant meetings and handling corporate registration and amendment registration. General Counsel is the Company’s audit committee secretariat to handling matters relating to audit committee and recording minutes of relevant meetings.	No difference
5. Does the company establish a communication channel and build a designated section on its website for stakeholders, as well as handle all the issues they care for in terms of corporate social responsibilities?	V		The Company has served as the spokesman and deputy spokesman of external communication channels. On the company website set up reporting system of violation of ethical behavior, providing customers, vendors or other interested parties to report the Company’s misconduct.	No difference
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	V		The Company has appointed Taishin International Commercial Bank Co., Ltd. Stock Transfer Agency Department to handle shareholders.	No difference

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>7. Information Disclosure</p> <p>(1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?</p> <p>(2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences?)</p>	V		(1)The company has set up the company website, and instructed relevant departments to maintain and disclose information about the company's financial and operation.	No difference
	V		(2)The Company has appointed designated people to file financial or operational informations periodically and important information in MOPS. The Company has created the spokesman and deputy spokesman system.The presentation materials, audio and video files of investor conference be put on the Company website.	
<p>8. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures,</p>	V		(1)Regarding environmental protection, the Company is in compliance with regulations and requirements related to environmental protection, safety, green products, and other aspects of sustainable development. The Company constantly follows the latest trends of international environmental protection to reinforce a sense of eco-responsibility. To fulfill the duties of a member of the global community, the Company takes the initiatives to develop and implement various carbon footprint reduction programs, cutting electric energy consumption and reducing greenhouse-gas (GHG) emissions.	No difference

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?			<p>These efforts help relieve the greenhouse effect.</p> <p>(2)Regarding labor rights and interests, the Company constantly works on improving its work environment and occupational safety and health management system to provide equal employment opportunity and to prevent injury accidents and occupational diseases.</p> <p>(3)Regarding employee rights aspect, forming of the Employee Welfare committee, implementing employee retirement pension plan, having employee organization insurance and holding periodic medical examination as well as providing various kinds of channels of employee training classes etc. for continuous education.</p> <p>(4)In terms of supplier management, the company has established a supplier assessment system to ensure that suppliers meet the quality and environmental requirements of the corporate policies. Besides, a supplier appraisal system is also established to ensure the conduct of supplier assessment and the effective communication with suppliers, so as to create a good upstream-downstream relationship and achieve the sustainable development of the industrial chain.</p> <p>(5)In terms of information confidentiality, we respect and do our best to protect the security of technical documents and materials of customers. With both the customers and the</p>	

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			<p>suppliers, the company will sign a confidentiality agreement with legally binding terms on the specific rights and obligations of different parties. Inside the company, a committee for protection of confidential information is specifically established, and we require our staff to comply with relevant confidentiality regulations and to implement security management policies, so that we can ensure confidentiality of the corporate information and of our customers’ information.</p> <p>(6)The Company filed relevant information in accordance with the provisions of the Act to protect the rights of investors and other interested parties.</p> <p>(7)The Company has not mandated directors to study professional course but encourage them to participate according to individual needs.</p> <p>(8)The Company purchased liability insurance for the directors for the implementation of corporate governance.</p>	

9. Detail the improvement based on the corporate governance assessment result announced by the TWSE Corporate Governance Center in the latest half a year; propose the urgent matters and actions for the items not improved:

The Company was applicable to the results of corporate governance assessment in 2016 for the first time, becoming the top 5% among the listed companies. Below details the improvement for the 6 deficient items without score:

The improvement for the 6 deficient items without score:

Assessment indicator	Improvement
The company reports the major information in English synchronously.	The Company has reported the major information in English synchronously since April 22, 2016.
The annual report discloses the overall economic environment and the overview of the industrial trend.	The Company has added the correlation between the upstream, middle stream and downstream in the industry on page 60 of 2016 annual report.
The Board evaluates the CPA independence and discloses the evaluation procedure in the annual report in details periodically (at least annually).	The Audit Committee of the Company has evaluated the CPA independence periodically every year, and disclosed the evaluation procedure on page 19 of 2016 annual report.

The urgent matters and actions for the items not improved:

Assessment indicator	Improvement action implementation
The Company requires more than 1/3 of the directors (including one independent director at least) to attend the general meeting, and discloses the list of attending members in the meeting minutes.	The Company plans to convene the general meeting on June 7, 2017. At least 2 of the 5 directors of the 8 th term of the Board will attend the meeting (including one independent director), and the list of attending members will be disclosed in the meeting minutes.
The Company establishes energy conservation, GHG emission reduction, water consumption reduction or other waste management policies.	The Company has disclosed the quantitative management goals of energy conservation, GHG emission reduction, water consumption reduction or other waste management policies in 2016 CSR report.
The Company stipulates the reporting system against illegal (including corruption) and unethical actions of the internal and external personnel on the official website in details.	The Company has stipulated the internal/external reporting regulation for the violation against the ethics code. The entire procedure is sorted and then disclosed on the official website of the Company.

5. Composition, Responsibilities and Operations of the Remuneration Committee:

(1) Composition: The Compensation Committee was established on Nov 11, 2011 and re-elected on June 14, 2016. It comprised of three independent directors by Wen-Yeu Wang (convener) 、 Robert Hsieh and Stella Wen.

Title	Criteria Name	Has over five years work experience and following professional qualifications			Independence Attribute(Note1)								Number of Other Public Companies in Which the Individual is Concurrently Serving as an Remuneration Committee Member	Remark (註2)
		College Instructor or Higher Level in Business, Legal, Finance, Accounting or company business related area	Court Judge, Prosecutor, Attorney, CPA or other Certified Professional expert related to company business	Business, Legal, Finance, Accounting or company business required working Experience	1	2	3	4	5	6	7	8		
Independent director	Wen-Yeu Wang	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3	Yes
Independent director	Robert Hsieh			✓	✓	✓	✓	✓	✓	✓	✓	✓	2	Yes
Independent director	Stella Wen	✓			✓	✓	✓	✓	✓	✓	✓	✓	0	Yes

Note1: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not a person of any conditions defined in Article 30 of the Company Law.

Note2: Does meet Item 5 of Article 6 of "Regulations Governing the Appointment and Exercise of Powers by The Remuneration Committee of a Company Whose Stock is listed on the Stock Exchange or Traded over the Counter".

(2) Responsibilities:

- a. Set and regularly review the company's "Remuneration Committee's Procedures" and proposed the suggestion to revise.
- b. Periodically assess and determine the overall remuneration policy.
- c. Periodically assess and determine the remuneration of the directors and managers.
- d. Set and regularly review the policies, regulations, standards and structures for evaluating the directors' and managers' performance and remuneration.

(3) Operations of the Remuneration Committee:

- a. Remuneration Committee of the Company's has three members.
- b. Tenure period: June 14, 2016 to Jun 13, 2019. A total of 5 (A) Remuneration Committee meetings were held in 2016. The attendance record of the Remuneration Committee members was as follows:

Title	Name	Attendance In person(B)	By Proxy	Attendance rate (%) (B/A)	Remarks
Convener	Wen-Yeu Wang	5	0	100%	Re-elected
Committee Member	C.S. Hsu	1	1	50%	Former
Committee Member	Robert Hsieh	5	0	100%	Re-elected
Committee Member	Stella Wen	2	1	67%	Newly elected

Other mentionable items:

1. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the remuneration committee's opinion (eg., the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified): None.
2. Resolutions of the remuneration committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.

6. Performance of Social Responsibilities

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
<p>1. Corporate Governance Implementation</p> <p>(1) Does the company establish its corporate social responsibility policy and examine the results of the implementation?</p> <p>(2) Does the company provide educational training on corporate social responsibility on a regular basis?</p> <p>(3) Does the Company set up exclusively (or concurrently) dedicated units to promote corporate social responsibility, and authorize high level managers to handle and report to the Board of Directors?</p> <p>(4) Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?</p>	V		<p>(1) The Company was established corporate social responsibility policy and corporate social responsibility committee on September 2015.</p> <p>(2) The company will annually hold community responsibility educational training, through the executive and employee communication meeting, periodic advocacy of government related orders, the company’s vision, mission and aim, and spreading the business philosophy of integrity, innovation, customer orientation.</p> <p>(3) The Human Resource Department and the Environmental Safety Department, will together be responsible and create a good communication query channel, strengthening the copartnership between the employees, suppliers, contractors, clients, government institution and community organization communication, fulfilling to the best its corporate society responsibility.</p> <p>(4) Combining the company’s the business philosophy and performance efficiency managing system, setting clearly defined Recognition and Discipline Procedure, and periodic auditing of employee’s performance efficiency.</p>	No difference

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
<p>2. Sustainable Environment Development</p> <p>(1) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?</p> <p>(2) Does the company establish proper environmental management systems based on the characteristics of their industries?</p> <p>(3) Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?</p>	<p>√</p> <p>√</p> <p>√</p>		<p>(1)The Company is devoted to improving the efficiency and recycling of resources and has formulated related resource management procedures and built an water management and recovery system.</p> <p>(2)The Company has built sound environmental management procedures and systems and has obtained ISO 14001 Environmental Management System Certification as of January 2005.</p> <p>(3) The Greenhouse Gas Inventory Assessment and Carbon Footprint of Main Products assessment were completed; it was assured by External Auditors in 2012. The Company conducts GHG emission inspection and validation every year. Moreover, it takes actions of increasing resource recycle rate, reducing GHG emission, waste generation, wastewater emission and chemical usage, so as to improve the eco-benefits of the processes. We take ISO 14001 environmental management system as the foundation and adopt P-D-C-A management model, so as to achieve continuous progress on pollution control. Every year we can achieve the quantitative management goals of energy conservation 1%, waste reduction 2% and water consumption reduction 3% until the water level is reasonable and feasible. The planned improvement actions include (1) improving energy conservation of air compressor energy and air-conditioning chiller; (2) improving the waste water recycling system, and (3) evaluating the recyclable concentration of the waster solvent and managing the recycle of high-concentration waste solvent.</p>	No difference

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
<p>3. Preserving Public Welfare</p> <p>(1) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?</p> <p>(2) Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?</p> <p>(3) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?</p>	V		<p>(1)Xintec will establish a system, a wholesome organization, guarantee the employee’s lawful rights, specially in abiding the labor standard law and government related orders, create working regulations, to serve as the basis for all to follow in managing its employees. With regards to applicants or recruitment for employment, screening, hiring, auditing, promoting etc, it can not due to one’s gender have difference in treatment (But work nature that is only appropriate for special gender is not within this limit). Recruiter will consider the actual demand and hire, and using public screening method demand for equal opportunity, with human talent as basis for selection. The new staff must first passed screening or auditing, and in accordance to new staff employment regulations, after all processes have been approved, be officially employed.</p> <p>(2)Xintec offers an Employee Relations Hotline that provides a channel for employees to express their opinions regarding their work and the overall work environment. The employee relations team ensures all cases are handled with care under the supervision of the first-line managers.</p> <p>(3)Xintec holds the employee health inspection activities yearly and provides the doctors and nurses in accordance with related law. We also implement health enhance activities and attend ESH monthly meeting to ensure personnel safety and reduce the impact of accidents.</p>	No difference

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
(4) Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	V		(4) Xintec values two-way communications and is committed to keeping the communication channels between the management level and their subordinates, as well as among peers, open and transparent. To ensure that employees’ opinions and voices are heard, and their issues are addressed effectively, impartial submission mechanisms, including labor-management meeting and monthly communication meeting are in place to provide timely support and ensure that employees are informed of current policies.	
(5) Does the company provide its employees with career development and training sessions?	V		(5) Xintec not only assesses and provides feedback on employees’ skills and interests, but also offers training and development activities that match their career development objectives and job needs.	
(6) Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	V		(6) The company had established defect prevention mechanism and customer complaint response system, and detection checking mechanism from the entire supply chain upstream and downstream checked for customers and responded quickly.	
(7) Does the company advertise and label its goods and services according to relevant regulations and international standards?	V		(7) The company upholds the concept of integrity to treat customers, customers oriented, provides customers with the necessary technical, good quality and service.	
(8) Does the company evaluate the records of suppliers’ impact on the environment and society before taking on business partnerships?	V		(8) The company will evaluate the environment management policy of new suppliers before taking on business partnerships.	

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
(9)Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?	V		(9)Contracts with suppliers should disclose the suppliers should be transparent, open, pay attention to shareholders' equity and strive to achieve social responsibility.	
4. Enhancing Information Disclosure (1)Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	V		(1)The company will disclose the implementation status of corporate social responsibility on the annual report.	No difference
5. If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the Principles and their implementation: The Company has established the corporate social responsibility principles.				
6. Other important information to facilitate better understanding of the company’s corporate social responsibility practices : <ul style="list-style-type: none"> · To go green, use of disposable chopsticks has been substituted with reusable chopsticks, along with other eco-friendly policies including waste sorting and reduction, emission reduction, greening, recycling, water and electricity conservation. · Implement “1+1” disabled hiring program which is sponsored by government, and obtain award. · Hire disabled employees from Jhungli Special Education Training Center continuously and donate furniture, and obtain appreciation. · Donate over NT\$2,000,000 to landscape in Jhungli Standard Factory and sponsor a gardener every month since 2007. · Landscape around the Company and dormitory. Participate in landscape activity in 2009 which is held by Industrial Development Bureau, and obtain first in North Area and fourth in Taiwan. · Donate prizes to 2010 International Disabled Day which is held by Hsinchu County. 				

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
			<ul style="list-style-type: none"> · Be selected as a Chairman of Jhugli Standard Factory Management Committee in 2011. · Participate in government activities and obtain “Badge of Accredited Healthy Workplace” from the Ministry of Health and Welfare National Health Agency in 2011. · Create job opportunities and conduct cooperative education with 6 senior high schools. · Participation in public activities irregularly. · Donate about NT\$1,000,000 for Typhoon Morakot in 2009. · Provide a safe working environment and strengthen employees’ awareness on environmental and safety. · Donate used clothing to Wan Hai Charity Foundation in 2012. · Hire visually impaired masseur. · Donate about NT\$30,000 for Typhoon Haiyan in 2013. · Complies strictly with the Industrial Waste Disposal Plan and submits waste flow records online accordingly. Waste disposal and recycling practices are in compliance with applicable regulations. · The functions of the Volatile Organic Compound (VOC) emission treatment facilities at the Chungli factory are enhanced, resulting in a reduction efficiency of 97% and up in August, 2013 and achieving the goal of reducing carbon footprint and air pollutant emissions. · Donate about NT\$600,000 for Gas explosions in Kaohsiung in 2014. · Donate about NT\$1,000,000 for colored powder fire disaster in New Taipei in 2015. · Donate NT\$200,000 to KuanHsi Junior High School for popularizing baseball in 2016. 	
<p>7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions: The Company's Corporate Social Responsibility Report follows the core options of the GRI G4 Guidelines and obtains BSI Verification</p>				

7. Ethical Corporate Management :

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>1. Establishment of ethical corporate management policies and programs</p> <p>(1) Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?</p> <p>(2) Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?</p> <p>(3) Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies?</p>	<p>V</p> <p>V</p> <p>V</p>		<p>(1) Xintec established 「 Integrity Operation Code 」 demanding that all employees must understand clearly and abide by the business code of ethics and individual integrity, and insisting on honesty, seriousness and having professional spirit in carrying out one’s job.</p> <p>(2) Integrity is directly related to the company’s corporate culture and is the most important core value. It will be in the newcomer educational training and employee on-the-job training advocacy, and creation of a complete basis for rule violation punishment and complaint.</p> <p>(3) The company’s 「 Working Rule 」 regulates one cannot request, accept or give any kinds of donation and to be loyal to one’s job, or professionally judge gifts, entertainments or any forms of bribe.</p>	<p>No difference</p>

2. Fulfill operations integrity policy				
(1) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts?	V		(1)The company evaluate business partners' ethical records before sign the contracts and include ethics-related clauses in business contracts.	No difference
(2) Does the company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity?		V	(2)No	
(3) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	V		(3)The company has already establish in 「Working Rules」 clearly indicating that one must avoid any possible conflicts between individual interest and company's interest. The board committee's various suggested projects, when there is a conflict of interest, must in accordance to the principle of avoidance, not participate in the discussion, and be absent and not participate in the decision making.	
(4) Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis?	V		(4)The company operats in accordance with the accounting system and internal conrtal. Internal auditors regularly audit the status of compliance and no employees or managers violat ethical corporate management policies to be found.	
(5) Does the company regularly hold internal and external educational trainings on operational integrity?	V		(5)The company will periodically hold Integrity Operation educational training.	

<p>3. Operation of the integrity channel</p> <p>(1) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?</p> <p>(2) Does the company establish standard operating procedures for confidential reporting on investigating accusation cases?</p> <p>(3) Does the company provide proper whistleblower protection?</p>	V		<p>3.The company in its「Working Rules」have clearly indicate its punishment basis, and in the company's website has specify that if any people discover the company's employees or any people that may affect the company's interest who performs any suspicious or possible violation of the company's code of ethics behavior , please inform the company; this reporting action, will be submitted to the chairman of the board or other designated the executive who will directly carry out management, the person who report will be kept confidential, so that he will not encounter inappropriate handling.</p>	No difference
<p>4. Strengthening information disclosure</p> <p>(1) Does the company disclose its ethical corporate management policies and the results of its implementation on the company's website and MOPS?</p>	V		<p>(1) The business philosophy of integrity, innovation, customer orientation has been disclosed on the company's website. The results of implementation of ethical corporate management disclose on the annual report.</p>	No difference
<p>5. If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any discrepancy between the policies and their implementation.</p> <p>The company has established the ethical corporate management policies and no differences between the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies.</p>				
<p>6. Other important information to facilitate a better understanding of the company's ethical corporate management policies (e.g., review and amend its policies): None.</p>				

8. Other Company-established corporate governance rules and regulations: Please refer to the Taiwan Stock Exchange Market Observation Post System or visit our website.

9. Other Important Corporate Governance Information: None.

10. Status of Implementation of Internal Control System

(1) Statement of internal control system:

Xintec Inc.

Statement of Internal Controls

Date: 2/17/2017

According to the examination on internal control system done by the Company itself in 2016, we hereby states as follows:

- (1) The Company's board of directors and management team understand their responsibilities of developing, implementing and maintaining the Company's internal control system, and such a system has been established. The purpose of establishing the internal control system is to reasonably assure the following objectives: (a) The effectiveness and efficiency of business operation (including earnings, operation performance and the safeguard of company assets); (b) The reliability, timeliness and transparency of the financial and related reports; and (c) The compliance of the relevant laws/regulations and company policies;
- (2) Due to the innate limitation in designing a faultless internal control system, this system can only assure the reasonableness of the above three objectives have been fairly achieved. In addition, the effectiveness of internal control system could alter over time due to the change of business environment or situation. Since the Company's internal control system has included self-examination capability, the Company will make immediate corrections when errors are detected.
- (3) The evaluation of effectiveness of the internal control system design and implementation is made in accordance with the "Guidelines for the Establishment of Internal Control Systems by Public Companies" (the Guidelines). The Guidelines are made to examine the following five factors during the management and control process: (a) control environment, (b) risk assessment, (c) control activities, (d) information and communication, and (e) supervision. Each factor also includes several items. Details of each factor can be found in the Guidelines.
- (4) The Company has examined the effectiveness of each respected area in the internal control system based on the Guidelines.
- (5) The examination result indicated that the Company's internal control system (including subsidiary governance) dated December 31, 2016 has effectively assured that the following objectives have been reasonably achieved during the assessing period: (a) The degree that effectiveness and efficiency of business operation; (b) The reliability, timeliness and transparency of the financial and related reports; (c) The compliance of the relevant laws/regulations and company policies
- (6) This Statement is a significant part of the Company's annual report and prospectus available to the general public. If it contains false information or omits any material content, the Company is in violation of Article 20, Article 32, Article 171 and Article 174 set forth in the Taiwan's Security and Exchange Act. 53
- (7) The Company hereby declares that this statement had been approved by the Board of Directors on 2/17/2017. Among the 5 attending Directors, no one raised any objection to the contents of this statement.

Xintec Inc.

Chairman and President: Robert Kuan

- (2) The Company hire an accountant to audit the Company's internal control system and disclose the audit report made by accountants: None.
11. Lawful punishment inflicted on the Company, and/or disciplinary action taken by the Company against its employees for violating internal regulations in the latest year and up to the printing date of this Annual Report); important errors committed; and correction and improvement procedures: None.
12. Major Resolutions of Shareholders' Meeting and Board Meetings:
During the 2016 year and up to the date of this Annual Report, the Company held one annual stockholders' meeting and approved the resolutions and Implementaion status as following:
- (1) Approved the distribution of 2015 earnings
Implementaion status: ex-dividend date was determinded at July 5, 2016 and paid cash dividend on July 27, 2016.
 - (2) Approved the revision of Articles of Incorporation
Implementaion status: it was approved by the Ministry of Economic Affairs on July 13, 2016.
 - (3) Approved the 2015 Business Report and Financial Statements
 - (4) Re-elect five directors (including three individual directors)
Implementaion status: directors were Taiwan Semiconductor Manufacturing Company, Ltd. Representative: Robert Kuan and J.K.Lin, Wen-Yeu Wang, Robert Hsieh, Stella Wen.
 - (5) Approved a restricted employee stocks
Implementaion status: Board of directors approved to issue 1,500,000 shares of restricted employee stocks on Feb 17, 2017 and capital increase base date was determinded at Mar 15, 2017.
 - (6) To release the prohibition on directors from participation in competitive business

During the 2016 year and as of the date of this Annual Report, the Company held ten Board Meetings and approved the following resolutions:

Revision of Articles of Incorporation, revision of Remuneration Committee's Charter; regulations for compensation and transportation allowance pay to directors; profit sharing bonus to employees and compensation to directors of 2015; the 2015 Business Report and Financial Statements; the distribution of 2015 earnings; five directors (including three individual directors) will be reelected on shareholders' meeting; new directors will assume their office on the date of elected and the term of office until to Jul 13, 2019; regulations for issuance of new shares for employee restricted stock of 2016; reconvene a Shareholders' meeting of 2016; annual plan for 2016; remuneration and compensation for directors of 2015 and evaluation regulations for compensation pay to directors of 2016; performance evaluation and remuneration of 2015 for manager with the identity of director and mangers; salary adjustment and remuneration of 2016; employee compensation of 2015 to manager with the identity of director; get managers tablet on 2015; acquire bank credit lines; Statement of internal control of 2015; apply for alteration of the registered capital amount from exercise employee stock option; revision of regulation of issue employee restricted stock plans ; capital appropriations; CPAs' audit fee of 2016

increased; elected Robert Kuan to be Chairman; approved Wen-Yeu Wang , Robert Hsieh and Stella Wen to be 3rd Compensation Committee; revision of Corporate Governance Best Practice Principles and Corporate Social Responsibility Best Practice Principles; revision of internal control system and internal audit system; Lease agreement with VisEra technologies company Ltd for plant and office equipment; audit fee of 2017; revision of Procedures for handling material Inside Information; revision of Operational Procedures for Application of Halt and Resumption of Trading; audit plan for 2017; the 2016 Business Report and Financial Statements; the distribution of 2016 earnings; revision of Procedures for Acquisition or Disposal of Assets; reconvene a Shareholders' meeting; annual plan for 2017; appointed Mr.Davis Chou as Vice President and to release the prohibition on him from participation in competitive business; remuneration and compensation for directors of 2016 and evaluation regulations for compensation pay to directors of 2017; performance evaluation and remuneration of 2016 for manager with the identity of director and managers; salary adjustment and remuneration of 2017; employee compensation of 2016 to manager with the identity of director; Statement of internal control of 2016.

13. Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors: None
14. Resignation or Dismissal of the Company's Key Individuals, Including the Chairman, CEO, and Heads of Accounting, Finance, Internal Audit and R&D: None

D. Information on Accountants' Fees

1. The non-audit fee paid to certified CPA, certified Office of CPA and affiliated companies accounts for over 1/4 to audit fee:

Accounting firm	Name of CPA	Audit period	Remarks
Deloitte & Touche	Huang Yu Feng Lin Cheng Chih	2016.1.1~2016.12.31	

Unit: NT\$thousand

Range	Item	Audit fee	Non-audit fee	Total
1	Under 2 million		✓	
2	2 million(included)~4 million	✓		✓
3	4 million(included)~6 million			
4	6 million(included)~8 million			
5	8 million(included)~10 million			
6	Over 10 million (included)			

Note: Non-audit fee was NT\$60,000 paid for review the declaration of employee restricted stock plans.

2. Alter the CPA Firm and the audit fee in altering year is less than that in the previous year: None.
3. The audit fee is reduced by over 15% compared with the previous year: None.

E. Information on Replacement of Accountants

1. About the former CPA:

Replacement Date	Not application		
Replacement reasons and explanations	Not application		
Descriptions whether the Company terminated or the CPA did not accept the appointment	Parties	CPA	The Company
	Status	Not application	
	Termination of appointment		
No longer accept (continued) appointed			
Other than unqualified issues in the audit reports within last two years	Not application		
Differences with the Company	Yes		Accounting principles or practices
			Disclosure of Financial Statements
			Audit scope or steps
			Others
	None		✓
Descriptions		None	
Other Revealed Matters (Required to be disclosed by Accounting Standards Article 10 section 5 first paragraph item 4)	None		

2. About the Successor CPA:

Firm Name	Not applicable
CPA Name	Not applicable
Date of appointment	Not applicable
Consulting results regarding accounting methods or accounting principles to specific transactions or opinions on the financial statements before appointment	Not applicable
Successor CPA written disagreements to former CPA	Not applicable

3. Reply of the Previous Accountant : Not applicable.

F. Company Chairman, General Manager, Financial of Accounting Head has worked for Certifying Accounting Firm or Its Affiliate Business in the Past Year : None.

G. Information on Net Change in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Management and Shareholders of 10% Shareholdings or More

1. Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders

Unit: Shares

Title	Name	2016		As of April 9, 2017	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Director	Taiwan Semiconductor Manufacturing Company, Ltd.	18,503,622	0	0	0
	Representative: Robert Kuan	96,000	0	112,000	0
	Representative: J.K. Lin	0	0	0	0
Independent director	Wen-Yeu Wang	0	0	0	0
Independent director	C.S. Hsu (Note1)	0	0	0	0
Independent director	Robert Hsieh	0	0	0	0
Independent director	Stella Wen (Note1)	0	0	0	0
President	Robert Kuan	96,000	0	112,000	0
Vice President	CA Lin	44,750	0	178,000	0
Vice President	Nick Wen (Note2)	0	0	NA	NA
Vice President	Yens Ho	72,000	0	100,000	0
Vice President	LS Yeou	(5,798)	0	139,000	0
Vice President	WL Fang (Note3)	88,000	0	0	0
Vice President	Davis Chou (Note4)	NA	NA	0	0
Finance Sr. Director	Simon Lin	5,250	0	111,000	0
Major shareholders	Taiwan Semiconductor Manufacturing Company, Ltd.	18,503,622	0	0	0
Major shareholders	VisEra Holding Company (Cayman Islands) (Note5)	(18,503,622)	0	NA	NA

Note 1: Mr. C.S. Hsu's tenure expired on June 14, 2016 because he was not re-elected at the 2016 Annual Shareholders' Meeting, Ms. Stella Wen was the new independent director.

Note2: He resigned on June 1, 2016. The change in shareholding was before this date.

Note3: He resigned on January 16, 2017. The change in shareholding was before this date.

Note4: He was on board on February 17, 2017.

Note5: VisEra Holding Company wasn't the major shareholder as it transferred shareholding.

2. Shares Trading with Related Parties: None

3. Shares Pledge with Related Parties: None

H. Top 10 shareholders relation

As of April 9, 2017; Unit: Thousand shares

Name	Current Shareholding		Spouse's/ minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Taiwan Semiconductor Manufacturing Company (Representative: Morris Chang)	111,282	40.89	0	0	0	0	None	None	
Fubon Life Insurance Co., Ltd (Representative: Richard M. Tsai)	10,167	3.74	0	0	0	0	None	None	
China AMC Global Selective Equities Fund	7,126	2.62	0	0	0	0	None	None	
Lu, Hsi-Hao	6,200	2.28	0	0	0	0	None	None	
He, Tsung-Han	2,191	0.81	0	0	0	0	None	None	
Chang, Yao-Lun	1,556	0.57	0	0	0	0	None	None	
Capital High-tech Fund	1,500	0.55	0	0	0	0	None	None	
Credit Suisse Securities (Europe) Limited	1,341	0.49	0	0	0	0	None	None	
Shao, Chien-Hua	1,289	0.47	818	0.30	0	0	None	None	
Deutsche Bank AG (Representative: Zhan, Cui-Fang)	1,258	0.46	0	0	0	0	None	None	

I. Long-Term Investment Ownership: Not applicable.

IV. Information on Implementation of The Company Funds Utilization Plans

A. Source of Capital

Unit: NT\$Thousand; Thousand shares, As of April 30, 2017

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount	Shares	Amount	Source of Capital	Capital increased by assets other than cash	Other
9/1998	10	64,000	640,000	28,000	280,000	Fondation 216,000	technology 64,000	9/11/1998 Jing Shang Tzu No.087127301
7/1999	10	64,000	640,000	43,250	432,500	Cash injection 152,500	None	7/26/1999 Jing Shang Tzu No.088127212
9/2000	10	64,000	640,000	55,000	550,000	Cash injection 117,500	None	9/20/2000 Jing Shang Tzu No.089134667
8/2002	12	64,000	640,000	64,000	640,000	Cash injection 90,000	None	8/19/2002 Jing Shou Shang Tzu No.09101336780
3/2003	12	88,000	880,000	73,000	730,000	Cash injection 90,000	None	3/19/2003 Jing Shou Shang Tzu No.09201078970
4/2003	11	88,000	880,000	83,000	830,000	Cash injection 100,000	None	4/30/2003 Jing Shou Shang Tzu No.09201130010
9/2003	15	120,000	1,200,000	103,000	1,030,000	Cash injection 200,000	None	9/1/2003 Jing Shou Shang Tzu No.09201260090
12/2003	20	120,000	1,200,000	115,000	1,150,000	Cash injection 120,000	None	12/4/2003 Jing Shou Shang Tzu No.09201327560
4/2006	10	120,000	1,200,000	120,000	1,200,000	Cash injection 50,000	None	4/10/2006 Jing Shou Shang Tzu No.09501063960
7/2006	-	180,000	1,800,000	120,000	1,200,000	Authorized Capital change	None	7/4/2006 Jing Shou Shang Tzu No.09501131570
2/2007	15	260,000	2,600,000	210,526	2,105,260	Private placement 905,260	None	2/16/2007 Jing Shou Shang Tzu No.09601036790
8/2007	-	260,000	2,600,000	215,739	2,157,391	Capital increase 27,368 by earnings Capital increase 24,763 by Profit sharing in stock	None	8/6/2007 Jing Shou Shang Tzu No.09601184170
7/2008	-	260,000	2,600,000	221,279	2,212,794	Capital increase 21,574 by earnings Capital increase 33,829 by Profit sharing in stock	None	7/24/2008 Jing Shou Shang Tzu No.09701180530
11/2008	-	260,000	2,600,000	221,909	2,219,091	Exercise of Employee Stock Options 6,297	None	11/27/2008 Jing Shou Shang Tzu No.09701302390
3/2009	-	260,000	2,600,000	222,225	2,222,251	Exercise of Employee Stock Options 3,160	None	3/30/2009 Jing Shou Shang Tzu No.09801056560
6/2009	-	260,000	2,600,000	222,660	2,226,601	Exercise of Employee Stock Options 4,350	None	6/26/2009 Jing Shou Shang Tzu No.09801127190
7/2009	-	260,000	2,600,000	224,629	2,246,289	Capital increase 11,111 by earnings Capital increase 8,577 by Profit sharing in stock	None	7/22/2009 Jing Shou Shang Tzu No.09801153270
9/2009	-	260,000	2,600,000	225,533	2,255,327	Exercise of Employee Stock Options 9,038	None	9/9/2009 Jing Shou Shang Tzu No.09801206430
12/2009	-	260,000	2,600,000	225,766	2,257,657	Exercise of Employee Stock Options 2,330	None	12/18/2009 Jing Shou Shang Tzu No.09801290970

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount	Shares	Amount	Source of Capital	Capital increased by assets other than cash	Other
4/2010	-	260,000	2,600,000	226,529	2,265,287	Exercise of Employee Stock Options 7,630	None	4/8/2010 Jing Shou Shang Tzu No.09901068120
7/2010	-	260,000	2,600,000	227,275	2,272,746	Exercise of Employee Stock Options 7,459	None	7/16/2010 Jing Shou Shang Tzu No.09901144980
9/2010	-	260,000	2,600,000	227,367	2,273,666	Exercise of Employee Stock Options 920	None	9/2/2010 Jing Shou Shang Tzu No.09901200650
12/2010	-	260,000	2,600,000	227,968	2,279,684	Exercise of Employee Stock Options 6,018	None	12/6/2010 Jing Shou Shang Tzu No.09901271820
4/2011	-	260,000	2,600,000	228,561	2,285,607	Exercise of Employee Stock Options 5,923	None	4/11/2011 Jing Shou Shang Tzu No.10001069460
7/2011	-	260,000	2,600,000	229,026	2,290,265	Exercise of Employee Stock Options 4,658	None	7/1/2011 Jing Shou Shang Tzu No.10001142280
8/2011	-	260,000	2,600,000	233,256	2,332,557	Capital increase 22,883 by earnings Capital increase 19,410 by Profit sharing in stock	None	8/10/2011 Jing Shou Shang Tzu No.10001184920
9/2011	-	260,000	2,600,000	233,396	2,333,962	Exercise of Employee Stock Options 1,405	None	9/6/2011 Jing Shou Shang Tzu No.10001207740
12/2011	-	260,000	2,600,000	233,579	2,335,794	Exercise of Employee Stock Options 1,831	None	12/2/2011 Jing Shou Shang Tzu No.10001274670
4/2012	-	260,000	2,600,000	233,581	2,335,811	Exercise of Employee Stock Options 17	None	4/2/2012 Jing Shou Shang Tzu No.10101055600
6/2012	-	260,000	2,600,000	233,785	2,337,846	Exercise of Employee Stock Options 2,035	None	6/27/2012 Jing Shou Shang Tzu No.10101120250
7/2012	-	260,000	2,600,000	236,121	2,361,209	Capital increase 23,363 by earnings	None	7/30/2012 Jing Shou Shang Tzu No.10101155880
9/2012	-	260,000	2,600,000	236,153	2,361,526	Exercise of Employee Stock Options 317	None	9/13/2012 Jing Shou Shang Tzu No.10101188740
12/2012	-	260,000	2,600,000	236,205	2,362,046	Exercise of Employee Stock Options 520	None	12/12/2012 Jing Shou Shang Tzu No.10101253820
4/2013	-	260,000	2,600,000	236,208	2,362,079	Exercise of Employee Stock Options 33	None	04/01/2013 Jing Shou Shang Tzu No.10201058510
8/2013	-	260,000	2,600,000	236,267	2,362,667	Exercise of Employee Stock Options 588	None	08/06/2013 Jing Shou Shang Tzu No.10201152570
8/2013	-	260,000	2,600,000	236,290	2,362,896	Exercise of Employee Stock Options 229	None	08/30/2013 Jing Shou Shang Tzu No.10201179150
12/2013	-	260,000	2,600,000	236,371	2,363,714	Exercise of Employee Stock Options 818	None	12/11/2013 Jing Shou Shang Tzu No.10201249330
3/2014	-	260,000	2,600,000	236,402	2,364,019	Exercise of Employee Stock Options 305	None	03/28/2014 Jing Shou Shang Tzu No.10301053810
7/2014	-	260,000	2,600,000	236,474	2,364,739	Exercise of Employee Stock Options 720	None	7/8/2014 Jing Shou Shang Tzu No.10301136750
9/2014	-	260,000	2,600,000	236,481	2,364,814	Exercise of Employee Stock Options 75	None	9/4/2014 Jing Shou Shang Tzu No.10301184300
12/2014	-	260,000	2,600,000	238,051	2,380,508	Exercise of Employee Stock Options 15,694	None	12/5/2014 Jing Shou Shang Tzu No.10301253830
3/2015	-	260,000	2,600,000	238,121	2,381,207	Exercise of Employee Stock Options 699	None	3/6/2015 Jing Shou Shang Tzu No.10401033070

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount	Shares	Amount	Source of Capital	Capital increased by assets other than cash	Other
4/2015	42	300,000	3,000,000	268,121	2,681,207	Cash injection 300,000	None	4/15/2015 Jing Shou Shang Tzu No.10401064200
6/2015	-	300,000	3,000,000	268,427	2,684,265	Exercise of Employee Stock Options 3,059	None	6/8/2015 Jing Shou Shang Tzu No.10401105400
12/2015	-	300,000	3,000,000	268,768	2,687,680	Exercise of Employee Stock Options 3,414	None	12/2/2015 Jing Shou Shang Tzu No.10401254910
3/2016	-	300,000	3,000,000	268,876	2,688,761	Exercise of Employee Stock Options 1,082	None	3/3/2016 Jing Shou Shang Tzu No.10501040250
5/2016	-	300,000	3,000,000	269,195	2,691,948	Exercise of Employee Stock Options 3,187	None	5/31/2016 Jing Shou Shang Tzu No.10501108730
11/2016	-	300,000	3,000,000	269,590	2,695,901	Exercise of Employee Stock Options 3,953	None	11/30/2016 Jing Shou Shang Tzu No.10501277360
3/2017	-	300,000	3,000,000	269,853	2,698,534	Exercise of Employee Stock Options 2,633	None	3/16/2017 Jing Shou Shang Tzu No.10601032450
3/2017	-	300,000	3,000,000	271,353	2,713,534	Issue restricted employee stocks 15,000	None	3/30/2017 Jing Shou Shang Tzu No.10601037310

Unit: Shares, As of April 9, 2017

Share Type	Authorized Capital			Un-issued Shares	Total Shares
	Issued Shares				
	Listed	Non-listed	Total		
Common Stock	272,160,766	-	272,160,766	27,839,234	300,000,000

B. Shareholder Structure

Unit: Shares, As of April 9, 2017

Shareholder Structure Quantity	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	0	35	44	16,313	59	16,451
Shareholding	0	16,127,000	114,027,643	127,369,747	14,636,376	272,160,766
Percentage	0%	5.92%	41.90%	46.80%	5.38%	100.00%

C. Distribution Profile of Shareholder Ownership

Unit: Shares, As of April 9, 2017

Class of Shareholding	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	1,637	233,205	0.08
1,000 ~ 5,000	11,239	22,828,334	8.39
5,001 ~ 10,000	1,722	13,827,075	5.08
10,001 ~ 15,000	527	6,731,722	2.47
15,001 ~ 20,000	380	7,092,013	2.60
20,001 ~ 30,000	300	7,670,074	2.82
30,001 ~ 40,000	149	5,356,019	1.97
40,001 ~ 50,000	111	5,098,302	1.87
50,001 ~ 100,000	182	13,279,275	4.88
100,001 ~ 200,000	118	17,136,091	6.30
200,001 ~ 400,000	49	13,383,296	4.92
400,001 ~ 600,000	19	9,575,793	3.52
600,001 ~ 800,000	5	3,294,000	1.21
800,001 ~ 1000,000	2	1,676,792	0.62
1,000,001 of over	11	144,978,775	53.27
Total	16,451	272,160,766	100.00

D. Major Shareholders

Unit: Thousand Shares, As of April 9, 2017

Major shareholder's Name	Shares held	Share holdings
Taiwan Semiconductor Manufacturing Company, Ltd.	111,282	40.89
Fubon Life Insurance Co., Ltd	10,167	3.74
China AMC Global Selective Equities Fund	7,126	2.62
Lu, Hsi-Hao	6,200	2.28
He, Tsung-Han	2,191	0.81
Chang, Yao-Lun	1,556	0.57
Capital High-tech Fund	1,500	0.55
Credit Suisse Securities (Europe) Limited	1,341	0.49
Shao, Chien-Hua	1,289	0.47
Deutsche Bank AG	1,258	0.46

E. Market Price, Net Worth, Earnings and Dividends per Common Share

Unit: NT\$; Stocks, in thousands

Item		Year			
		2015	2016	Current year to April 30, 2017	
Market price per share	Highest	65.20	38.10	60.00	
	Lowest	28.85	19.30	32.45	
	Average	48.05	29.19	46.51	
Equity per share	Before distribution	21.76	18.92	-	
	After distribution	21.26	18.92	-	
Earnings per share	Weighted average shares	261,574	269,339	-	
	Earnings per share	0.56	(2.36)	-	
Dividends per share	Cash dividends		0.50	-	-
	Stock dividends	Dividends from retained earnings	-	-	-
		Dividends from Capital surplus	-	-	-
	Accumulated undistributed dividends		-	-	-
Investment return analysis	Price/ earning ratio		85.80	(12.37)	-
	Price/ dividend ratio		96.21	-	-
	Cash dividend yield rate		1.04%	-	-

F. Dividend Policy

1. Dividend policy in Articles of Incorporation:

According to article 27 of the Company's Articles of Incorporation:

If there is any profit after annual closing, it should be first deducted for income tax and accumulated deficits. Then appropriate 10% as legal reserve until the accumulated legal reserve equals the Company's paid-in capital, and appropriate (or reverse) the special reserve in accordance with relevant laws or regulations or as requested by the authorities in charge. Any remaining balance together with any unappropriated earnings shall be allocated according to the proposal of the board of directors and the resolution of the shareholders' meeting.

According to article 27-1 of the Company's Articles of Incorporation:

The dividend distribution policy of the Corporation, based on the capital budget, middle and long-term operation plan and financial condition, shall be distributed upon the resolution of Board Meeting by following the rules below:

(1) The Corporation shall distribute all divisible surplus based on the considerations of finance, business and operation factors. The surplus distribution shall be by stock dividend or cash dividend. However, the Corporation is in the operation growth period. When distributing the divisible surplus, the proportion of cash dividend shall be no less than 50% of the total dividend.

(2) If the Corporation has no surplus to be distributed, or the surplus balance is far

lower than that distributed in the last years, it shall distribute all or a part of the reserve pursuant to the requirements of laws or competent authority based on the consideration of finance, business and operation factors.

2. Distribution of stock dividends at this shareholders' meeting:

The Company's appropriations of earnings for 2016 had been approved for no distribution in the meeting of the Board of Directors held on February 17, 2017.

G. Stock Dividend Distribution : Not applicable.

H. Employee, Directors and Supervisors Compensation :

1. According to article 27 of the Company's Articles of Incorporation:

The Corporation shall set aside not less than 1% of its annual profit as profit sharing bonus to its employees and not more than 2% as compensation to its directors. Directors who also serve as executive officers of this Corporation are not entitled to receive compensation to directors. Employees' profit sharing bonuses and compensation to directors are resolved by a majority vote at a Board of Directors meeting attended by two-thirds of the total number of directors and shall be reported to the shareholders' meeting. The Corporation shall have reserved a sufficient amount to offset its accumulated losses and then set aside profit sharing bonuses to employees and compensation to directors in accordance with a predetermined ratio.

2. The basis for estimating the amount of employee, director, and supervisor compensation, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

The Company accrued no profit sharing bonus to employees and compensation to directors due to net loss on 2016, only paid NT\$1,800 thousand compensation to independent directors.

The differences will be recorded in the year of shareholders' resolution as a change in accounting estimate. The total number of employee dividend stocks to be issued shall be determined by the closing price of the day before the board of directors proposed date, and taking into account the influence of the ex-right and ex-dividend factors.

3. Information on any approval by the board of directors of distribution of compensation:

(1) The amount of any employee compensation distributed in cash or stocks and compensation for directors and supervisors. If there is any discrepancy between that amount and the estimated figure for the fiscal year these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed:

There was no profit sharing bonus to employees and compensation to directors and had been approved in the meeting of the Board of Directors held on February 17, 2017, only paid NT\$1,800 thousand compensation to independent directors.

(2) The amount of any employee compensation distributed in stocks, and the size of that amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total employee compensation: Not applicable.

4. Actual distribution of employee dividends, remuneration of directors/supervisors in the previous year:

Employee cash dividends of NT\$19,675 thousands and directors remuneration of NT\$4,090 thousands shall be allocated according to the resolution of the shareholders' meeting on Jun 14, 2016. The Company's actually distributed number does not differ from the recognized one.

I. Share by Back : None.

J. Issuance of Corporate Bond, Preferred Stock, Depositary Shares Issuance : None.

K. Status of Employee Stock Option Plan :

1. Employee Stock Option Plan :

As of April 30, 2017

ESOP granted	1 st ESOP	2 nd ESOP	3 rd ESOP	4 th ESOP	5 th ESOP
Approval date	7/3/2006	7/3/2006	6/26/2007	6/26/2007	1/10/2012
Issue date	9/29/2006	1/16/2007	6/27/2007	12/14/2007	6/14/2012
Issue common stock shares	5,025,000	975,000	2,580,000	2,000,000	6,000,000
Percentage of shares issued to total common stock shares (%)	4.19%	0.46%	1.23%	0.93%	2.57%
Option termination	10 years	10 years	10 years	10 years	5 years
Source of option shares	Issue new stock	Issue new stock	Issue new stock	Issue new stock	Issue new stock
Vesting schedule and rate (%)	2 nd year: 50% 3 rd year: 75% 4 th year: 100%	2 nd year: 50% 3 rd year: 75% 4 th year: 100%	2 nd year: 50% 3 rd year: 75% 4 th year: 100%	2 nd year: 50% 3 rd year: 75% 4 th year: 100%	2 nd year: 50% 3 rd year: 75% 4 th year: 100%
No. of shares acquired by employee through the exercise of options	3,885,750	581,750	1,418,250	1,006,500	3,954,725
Total value of shares acquired by employee through the exercise of options(NT\$)	47,115,252	8,213,950	21,401,450	19,111,138	88,139,267
No. of unexercised shares	0	0	0	0	228,775
Price per share of unexercised option(NT\$)	8.5	10.3	14.8	18.6	22.7
Percentage of unexercised options to total common stock shares (%)	0%	0%	0%	0%	0.08%
Effects on shareholder's equity	No effects	No effects	No effects	No effects	Minimal effects

2. No. of shares granted to and holding status of executive managers and top 10 employees:

Title	Name	No. of shares granted	No. of shares granted to common stock shares	Exercised				Unexercised(Note2)				
				No. of shares	Price per share	Total value of shares	No. of shares to common shares	No. of shares	Price per share	Total value of shares	No. of shares to common shares	
Executive managers	President	Robert Kuan	2,515,000	0.93%	1,504,250	16.86	25,364,200	0.55%	32,000	22.70	726,400	0.01%
	President (Note 1)	Lidon Chen										
	Vice President	CA Lin										
	Vice President (Note 1)	Tom Tseng										
	Vice President (Note 1)	DD Hu										
	Vice President (Note 1)	Nick Wen										
	Vice President (Note 1)	Peterson Tien										
	Vice President (Note 1)	WM Chen										
	Vice President	LS Yeou										
	Vice President	Yens Ho										
	Vice President (Note 1)	WL Fang										
	Sr. Director	Simon Lin										
	Sr. Director (Note 1)	Pamela Chang										
	Sr. Director (Note 1)	Dave Wang										
Sr. Director (Note 1)	Paul Hsiao											

Note1 : The manager has resigned.

Note2 : 978,750 shares of unexercised option and NT\$14,574,000 of unexercised shares value have been deducted.

Title	Name	No. of shares granted	No. of shares granted to common stock shares	Exercised				Unexercised(Note4)				
				No. of shares	Price per share	Total value of shares	No. of shares to common shares	No. of shares	Price per share	Total value of shares	No. of shares to common shares	
Employees	Sr. Director	CM Fan	1,045,800	0.38%	915,800	16.93	15,504,741	0.34%	0	-	0	0
	Sr. Director	TY Liu										
	Director	YC Hu										
	Director	Leo Liu										
	Director	LK Huang										
	Director	CT Chou										
	Director (Note 3)	Leo Tsai										
	Director (Note 3)	SM Chen										
	Director (Note 3)	WJ Chyan										
	Deputy Director (Note 3)	SY Wang										

Note3 : The employee has resigned.

Note4 : Resigned employees' 130,000 shares of unexercised option and NT\$2,240,000 of unexercised shares value have been deducted.

L. Status of Restricted Employee Shares :

1. Issuance of Restricted Employee Shares

As of April 30, 2017

Type of restricted employee shares	2016 1 st issue restricted employee shares
Effective date of application	June 27, 2016
Date of issue	March 15, 2017
Number of restricted employee shares issued	1,500,000 shares
Issue price	NTD 0 (issued without subscription)
New restricted shares issued as a percentage to total outstanding shares	0.55%
Criteria of entitlement to restricted employee shares	<p>1. The First Year Vesting (One year has elapsed from the time of issuance date): Company's Performance EPS (Note1) is positive number, and that equal to or grow more than previous year 10%. An employee who remains employed at Xintec after one year has elapsed from the time of vesting, and also never against labor contract and who in the current year performance rating equal to or higher than S, will be eligible for vesting of an installment of 20% of the shares.</p> <p>2. The Second Year Vesting (Two years have elapsed from the time of issuance date) Company's Performance EPS is positive number, and that equal to or grow more than previous year 10%. An employee who remains employed at Xintec after two year has elapsed from the time of vesting, and also never against labor contract and who in the current year performance rating equal to or higher than S, will be eligible for vesting of an installment of 20% of the shares.</p> <p>3. The Third Year Vesting (Three years have elapsed from the time of issuance date)</p> <p>a. Company's Performance EPS is positive number, and that equal to or grow more than previous year 10%. An employee who remains employed at Xintec after three year has elapsed from the time of vesting, and also never against labor contract and who in the current year performance rating equal to or higher than S, will be eligible for vesting of an installment of 26.7% of shares.</p> <p>b. Company's Performance EPS equal to or achieve more than NT\$2. An employee who remains employed at Xintec after three year has elapsed from the time of vesting, and also never against labor contract and who in the current year performance rating equal to or higher than S, will be eligible for vesting of more installment of 33.3% of shares.</p> <p>Note1. Company's Performance EPS : That means</p>

	Earning Per Share in financial statements audited by CPA of the recently year prior to the vesting date. Note2. Xintec's Performance Rating Rule : O(Outstanding) 、 S(Successful) 、 I(Improvement Needed) 、 U(Unacceptable)
Restricted rights to restricted employee shares	<ol style="list-style-type: none"> 1. Except inheritance, the grantee employee shall not sell, pledge, transfer, make gift of, request company buy, or otherwise dispose of the shares in other manner. 2. The rights of attendance, proposal, speaking, voting, or election in shareholders' meeting according to "Trust Contract Carried Out", 3. Before the shares reach vesting conditions, the distribution shall be the same as the issued common shares of the company (including but not limited to the right of cash capital increase, cash dividend, stock dividend, capital surplus cash/stock).
Custody of restricted employee shares	Held in trust
If the criteria of entitlement is not met after employees are allocated or have subscribed to restricted shares	<ol style="list-style-type: none"> 1. Voluntary resignation or dismissal Restrictions on the rights associated with shares that have not yet vested in the date for resignation or dismissal shall be deemed to abandon vesting rights. The unvested restricted employee stocks in the current year will be redeemed without consideration and cancelled by the company. 2. Retirement The unvested restricted employee stocks in the date for retirement shall be deemed to satisfy vesting condition. According to Article 5, Paragraph 2, the issuance date will apply the time-histories and ratio. 3. Death The unvested restricted employee stocks in the date for death shall be deemed to satisfy all vesting condition. The issuance date will notice of the company, and according to "Civil Code Part V Succession" and "Regulations Governing the Administration of Shareholder Services of Public Companies". 4. Leave of absence Employees take leave of absence approved specifically by the company. Restrictions on the rights associated with shares that have not yet vested the date for reinstatement after employees star working, the vesting condition and defer time limit shall approved of the chairman. Thought time limit restrict on vesting period (That means Restricted Employee Stocks vesting period). If the expiration of period and employee doesn't return to the position, regard as voluntary resignation. 5. Severance Restrictions on the rights associated with shares that have not yet vested in the date for severance shall be

	<p>deemed to lose efficacy vesting rights. The unvested restricted employee stocks in the current year will be redeemed without consideration and cancelled by the company.</p> <p>6. Transfer Due to operation demand, upon the requisition for transferring Affiliates Company be approved of the company. According to Article 5, Paragraph 2, if the transference will satisfy vesting condition in the current year, the chairman or the authorized executives shall be approved of the time-histories and ratio for vesting condition. The director who serves as manager or staff shall approve of the compensation committee.</p> <p>7. The performance of company and personal in the current year during vesting period. According to Article 5, Paragraph 2, if the vesting conditions are not satisfied, shall be deemed failure to meet vesting condition. The unvested restricted employee stocks in the current year will be redeemed without consideration and cancelled by the company.</p>
Number of restricted employee shares recovered	0 shares
Number of restricted employee shares removed	0 shares
Number of restricted employee shares intact	1,500,000 shares
Number of restricted shares with restrictions remaining as a percentage to total outstanding shares (%)	0.55%
Impacts on shareholder' equity	<p>1.Possible expenses: The value of the stock was based on a fair value of NT\$41.70 per share at the date of grant on February 17, 2017. If all criteria will be met, total expenses of this restricted share scheme should approximate to NTD 62,550 thousands; of which NTD 27,248 thousands is recognized in 2017, NTD 20,376 thousands in 2018, NTD 13,315 thousands in 2019 and NTD 1,611 thousands in 2020.</p> <p>2.Dilution of EPS and other impacts on shareholders' equity: Number of restricted shares issued for no consideration as a percentage to total outstanding shares was 0.55%. The restricted share scheme, once expensed, should dilute earnings per share by NTD 0.01 in 2017, NTD 0.07 in 2018, NTD 0.05 in 2019 and NTD 0.01 in 2020. This should not cause any significant impacts on shareholders' equity.</p>

2. Information on Name of Managers and Top 10 Employees obtaining Restricted Employee Shares

Title	Name	No. of restricted employee shares acquired	restricted employee shares acquired as a percentage to total outstanding shares	Restrictions Removed				Restrictions intact				
				No. of restricted shares with restrictions removed	Issuance Price	Issuance Amount	No. of restricted shares with restrictions removed as a percentage of total outstanding shares	No. of restricted shares with restrictions intact	Issuance Price	Issuance Amount	No. of restricted shares with restrictions intact as a percentage of total outstanding shares	
managers	President	Robert Kuan	423,000	0.16%	0	0	0	0	423,000	0	0	0.16%
	Vice President	CA Lin										
	Vice President	LS Yeou										
	Vice President	Yens Ho										
	Sr. Director	Simon Lin										
Employees	Sr. Director	CM Fan	453,000	0.17%	0	0	0	0	453,000	0	0	0.17%
	Sr. Director	TY Liu										
	Director	YC Hu										
	Director	HK Lan										
	Director	HL Shen										
	Director	CT Chou										
	Director	HC Lin										
	Director	Janice Chen										
	Director	Philip Feng										
	Director	David Yeh										

M. Status of Mergers and Acquisitions : None.

N. Fund Plan Implementation : None.

V. Operational Highlights

A. A Description of the Business

1. Business Scope

(1) Main areas of business operations

Unit: NT\$Thousand

Item	Total sales in Year 2016	(%) of Total Sales
Wafer Level Chip Scale Packaging	2,353,976	60.04
Wafer Level Post Passivation Interconnection	1,543,795	39.38
Others	22,927	0.58
Total	3,920,698	100.00

(2) Current Products (Services)

a. Current Products (Services):

- (a) Wafer Level Chip Scale Packaging : Image Sensor, Light Sensor, MEMS, IMU, Finger Print Sensor.
- (b) Wafer Level Post Passivation Interconnectionl : 3D Post Passivation Interconnection, Backside Metal Process, Thick Cu.

b. New Products and Services to Be Developed:

- (a) Wafer level packaging of image sensor applied in mobile phones, notebook computers, personal mobile electronic devices, wearable device, vehicle around view, reverse image safety monitoring devices and light sensor.
- (b) Wafer level chip scale packaging and testing for sensor components and power management unit applied in various ultrathin consumer electronics, computers, communications, information technology products, optical electron and environment, pressure sensing and IoT.
- (c) Wafer level packaging applied in finger print sensor and biological sensor.

2. General Economic Environment

Directorate General of Budget, Accounting and Statistics, Executive Yuan announced the economic growth rate this year was 1.50%, which was increased by 0.78% if compared with that in the previous year, 0.72%, showing an increasing trend on a quarterly basis. The price rise of the international raw material and the flourishing of IC

industry in the second half of the year promoted the positive growth of the export in the second half of the year in Taiwan. Moreover, the private consumption and private investment showed modest growth.

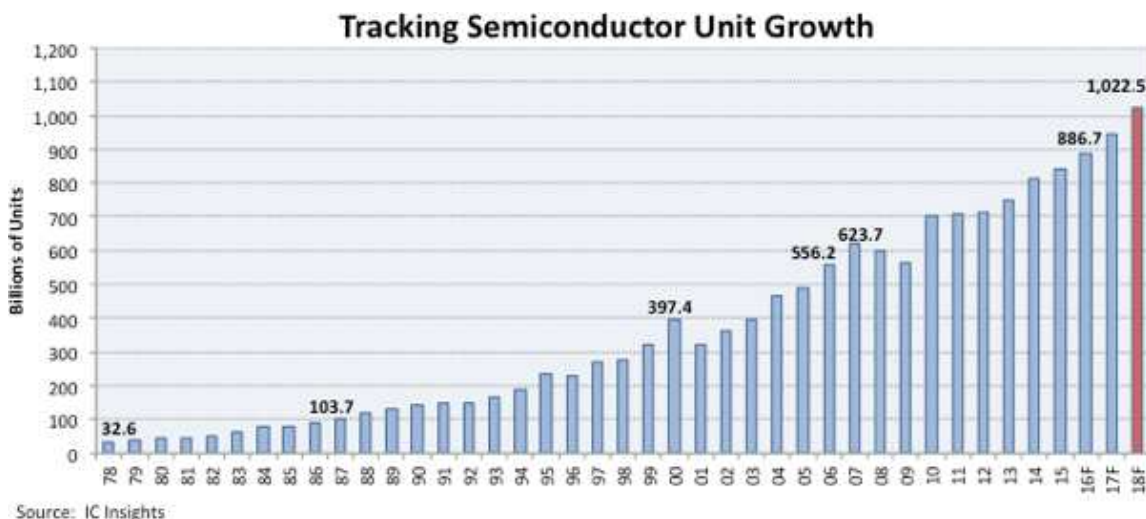
In terms of the price, due to the unstable climate, the price of food such as vegetable and fruit increased greatly. This year the Consumer Price Index (CPI) was increased by 1.40%. The overall index excluding the vegetable, fruit, aquatic product and energy (core CPI) was increased by 0.84%. The price level on the whole was stable. The Wholesale Price Index (WPI) dropped by 2.97% due to the impacts from the decline of international oil price and commodity price if compared with that in the previous year.

In terms of the employment, the domestic labor market was stable this year, with the labor participation rate 58.75%, which was increased by 0.01% if compared with that in the previous year. The average number of employed persons was 11,267,000, which was increased by 69,000 (0.62%) if compared with that in the previous year. The average unemployment rate was 3.92%, with the increase rate of 0.14% if compared with that in the previous year.

3. Industrial Overview

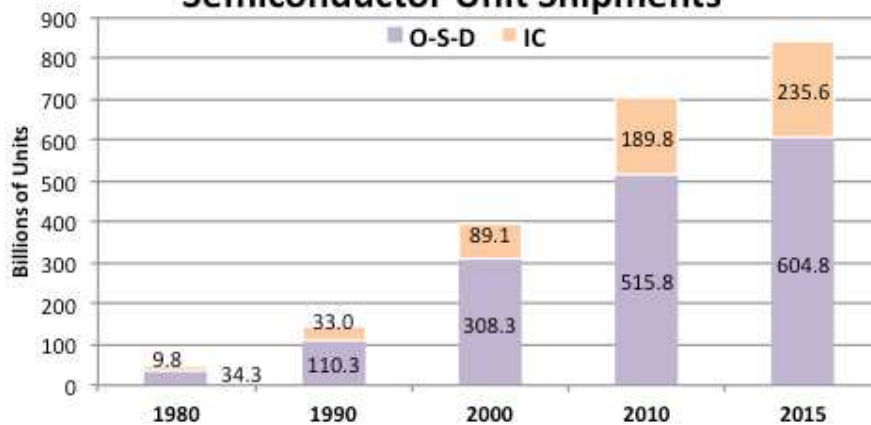
(1) Current situation and development of the industry

According to IC Insights, the shipment quantity of the global IC components will exceed 1 trillion in 2018. As shown in the figure below, the number of IC components shipped in 1978 was 32,600 million, which would reach 1,022,500 million in 2018.



Although the evolution of IC technology follows Moore's Law, the shipment of whole O-S-D components still takes up majority in the IC components. As shown in the figure, it reached 72% in 2015, while IC only achieved 28%.

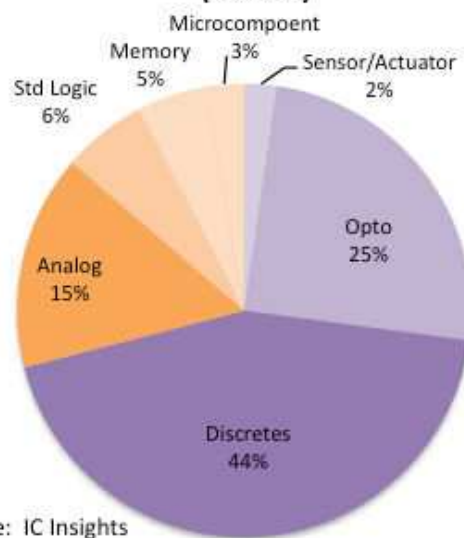
Opto, Sensor, Discretes Account for Bulk of Semiconductor Unit Shipments



Source: IC Insights

Among the 868,800 million IC components shipped in 2016, the analog chip accounted for 15%, which was 52% of the IC chips. At the meantime, the O-S-D (Optoelectronics-Sensors-Discretes) including the Discrete still plays a critical role. It indicates the development application of SiP (System in Package) and Fan-out is a key issue in the future market.

2016 Semiconductor Unit Shipments (868.8B)



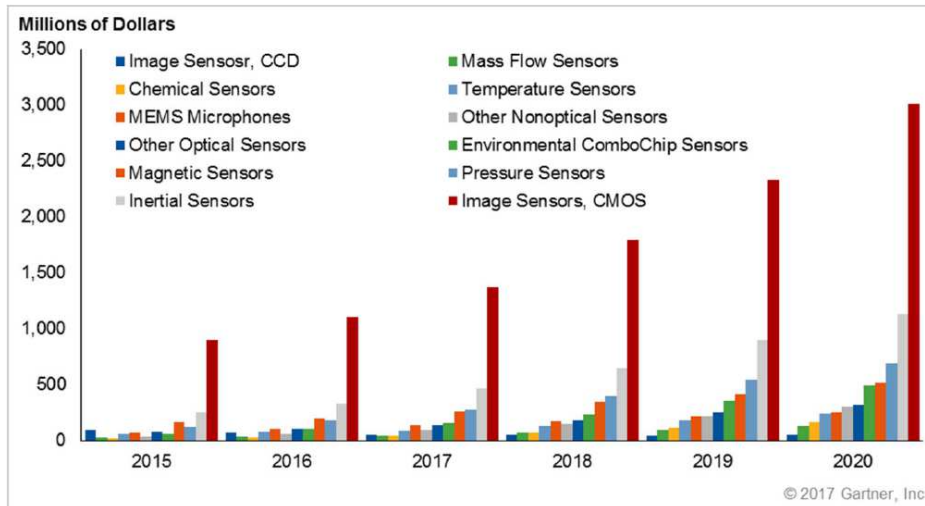
Source: IC Insights

The global IC market in 2017, as estimated by IC Insights, will achieve the increase rate of 11% than that in 2016.

a. Market of optics and various sensors – Internet of Things (IoT)

Sensor plays a critical role in sensing the surrounding of IoT environment– The micro sensors including CMOS Image Sensor, can detect image, motion, temperature, humidity, atmospheric pressure and the Earth's magnetic field. Such sensors can be installed in the office, automobile, and mobile device, which

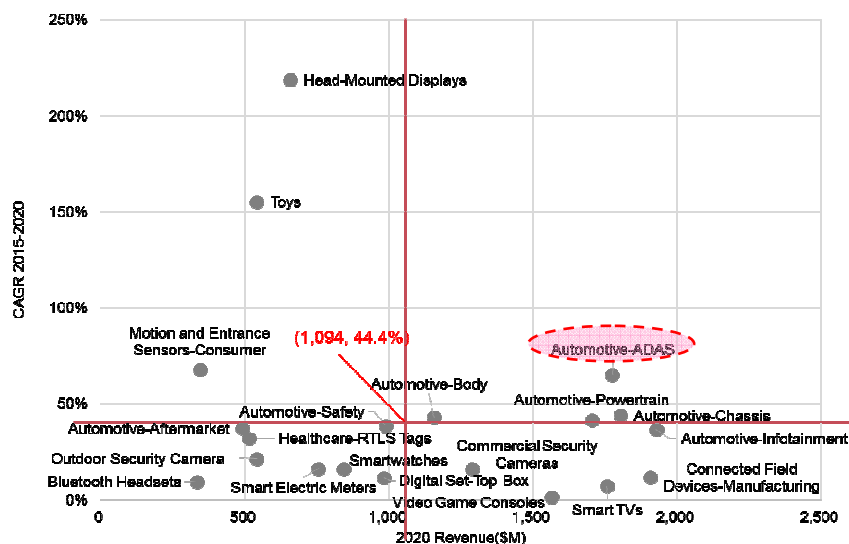
can be connected with RF (Wi-Fi) and Bluetooth for mobile communication, and then connected with cloud and big data. It can be applied in various commercial and public fields, creating a so-called smart home and smart city. As shown in the figure, in 2020, the IoT terminal can create demands for CMOS image sensor reaching as high as US\$3 billion. That is to say, nearly 21% of the global CMOS image sensor market in 2020 will be from the emerging IoT market (It was only 9% in 2015).



b. Market of optics and various sensors – Automotive electronics

The sensor is now developing in the automotive market. Promoted by the energy conservation, smart security, convenient and comfortable requirements, the automotive electronics system also needs the assistance of optical sensor and other environmental sensors, which increases the demands for sensor continuously.

The Advanced Driver-assistance System (ADAS) also applies the optical image sensor. It is estimated that ADAS will bring the commercial opportunity reaching US\$1.7 billion in 2020, which will promote the development of optical image sensor products.



- (2) The links between the upstream, midstream, and downstream segments of the industry supply chain

The semi-conductor industry actually refers to the IC industry, because the semi-conductor is the raw material of manufacturing IC. IC stands for integrated circuit, which is a set of tiny electronic circuits on the surface of semi-conductor wafer, including the processes of IC design, IC manufacturing, IC packaging and test.

In early times, most semi-conductor companys were integrated component manufacturers undetaking the processes from design, manufacturing, packaging, test, assembly and sale, such as Intel, TI, Motorola, Samsung, and etc. However, with the increasing demands for IC chips, due to the inefficient performance, the IC design and manufacturing costs were getting higher and higher. A single company could not afford the high cost of development and manufacturing from the upstream to the downstream. As a result, the industry was gradually evolved to the pattern of professional labor division.

The business focus of the current IC design companies usually includes two parts of circuit design and chip sale. Moreover, the middlestream and downstream processes such as IC manufacturing and IC packaging and test are done by wafer outsourcing factories, packaging and testing factories. After the finished products are generated, they will be delivered back to the IC design company for sale.

In recent years, the new packaging related technologies developed from the manufacturing of semi-conductor components are represented by the middle-end process between the front-end process and back-end process, including Wafer Bumping and Wafer Level Package, such as the technical patterns such as Fan-out WLP, WLCSP, 3D WLP, WL Optics and 3D IC, with the output more than US\$ 1.5 billion. As a leader of professional wafer-level IC packaging, the Company is also the first one to commercialize the 3D wafer-level packaging technology.

The 3D wafer-level packaging technology can be applied to various market fields, including consumer electronics, communication, portable computer and automobile. The product applications include image sensor, optical sensor, power management IC, power discrete component, analog IC, hybrid signal IC, MEMS sensor, various biological identification chip (such as the fingerprint identifier) and integrated passive component.

With the demands for the advanced packaging processes, such as the Flip Chip BGA or Flip Chip CSP, Wafer Level CSP, Cu Wire Bond, Cu Pillar, especially the rising of 2.5D/ 3D IC or Through Silicon Via TSV packaging in the future, the wafer-level packaging service will continue to play a critical role in the related application products.

(3) Competition Situation

Our major products cover the wafer level packaging of image sensors, fingerprint sensor, micro-motor control unit and power control unit, whose primary competitors include:

Major Products	Primary Competitors in Wafer Level Packaging
Image sensor	China Wafer Level CSP Co., Ltd., Huatian Technology Co., Ltd
Fingerprint sensor	China Wafer Level CSP Co., Ltd., Fitek industrial Corp.

4. Research and Development

(1) Research and development expense for recent years

Unit: NT\$ Thousand

Item \ Year	2016	As of April 30, 2017
R&D expense	316,282	98,864
Operating revenues	3,920,698	957,418
R&D expense to revenue (%)	8.07%	10.33%

(2) Technical and R&D Overview

- a. TSV (through-silicon via Package) packaging technology: successfully imported CIS (CMOS Image Sensor) mass production, and other related applied MEMS packaging process has been completed and verified the package into volume production.
- b. CIS-CSP process improvement technology: imported vehicle regulations imaging packages, package verification has been completed vehicle regulations into mass production.
- c. Introducing special optical glass coating and applied to a variety of advanced optical sensor.
- d. Development of thick copper process, successfully applied to the integrated passive components products and RF components products, has completed the verification package into volume production.
- e. Application of infrared glass coating, glass coating and applied to the import of advanced infrared optical sensor element mobile phones.
- f. A new generation of improved through-silicon via packaging (TSV CSP) wafer-level packaging technology research and development
- g. Development of glass-less sensor application
- h. Taiwan has achieved 191 patents, 125 China patents, five Japanese patents, one Germany patent and 184 US patents, each other are starting to apply in the case,

most of them related to advanced structural design and manufacturing method patent packaging technology, a substantial increase in the company's technological competitiveness.

(3) Successful development of the technology or product in recent years

Year	Item	Main function/Benefit
2015	TSV process of AI wire developed and through the Reliability Test	Provide for the needs of different lead CSP package needs
2016	Thin form factor package development	Provide for the needs of more thin form factor CSP package needs

5. Long- and Short-term Business Development Plan

In front of the severe competition from business of the same trade and ever-changing market, the short-term development plan of the Company is listed below:

(1) Short-term plan:

- a. We will provide faster and higher quality packaging services to develop the customer-oriented and enhance customer satisfaction.
- b. We also provide diversified packaging technology of wafer level processing to adapt to the requirements of multiple products.
- c. To strengthen the cooperation and integration between the upstream and downstream industrial chains. The Company has collaborated with international IC design and IC manufacturing company to provide multiple integration programs, hoping to become the leading enterprise in advanced packaging technology and services.

(2) Medium and long term plan:

- a. Self-development of key technologies, long-term cooperation with supplier, providing what customer needs, establishing mutual-trust with the customer and further developing long-term partnership.
- b. Strengthening layout of patent map, enhancing development and innovation capabilities continuously, and expanding service scope, to cope with fast change and challenge of environment.
- c. Perfecting corporate systems, cultivating technical and management talents, improving work efficiency, to achieve strategic goals of corporate operation.
- d. Learning the global market moves, expanding technical service range, and elevating the product application from consumer electronics and computer industries to high-specification industries such as automotive electronics.

B. Industry Survey and Market Analysis

1. Market Analysis

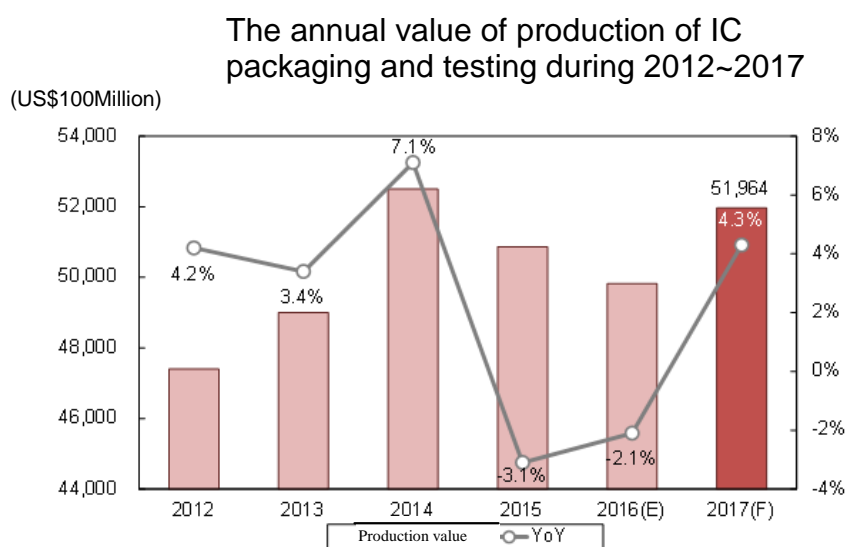
(1) Sales region

Unit: NT\$ Thousand

Region \ Year	2016	
	Amount	%
Taiwan	1,681,085	43
United States	1,462,703	37
Europe	582,679	15
Asia	194,231	5
Total	3,920,698	100

(2) Market Analysis and Market Share of Wafer Level Packaging Industry

It is predicted by Topology Research Institute that the annual value of production of IC packaging and testing industry will increase 4.3%.



Source: Topology Research Institute, Dec. 2016

a. 3D and 2.5D IC packaging market

Given the requirements for high level packaging process, 3D and 2.5D IC packaging market has entered the growth period. DIGITIMES forecast 3D and 2.5D IC global packaging market will be up to USD 170.5 billion and the compound annual growth rate will be 38.3% from 2016 to 2020.

Research and Markets stated that 3D TSV compound annual growth rate will be higher than other packing technology because 3D Through-silicon via has the highest interconnection density and greater space efficiency.

b. Globle Vechiel semiconductor market

Globe Vechiel semiconductor market increased 6.4% up to USD 30 billion and the compound annual growth rate was 4.8% from 2015 to 2016. Estimate the market will to be USD 43 billion in 2023.

China's automotive semiconductor market accounted for 15.8% of the world, about 4.6 billion US dollars, is expected to reach about 80 billion US dollars in 2020, estimated 2015-2020 average annual compound growth rate of 11.6%, much higher than the world.

Yole Developpement states the production value of 3D IC packaging will be up to USD 1.7 billion in 2017. The 3D wafer level packaging technique of the Company is applied in products like MEMS and CIS, accounting for 9% of the market share.

(3) Supply-demand Situation and Market Growth in the Future

As estimated by Taiwan Semi-conducto Industry Asociation (TSIA) and Industrial Economics&Knowledge Center (IEK), benefited from the flourishing of IC industry, plus the effect of capacity expansion, this year the output of Taiwan IC packaging industry will reach NT\$348,200 million, with the increase rate of 7.5% if compared with that in the previous year, NT\$323,800 million. Moreover, the output of Taiwan IC testing industry will reach NT\$157,300 million, with the increase rate of 12.4% if compared with that in the previous year, NT\$140,000 million, hitting a record high.

In 2016, the output of Taiwan's IC packaging industry was NT\$323,800 million, with the increase rate of 4.5% if compared with that in 2015, NT\$309,900 million. In 2016, the output of Taiwan's IC testing industry was NT\$140 billion, with the increase rate of 6.5% if compared with that (NT\$131.4 billion) in 2015. Wherein, the output of packaging industry in the fourth quarter in 2016 was NT\$85,800 million, with the increase rate of 0.9% if compared with that(NT\$85,000 million) in the third quarter, and the increased rate of 11.9% if compared with the same period in 2015. The output of testing industry in the fourth quarter in 2016 was NT\$38,000 million, with the increase rate of 1.3% if compared with that (NT\$37,500 million) in the third quarter, and the increased rate of 15.5% if compared with the same period in 2015.

The high-capacity, high-bandwidth, high-speed, low power consumption, compact and high-integration requirements for the system terminal products give rise to the multi-functional integrated chip technologies, such as Fan-out WLP, WLCSP, 3D WLP, WL Optics, 3D IC and other technical patterns. The outsourcing trend of the global packaging

IDM is certain, which brings the opportunity for the professional outsourcing factories. We should keep good partnership with IDM manufacturers, and cooperate with them to deploy the back-end advanced packaging process. The cost, performance and packaging structure are the key factors to promote the development of technologies in the packaging and testing industries.

(4) Competitive Edges, Positive and Negative Factors in the Prospect and Relevant Countermeasures

a. Competitive Edge

With the rapid development of electronic products, portable, power saving, high performance, miniaturization and other needs of the evolution, in response to end product demand, 2.5D IC and 3D IC will be the main high-priced applications, such as servers, Smart TV, cloud data center, Netcom, high-end smart phones. The company's wafer-level packaging services will continue to play a key role. So the semiconductor front manufacturers are also actively involved in the post-process cooperation and development.

The Company was invested by TSMC, the two sides cooperated with each other, the integration of TSMC semiconductor manufacturing technology and the company wafer-level packaging expertise in the downstream to provide in the semiconductor supply chain can provide customers Turn-key service and customers and suppliers to form a long-term partnership, constantly positive circulation.

The company is engaged in wafer-level IC packaging technology for many years, the management team with years of IC semiconductor R&D , production and sales experience, through the process of excellent technology, rapid delivery, stability quality, customer satisfaction. Technology marketing and R&D teams establish a complete new technology patent layout, and with new customer demand for products to develop a variety of advanced wafer level package, and access to international brand manufacturer certification, is a professional wafer-level packaging technology services provider.

b. Positive Factors in the Prospect

(a) Strong growth of advanced packaging market

Look into the advanced packaging market, we can still see the strong market growth, including Ball Grid Array (BGA), Chip Scale Package(CSP, including Lead-Frame based), Flip Chip Package, and Wafer-level Package (WLP), all of which will have strong unit growth rate in the following 4 years. Facing the market opportunities brought by wafer-level packaging trend, Taiwan having complete IC industrial chain, owns the advantage of developing

wafer-level packaging pattern. It is estimated that the application fields of wafer-level packaging technologies will be quite wide in the future.

(b) Leading key technology and complete patent layout

The Company keeps strengthening the development ability. In recent years, it develops the wafer post passivation packaging applicable to motion sensor, fingerprint identification sensor and automotive electronics. The high-quality product wins many qualified suppliers of international-level branded factories and automotive manufacturers. Moreover, the wafer post passivation packaging technology of various MEMS sensor is developed as well, which can meet the slim requirement, becoming the indispensable key technology for the emerging mobile device and wearable device.

(c) Vertical integration of industry can provide complete and diverse services

The Company is a service provider of advanced wafer-level packaging, which can't only provide complete supply and production chain system for the upstream IC design companies of the customers home and abroad, but also conduct cooperation with Design house and IC foundry companies. This can resolve the issues derived from the production process effectively, but also feedback the test results. It can consider the package characteristics during IC design, so as to achieve optimized product design.

c. Negative Factors in the Prospect and Relevant Countermeasures

China's Government vigorously supports the IC packaging and testing industry. It affects the market price by providing funds, and change market share through large scale of acquisition.

Countermeasures:

Being engaged in development actively, developing advanced technologies, establishing minimum requirements of technologies, developing special packaging & testing technique, owning exclusive technologies and cultivating professional talents. Improving yield rate to achieve differentiation, so as to consolidate customer clusters and avoid getting into red sea market of price competition.

2. Usage and manufacturing processes for the company's main products

(1) Usage for the company's main products

Product	Main purpose	Main application
Wafer Level Chip Scale Packaging	Image sensors, environmental sensors	Phone, tablet, notebook, computers, automotive, medical

Wafer Level Post Passivation Interconnection	Fingerprint sensors, actuators sensors, micro-electromechanical components, power, analog and RF components	Phone, tablet, notebook computers, cars
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(2) Manufacturing processes for the company's main products

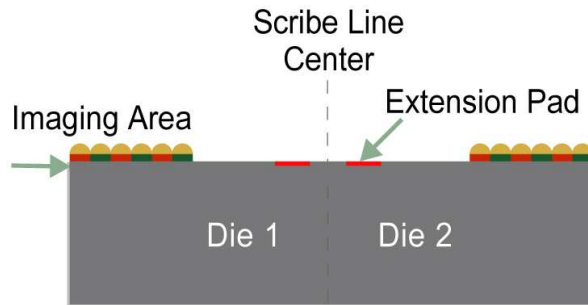
a. Wafer level CSP packaging technology manufacturing processes:

That has not been carried out before cutting the wafer, the entire wafers complete the package via a film, yellow and etching the wafer process, and finally cut into a single IC, this process can be seen as extending front semiconductor fab process. The biggest advantage is in the process of packaging, the whole piece by way of a wafer manufacturing process, but at the same time the individual IC package complete packaging process to reduce expenditures. The basic step of the packaging process, such as the following:

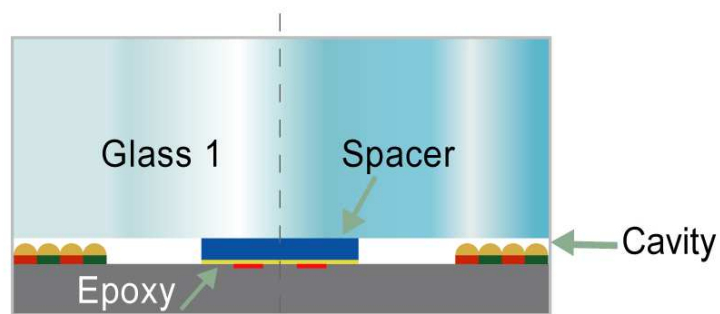
- (a) With a piece of adhesive high light-transmissive thin glass wafer affixed to the front of the customer to protect the wafer surface from contamination.
- (b) Grinding sticky back glass wafer so that the thickness of the wafer becomes thin, thereby reducing the thickness of the package after. And of etching the wafer scribe the back of the silicon material removal, so the dolphin independent IC produced on the adhesive protective sheet of glass.
- (c) The protective layer of glass affixed to the back of the wafer, in order to achieve the protective effect completely covered the IC.
- (d) In the glass surface ready to make welding points (Solder Joint) is covered with a layer of organic material as an insulating buffer layer.
- (e) Cutting between individual IC exposed pad sectional then sputtered metal layer, then use the three-dimensional exposure, developing and etching processes required to complete the metal line so that the line of the IC pad sectional communicating.
- (f) On the metal line covered with a protective layer.
- (g) BGA form of printing element places a manner where the solder paste is printed on the entire wafer chip solder joints, after reflow (Reflow) the formation of solder balls.
- (h) Cutting the wafer become single package complete IC.

Wafer Level CSP –Shell 3D Process Flow

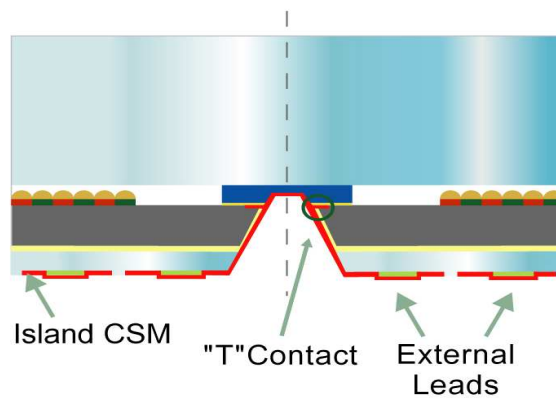
Step A: Passivation and Pad Extension Layers



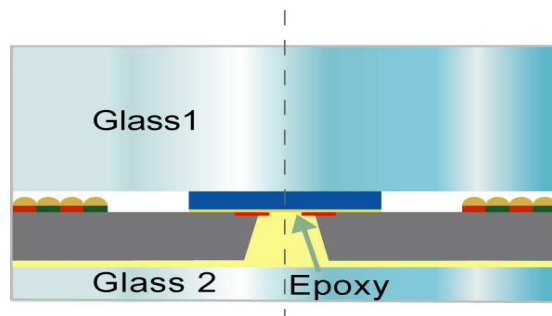
Step B: Glass 1 Attachment



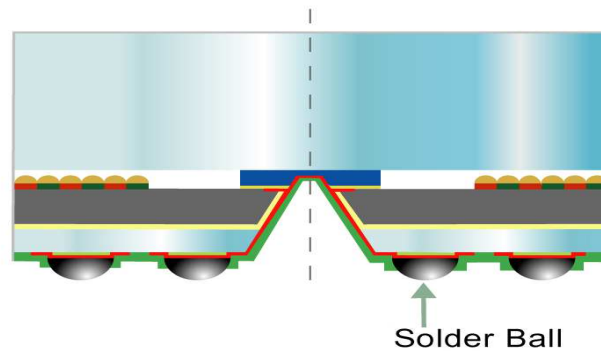
Step C: Etching and Glass-2 bonding



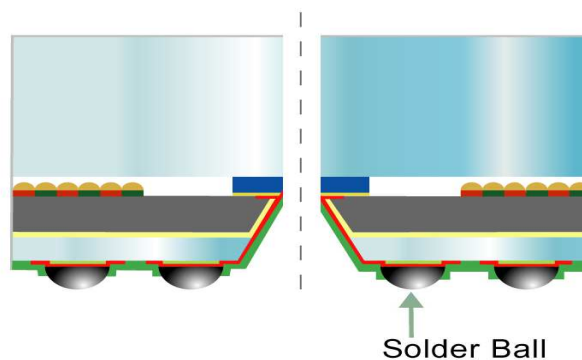
Step D: Barrier deposition and T-contact formation



Step E: Passivation coating and BGA formation



Step F: Dicing and Final inspection

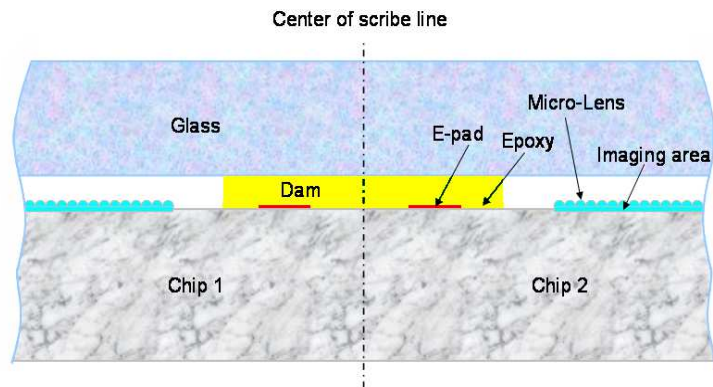


b. TSV (through-silicon via packaging) technology step description:

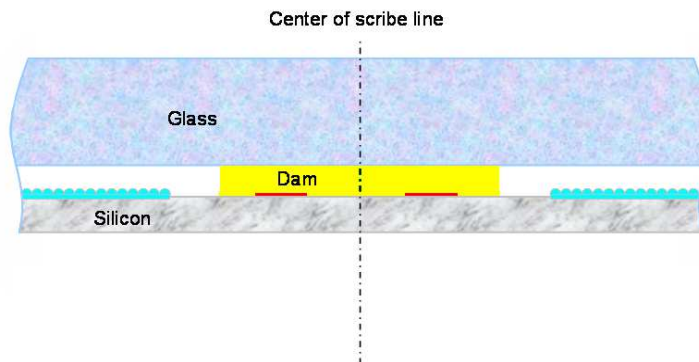
- (a) In a piece of adhesive high light-transmissive thin glass wafer affixed to the front of the customer to protect the wafer surface from contamination.
- (b) After grinding sticky back glass wafer so that the thickness of the wafer becomes thin, thereby reducing the thickness of the package.
- (c) Perform TSV etching as the hole RDL line connection.
- (d) In the surface of the wafer is coated with a silicon dioxide as the insulating layer.
- (e) Sputtering surface of the wafer on the metal layer, then use the three-dimensional exposure, developing and etching processes required to complete the metal line so that the line of the IC pads sectional communicated.
- (f) On the metal line covered with a protective layer.
- (g) BGA type printing element places manner solder paste printed on the entire wafers weld position where, after reflow (Reflow) the formation of solder balls. Finally, the wafer is diced into single pieces to complete the package of IC.

TSV Wafer Level Package – Process Flow

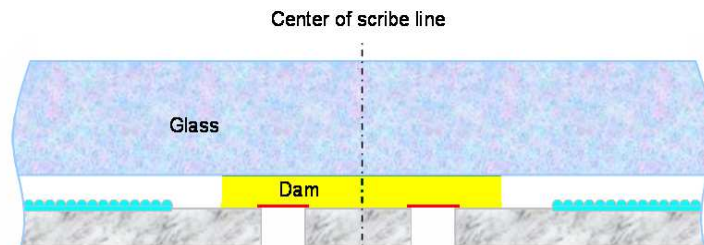
Step A: Glass attachment



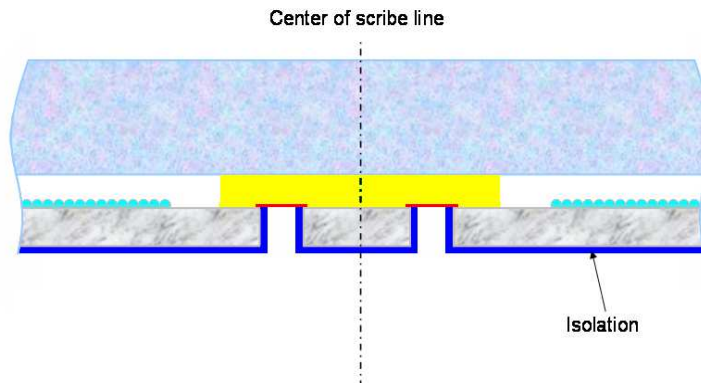
Step B: Wafer thin down



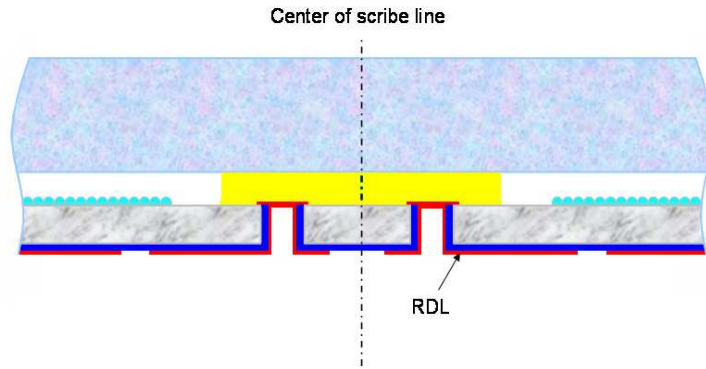
Step C: TSV formation



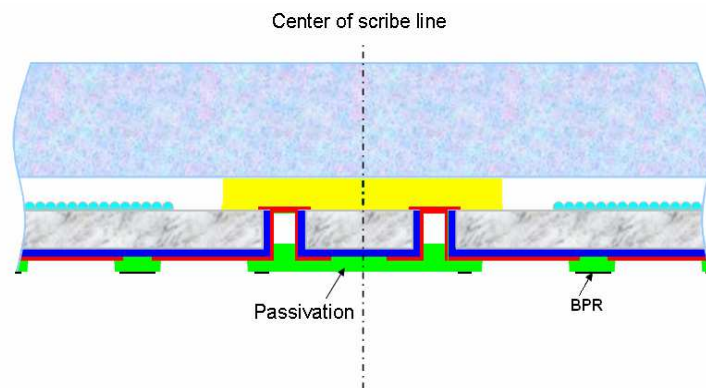
Step D: Isolation formation



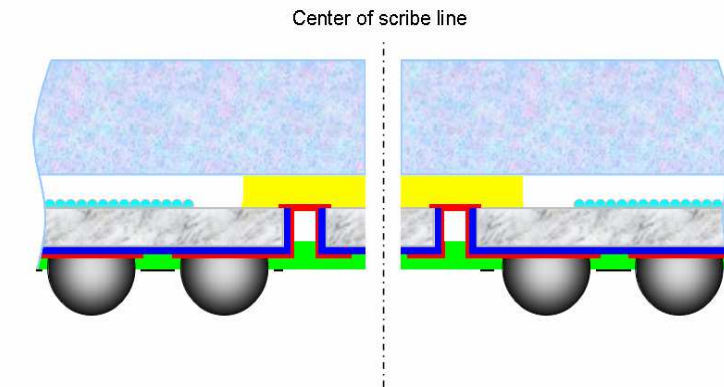
Step E: RDL process



Step F: Passivation process



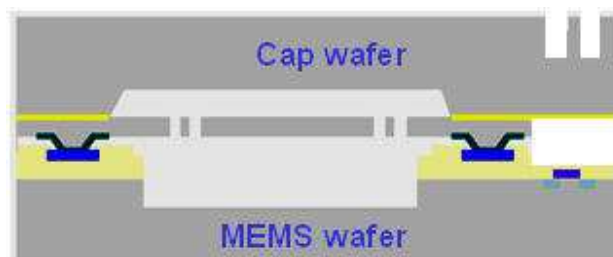
Step G: BGA & Dicing processes



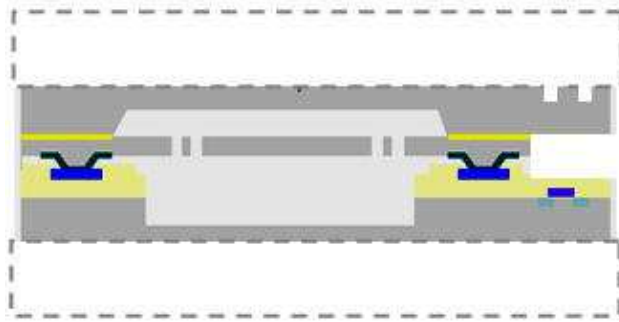
(3) MEMS package flow description:

MEMS Wafer Level Package – Process Flow

Step A: Dicing on reference cuts



Step B: Double-side polishing



Step C: Partial dicing



c. Future development plans:

In order to accelerate the development of advanced optical wafer-level packaging technology to expand in high-end image sensors used in mobile phones market, the future will focus on opening the package type through-silicon via (TSV) application, 3D wafer in a variety of optical sensor elements packaging technology (3D IC package) package and a new generation of improved through-silicon via (TSV CSP) and other wafer-level packaging technology research and development, innovation and wafer-level packaging technology will expand its product line and services to micro-electromechanical (MEMS), power field effect transistors, power control and analog components and other products.

3. Supply situation for the company's major raw materials

Major Raw Materials	Supply Name	Foreign	Domestic	Supply Situation
Thin Glass	SCHOTT · NEG	✓		Good
Photo Resist	Merk Performance Material		✓	Good
Electrolysis Photo Resist	Rohm & Haas		✓	Good
Target	Umicore · Grikin		✓	Good
Solder Mask	Rohm & Haas		✓	Good

4. Major Suppliers and Clients:

- (1) A list of any suppliers accounting for 10 percent or more of the company's total procurement amount in either of the 2 most recent fiscal years: None.
- (2) A list of any clients accounting for 10 percent or more of the company's total sales amount in either of the 2 most recent fiscal years:

Unit: NT\$Thousand

Item	2015				2016			
	Company Name	Amount	%	Relation with issuer	Company Name	Amount	%	Relation with issuer
1	Company A	1,812,248	37	Investors that have significant influence over the Company	Company A	1,376,437	35	Investors that have significant influence over the Company
2	Company B	1,209,191	25	Investors that have significant influence over the Company	Company B	1,294,256	33	None
3	Company C	1,015,974	21	None	Company C	533,869	14	None
	Others	840,675	17		Others	716,136	18	
	Net Sales	4,878,088	100		Net Sales	3,920,698	100	

5. Production in the last two years:

Unit: NT\$Thousand, Thousand pice (8 inch equivalent wafer)

Output Major Products	Year	2015			2016		
		Capacity	Output	Amount	Capacity	Output	Amount
Wafer Level Chip Scale Packaging		421	267	3,030,653	468	237	2,582,313
Wafer Level Post Passivation Interconnection		615	427	1,054,041	611	381	1,298,478
Others		0	0	11,110	0	0	10,767
Total		1,036	694	4,095,804	1,079	618	3,891,558

6. Shipment and net revenue in the last two years:

Unit: NT\$Thousand, Thousand pice (8 inch equivalent wafer)

Shipemet & Revenue Major Products	Year	2015				2016			
		Domestic		Export		Domestic		Export	
		Quantity	Net revenue	Quantity	Net revenue	Quantity	Net revenue	Quantity	Net revenue
Wafer Level Chip Scale Packaging		30	295,465	238	2,611,568	31	294,263	205	2,059,713
Wafer Level Post Passivation Interconnection		334	1,810,498	95	135,511	259	1,376,832	124	166,963
Others		0	6,067	0	18,979	0	10,313	0	12,614
Total		364	2,112,030	333	2,766,058	290	1,681,408	329	2,239,290

C. Personnel Structure

Year		2015	2016	As of April 30, 2017
Number of Employees	Direct Labor	1,231	1,189	1,196
	Indirect Labor	749	722	693
	Total	1,980	1,911	1,889
Average Age (years)		33	34	34
Average Years of Service (years)		3.9	4.4	4.6
Education	Ph.D.	15	13	12
	Masters	355	350	329
	Bachelor's Degree	917	913	922
	Senior High School	641	592	582
	Below Senior High School	52	43	44

D. Environmental Protection Measures

1. The loss or penalty caused by environmental pollution:

2015: (1) Additional monitor sensors for wastewater effluent quality were different with the formal document that approved by government. The penalty was NT\$10,000.

(2) Two waste-treatment violations due to employee wrong registration on the EPA's Industrial Waste Report and Management System. The penalty was NT\$120,000.

2016: Not operating in accordance with the scope of operation of the air pollution license. The penalty was NT\$100,000.

2. Countermeasures:

(1) The operation formal document update every six months.

(2) Second employee double check before waste report register to EPA's Industrial Waste Report and Management System.

(3) Add operating item and scope in daily report.

Besides operating and maintaining waste water and air pollutant treatment facilities as well as conducting waste sorting pursuant to environmental regulations, as a member of the global community, the Company constantly follows the latest trends of international environmental protection and is dedicated to developing and implementing various carbon footprint reduction programs. By means of the above actions, the Company hopes to conserve electric energy and reduce greenhouse gas (GHG) emissions in order to alleviate greenhouse effect and global warming.

The Company has obtained Environmental and Safety Management System

certifications such as ISO 14001 and OHSAS 18001 for many years. However, it still constantly promotes and improves the environment and safety system as well as the culture of its factories every year. It has further adopted measures to meet the requirements of the Taiwan Occupational Safety and Health Management System (TOSHMS) and has obtained the certification. Additionally, it has passed the Greenhouse Gas Inventory Assessment and the carbon footprint assessment of the main products. The Company is dedicated to its Environment, Health and Safety Policies. (A Sustainable Taiwan, A Beautiful Planet, A Safer Home)

E. Labor Relations

1. List any employee benefit plans, continuing education, training, retirement systems, and the status of their implementation, and the status of labor-management agreements and measures for preserving employees' rights and interests:

(1) Employee Benefit Programs

- a. According to "Employee Welfare Fund Ordinance", Xintec has organized the Employee Welfare Committee for employee benefits and bonuses.
- b. All employees will be participating in the national health insurance, labor insurance and group insurance. Each employee can apply the insurance benefits.
- c. Xintec's compensation program includes year-end bonuses. When annual settlement, after paying taxes, making up a deficit, reserving dividends and fund, if have any surplus, Xintec will pay compensation in according to related regulations.
- d. Xintec has performance management system. Depending on the quarterly operating results, the President can decide whether to grant quarterly incentive bonus.

(2) Training & Development

In Xintec, we treat our employees as the most important assets. We focus on personal effectiveness, technical, or managerial training program to strengthen and broaden employees' view and competencies for employees' career.

In 2016, Xintec conducted 137 internal training sessions, which translated to a company-wide total of nearly 290.5 training hours with the participation of over 3,385 attendees. And also record or revised 107 e-courses. The total training expenses reached NT\$1,096 thousand. The total training participation are 51,345 attendees with the total of 40,989.9 training hours. Xintec's training programs include:

a. New Employee Training

Provide basic knowledge and ESH training for new employees.

b. Personal Effectiveness

Provide personal effectiveness training courses to have our employees equipped to work efficiently and effectively. The course includes time management, presentation skill, how to hold the meeting, confrontation management, and so on.

c. Technical Training

Align internal and external experts to develop technical training courses to strengthen our competitiveness.

d. On-the-Job Training

Provide technical and professional training required by different functions within the Company.

e. Managerial Training

According to required manager's competencies, provide different level managerial training courses to enhance manager's managerial skills.

f. Specific Qualification

According to related regulations or their performance, implement certificate training for upgrading the product quality by means of improving the competencies and skills of the employees.

(3) Retirement Policy:

According to the related laws and regulations, Xintec contributes an amount equal to 2% of salaries paid each month to employees' respective pension funds, which are administered by the Labor Pension Fund Supervisory Committee and deposited in the Committee's name in the Bank of Taiwan. According to the related laws and regulations, implement pension payment program. Since July 1, 2005, according to the Labor Pension Act, Xintec has made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts.

(4) Labor-Management relationship:

Xintec has established the related regulations for recruitment, promotion, retirement, pension and other benefits to enhance Labor-Management relationships.

(5) Working Environment and Employee Safety Protection:

Xintec's ESH policy is focused on establishing a safe working environment, preventing occupational injury and illness, keeping employees healthy, enhancing every employee's awareness and sense of accountability to ESH. The entrances to the company are equipped with access control device; the gym and nursing room with an emergency pressure deduction; the main entrance and public areas have 24 hours security guards to protect the personal safety.

Health promotion activities for employees include fitness programs, body weight control programs, health examination, health lecture, provide the visually-impaired massage station and health care professionals provide health services.

Participate in government activities and obtain "Badge of Accredited Healthy Workplace" from the Ministry of Health and Welfare National Health Agency.

2. List any loss sustained as a result of labor disputes in the most recent fiscal year, and during the current fiscal year up to the date of printing of the annual report, disclose an estimate of losses incurred to date or likely to be incurred in the future, and indicate mitigation measures being or to be taken: None.

F. Major Contracts

Agreement	Counterparty	Period	Major Contents	Restrictions
Technology license agreement	Engineering and IP Advanced Technologies Ltd. (formerly ShellCase Ltd.)	06/2000~(Note1)	WLCSP (wafer level chip scale packaging technology license)	Duty of confidentiality
Lease agreement	Ministry of economic affairs	08/2015~12/2020	Zhongli Industrial Park (A1-1)	The contract shall not be transferred, gifted, splited or otherwise disposed The contract shall not be subleased, lended or for others to use.
		09/2010~12/2017	Zhongli Industrial Park (A4-1~ A4-4)	
		05/2003~12/2019	Zhongli Industrial Park (A5-3)	
		10/2003~12/2019	Zhongli Industrial Park (A1-3,A1-4, A2-4)	
		11/2003~12/2019	Zhongli Industrial Park (A5-1)	
		10/2010~12/2017	Zhongli Industrial Park (A8-1)	
		01/2013~12/2018	Zhongli Industrial Park (C7-1,C7-2)	
		08/2015~08/2019	No.6, Zihciang 1nd Rd., Zhongli Industrial Park	
		04/2012~12/2018	Zhongli Industrial Park (A7-3)	
		08/2012~12/2018	Zhongli Industrial Park (A3-1)	
		01/2013~12/2018	Zhongli Industrial Park (C9-1,C9-2)	
		03/2012~12/2018	Zhongli Industrial Park (C8-2,C10-1,C10-2)	
		05/2010~04/2020	Zhongli Industrial Park (A5-4、A7-2、A8-3)	
	Unice E-O services Inc.	11/2010~10/2020	Zhongli Industrial Park (A3-3, A3-4)	
	Argosy Research Inc.	05/2013~04/2017	Zhongli Industrial Park (C2-2)	
Borrowing contracts	Far Eastern International Bank	04/2016~04/2021	Working capital	Line C shall not be a pledge to others or other financial commitments ratio without the consent of the Bank
	Far Eastern International Bank	05/2013~08/2018	Working capital	
	Far Eastern International Bank	05/2013~08/2018	Machinery and equipment collateral	
	Far Eastern International Bank	11/2014~12/2019	Machinery and equipment collateral / Working capital	
	Taipei Fubon Commercial Bank	05/2013~05/2019	Working capital	
	Taipei Fubon Commercial Bank	05/2013~05/2019	Working capital	
	First Commercial Bank	07/2012~07/2018	Working capital	
	Far Eastern International Bank	05/2013~08/2018	Guarantee	None
Backend service contract	TSMC	06/2013~(Note2)	Backend packing service	Duty of confidentiality

Note1: The contract is still valid except with the consent of the parties to terminate.

Note2: The contract is still valid except with the consent of the parties to terminate.

VI. Operational Highlights

A. Most Recent 5-Year Concise Financial Information

1. Most Recent 5-Year Concise Balance Sheet and Statement of Comprehensive Income

(1) Concise Balance Sheet- IFRS

Unit: NT\$, in thousands

Item \ Year	2012	2013	2014	2015	2016	
Current assets	1,413,118	2,211,767	2,035,251	1,771,461	2,023,778	
Net property, plant and equipment	4,453,092	6,026,007	6,591,778	6,561,638	6,128,613	
Intangible assets	82,535	71,694	87,437	81,986	69,361	
Others assets	82,211	52,689	112,803	104,128	212,524	
Total asstes	6,030,956	8,362,157	8,827,269	8,519,213	8,434,276	
Current liabilities	Befor Distribution	807,479	2,309,199	1,760,450	1,592,892	1,214,362
	After Distribution	831,101	2,439,220	2,046,195	1,727,330	(Note 2)
Non-current liabilities	1,387,844	1,937,542	2,412,576	1,074,440	2,114,962	
Total Liabilities	Befor Distribution	2,195,323	4,246,741	4,173,026	2,667,332	3,329,324
	After Distribution	2,218,945	4,376,762	4,458,771	2,801,770	(Note 2)
Equity attributable to shareholders of parent company	3,835,633	4,115,416	4,654,243	5,851,881	5,104,952	
Capital stock	2,362,079	2,364,018	2,381,207	2,688,761	2,698,534	
Capital surplus	513,458	524,855	547,724	1,580,613	1,592,780	
Retained earnings	Befor Distribution	960,096	1,226,824	1,726,135	1,584,281	813,638
	After Distribution	936,474	1,096,803	1,440,390	1,449,843	(Note 2)
Other equity	-	(281)	(823)	(1,774)	-	
Treasury stock	-	-	-	-	-	
Non-controlling interests	-	-	-	-	-	
Total equity	Befor Distribution	3,835,633	4,115,416	4,654,243	5,851,881	5,104,952
	After Distribution	3,812,011	3,985,395	4,368,498	5,717,443	(Note 2)

Note 1: Numbers were audited by CPA.

Note 2: Subject to change after shareholders' meeting resolution.

(2) Concise Statement of Comprehensive Income- IFRS

Unit: NT\$, in thousands

Year	2012	2013	2014	2015	2016
Item					
Operating revenue	3,139,385	4,256,761	4,934,078	4,878,088	3,920,698
Gross profit	249,852	695,142	948,204	691,371	(298,833)
Operating income (loss)	(96,240)	380,636	675,630	234,619	(713,382)
Non-operating income and expense	(11,529)	(31,873)	(15,704)	(20,354)	(28,249)
Income (loss) before income tax	(107,769)	348,763	659,926	214,265	(741,631)
Profit (loss) from continuing operations	(90,205)	288,881	628,653	146,799	(636,819)
Loss from discontinuing operations	-	-	-	-	-
Net income (loss)	(90,205)	288,881	628,653	146,799	(636,819)
Other comprehensive income (loss)	571	1,188	137	(3,859)	2,388
Total comprehensive income (loss)	(89,634)	290,069	628,790	142,940	(634,431)
Net income (loss) attributable to owner of the corporation	(90,205)	288,881	628,653	146,799	(636,819)
Net income (loss) attributable to non-controlling interests	-	-	-	-	-
Comprehensive income (loss) attributable to owner of the corporation	(89,634)	290,069	628,790	142,940	(634,431)
Comprehensive income (loss) attributable to non-controlling interests	-	-	-	-	-
Earnings (loss) per share	(0.38)	1.22	2.65	0.56	(2.36)

Note 1: Numbers were audited by CPA.

(3) Concise Balance Sheet- R.O.C. GAAP

Unit: NT\$, in thousands

Item		Year				
		2012	2013	2014	2015	2016
Current assets		1,396,755				
Fund and investment		-				
Fixed assets		4,453,092				
Intangible assets		-				
Other assets		166,917				
Total assets		6,016,764				
Current liabilities	Befor Distribution	776,126				
	After Distribution	799,748				
Long-term liabilities		1,383,911				
Other liabilities		-				
Total Liabilities	Befor Distribution	2,160,037				
	After Distribution	2,183,659				
Capital Stock		2,362,079				
Capital surplus		513,458				
Retained earnings	Befor Distribution	981,190				
	After Distribution	957,568				
Unrealized gain(loss) on financial instruments		-				
Cumulative translation adjustments		-				
Loss on unrecognized pension costs		-				
Total shareholders' equity	Befor Distribution	3,856,727				
	After Distribution	3,833,105				

N/A

(4) Concise Income Statement –R.O.C. GAAP

Unit: NT\$, in thousands

Item \ Year	2012	2013	2014	2015	2016
Net revenue	3,139,385				
Gross profit	249,240				
Operating income (loss)	(82,100)				
Non-operating income and gain	36,050				
Non-operating expense and losses	62,691				
Income from continuing operations before income taxes	(108,741)				
Net income for continuing operations	(91,177)			N/A	
Income from discontinued operations	-				
Extraordinary gain (loss)	-				
Translation adjustments and other equity adjustment	-				
Net income (loss)	(91,177)				
Earnings (loss) per share	(0.39)				

2. CPAs and Their Opinions for Most Recent 5-Years

Year	Name of CPA	Auditor's Opinion
2012	Lin Hung Peng Huang Yu Feng	An Unqualified Opinion
2013	Lin Hung Peng Huang Yu Feng	An Unqualified Opinion
2014	Lin Hung Peng Huang Yu Feng	An Unqualified Opinion
2015	Huang Yu Feng Lin Cheng Chih	An Unqualified Opinion
2016	Huang Yu Feng Lin Cheng Chih	An Unqualified Opinion

B. Most Recent 5-Year Financial Analysis

1. Financial Analysis- IFRS

Item		Year				
		2012	2013	2014	2015	2016
Capital Structure Analysis	Debts Ratio (%)	36.40	50.79	47.27	31.31	39.47
	Long-term Fund to Property, Plant and Equipment (%)	117.30	100.45	107.21	105.56	117.81
Liquidity Analysis	Current Ratio (%)	175.00	95.78	115.61	111.21	166.65
	Quick Ratio (%)	147.64	83.34	99.33	90.25	145.01
	Times Interest Earned (Times)	(4.75)	13.39	20.43	9.71	(29.99)
Operating Performance Analysis	Average Collection Turnover (Times)	7.05	7.28	5.84	6.40	6.90
	Average Collection Days	51.77	50.13	62.50	57.03	52.89
	Average Inventory Turnover (Times)	19.17	19.45	18.52	18.46	20.51
	Average Payment Turnover (Times)	18.53	17.83	15.02	14.83	17.09
	Average Inventory Turnover Days	19.04	18.76	19.70	19.77	17.79
	Property, Plant and Equipment Turnover (Times)	0.70	0.81	0.78	0.74	0.62
	Total Assets Turnover (Times)	0.52	0.59	0.57	0.56	0.46
Profitability Analysis	Return on Total Assets (%)	(1.26)	4.34	7.64	1.93	(7.28)
	Return on Total Equity (%)	(2.32)	7.27	14.34	2.79	(11.62)
	Pre-tax Income to Paid-in Capital Ratio (%)	(4.56)	14.75	27.71	7.97	(27.48)
	Net Margin (%)	(2.87)	6.79	12.74	3.01	(16.24)
	Basic Earnings Per Share (NT\$)	(0.38)	1.22	2.65	0.56	(2.36)
Cash flow	Cash Flow Ratio (%)	80.22	88.09	67.99	104.59	38.49
	Cash Flow Adequacy Ratio (%)	96.53	85.96	79.63	73.71	80.87
	Cash Flow Reinvestment Ratio (%)	6.65	18.09	8.05	9.76	2.17
Leverage	Operating Leverage	(13.34)	4.82	3.42	8.73	(2.80)
	Financial Leverage	0.88	1.08	1.05	1.12	0.97

The reasons for all financial ratio changes within the most recent two years are as follows (if less than 20% are exempt from analysis):

1. Debts ratio increased was mainly due to long-term bank loans increased.
2. Current ratio and quick ratio increased was mainly due to cash and cash equivalents increased and long-term borrowings - current portion decreased.
3. Times interest earned decreased was mainly due to the decrease in the income before income tax.
4. Return on total assets, return on total equity, pre-tax income to paid-in capital ratio, net margin and EPS decreased was mainly due to the decrease in the net income.
5. Cash flow ratio and cash flow reinvestment ratio decreased was mainly due to cash flow from operating activities increased in 2016.
6. Operating Leverage decreased was mainly due to the decrease in the operating income in 2016.

Formula :

1. Capital Structure Analysis

(1) Debt Ratio = Total Liabilities / Total Assets

(2) Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment

2. Liquidity Analysis

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities

(3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

(1) Average Collection Turnover (Times) = Net Sales / Average Trade Receivables

(2) Average Collection Days = $365 / \text{Average Collection Turnover}$

(3) Average Inventory Turnover (Times) = Cost of Sales / Average Inventory

(4) Average Payment Turnover (Times) = Cost of Sales / Average Trade Payables

(5) Average Inventory Turnover Days = $365 / \text{Average Inventory Turnover}$

(6) Property, Plant and Equipment Turnover (Times) = Net Sales / Average Net Property, Plant and Equipment

(7) Total Assets Turnover (Times) = Net Sales / Average Total Assets

4. Profitability Analysis

(1) Return on Total Assets = $(\text{Net Income} + \text{Interest Expenses} * (1 - \text{Effective Tax Rate})) / \text{Average Total Assets}$

(2) Return on Total Equity = Net Income / Average Total equity

(3) Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital

(4) Net Margin = Net Income / Net Sales

(5) Earnings Per Share = $(\text{Net Income Attributable to Shareholders of the Parent} - \text{Preferred Stock Dividend}) / \text{Weighted Average Number of Shares Outstanding}$

5. Cash Flow

(1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities

(2) Cash Flow Adequacy Ratio = $\text{Five-year Sum of Cash from Operations} / \text{Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend}$

(3) Cash Flow Reinvestment Ratio = $(\text{Cash Provided by Operating Activities} - \text{Cash Dividends}) / (\text{Gross Property, Plant and Equipment} + \text{Long-term Investments} + \text{Other Noncurrent Assets} + \text{Working Capital})$

6. Leverage

(1) Operating Leverage = $(\text{Net Sales} - \text{Variable Cost}) / \text{Income from Operations}$

(2) Financial Leverage = $\text{Income from Operations} / (\text{Income from Operations} - \text{Interest Expenses})$

2. Financial Analysis- R.O.C GAAP

Year		2012	2013	2014	2015	2016	
Item							
Capital Structure Analysis	Debts Ratio (%)	35.90					
	Long-term Fund to Property, Plant and Equipment (%)	117.69					
Liquidity Analysis	Current Ratio (%)	179.96					
	Quick Ratio (%)	151.49					
	Times Interest Earned (Times)	(4.80)					
Operating Performance Analysis	Average Collection Turnover (Times)	7.63					
	Average Collection Days	47.83					
	Average Inventory Turnover (Times)	19.18					
	Average Payment Turnover (Times)	18.54					
	Average Inventory Turnover Days	19.03					
	Fixed Assets Turnover (Times)	0.70					
	Total Assets Turnover (Times)	0.52					
Profitability Analysis	Return on Total Assets (%)	(1.28)					
	Return on Total Shareholders' Equity (%)	(2.33)					
	to Paid-in Capital Ratio (%)	Operating income (loss)	(3.48)				
		Pre-tax Income	(4.60)				
	Net Margin (%)	(2.90)					
	Basic Earnings Per Share (NT\$)	(0.39)					
Cash flow	Cash Flow Ratio (%)	82.36					
	Cash Flow Adequacy Ratio (%)	96.34					
	Cash Flow Reinvestment Ratio (%)	6.67					
Leverage	Operating Leverage	(15.65)					
	Financial Leverage	0.86					
The reasons for all financial ratio changes within the most recent two years are as follows (if less than 20% are exempt from analysis): N/A							

Formula :

1. Capital Structure Analysis

(1) Debt Ratio = Total Liabilities / Total Assets

(2) Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment

2. Liquidity Analysis

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities

(3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

(1) Average Collection Turnover (Times) = Net Sales / Average Trade Receivables

(2) Average Collection Days = $365 / \text{Average Collection Turnover}$

(3) Average Inventory Turnover (Times) = Cost of Sales / Average Inventory

(4) Average Payment Turnover (Times) = Cost of Sales / Average Trade Payables

(5) Average Inventory Turnover Days = $365 / \text{Average Inventory Turnover}$

(6) Fixed Assets Turnover (Times) = Net Sales / Average Fixed Assets

(7) Total Assets Turnover (Times) = Net Sales / Average Total Assets

4. Profitability Analysis

(1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets

(2) Return on Total Shareholders' Equity = Net Income / Average Total shareholders' equity

(3) Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital

(4) Net Margin = Net Income / Net Sales

(5) Earnings Per Share = (Net Income Attributable to Shareholders of the Parent - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash Flow

(1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities

(2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend

(3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital)

6. Leverage

(1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations

(2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

C. Audit Committee's Review Report

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2016 Business Report, Financial Statements, and proposal for allocation of profits. The CPA firm of Deloitte & Touche was retained to audit Xintec's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and Profit Allocation Proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of Xintec Inc. According to Article 14-4, 14-5 of the Securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

Xintec Inc.

Chairman of the Audit Committee: Robert Hsieh

February 15, 2017

D. Financial Statements and Independent Auditors' Report

Xintec Inc.

**Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Xintec Inc.

Opinion

We have audited the accompanying financial statements of Xintec Inc. (the "Company"), which comprise the balance sheets as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's financial statements for the year ended December 31, 2016 are stated as follows:

Provision of sales returns and allowances

In the face of a highly competitive wafer packaging business environment in the semiconductor industry, the Company provides a variety of business incentives to specific customers or products to enhance its competitive advantage. The Company measures revenue taking into account business incentives earned by customers and records a provision for estimated business incentives in the same period the related revenue is recorded. Such provision is recorded in the provision of sales returns and allowance and is determined by management primarily based on historical experience and the varying contractual terms. Please refer to Notes 4, 5 and 15 to

the financial statements for the details of the information about provision of sales returns and allowances. Since the provision of sales returns and allowances is subject to management's judgment, which has significant uncertainty, and the result could also affect the net revenue in the financial statements, it has been identified as a key audit matter.

Our key audit procedures performed in respect of the above area included the following:

1. We understood and tested the design and operating effectiveness of the key controls over provision of sales returns and allowances;
2. We understood and assessed the reasonableness of management's assumptions made and methodology used in estimating provision of sales returns and allowances;
3. We sampled and inspected the Company's sales contracts of main products by agreeing the contractual terms and performed an analysis to challenge management's estimation whether specific products have met business incentives conditions and to verify the reasonableness of the accrual of the provision;
4. We evaluated reasonableness of the estimated provision by comparing it with the actual business incentives paid in the past;
5. We inspected the Company's sales returns and allowances general ledger subsequent to financial reporting date for any significant unusual transaction.

Impairment of property, plant and equipment (PP&E)

As of December 31, 2016, the carrying amount of the Company's PP&E was NT\$6,128,613 thousand, representing 73% of total assets. According to IAS 36 "Impairment of Assets", management shall assess whether there is any indication that PP&E may be impaired. When any such indication exists, management shall estimate if the recoverable amount of PP&E is less than its carrying amount. For the year ended December 31, 2016, the Company recognized impairment loss of NT\$2,884 thousand on certain equipment that was determined by management to have no future use and the carrying amount of the equipment is expected to be unrecoverable. Please refer to Notes 4, 5 and 12 to the financial statements for the details of the accounting policies, judgments, estimations, uncertainty of assumptions and the related disclosure information about impairment of PP&E.

In the process of evaluating the potential impairment of PP&E, the Company's management assessed the recoverable amount of the specific asset group with the consideration of such asset's model in use and the nature of the industry. In determining the independent cash flows of the specific asset group, the management makes assumptions and subjective judgments about the expected future 5-year revenue and expenses, useful lives and discount rate calculated from weighted average cost of capital model. Since such assumptions are subject to management's judgments, future changes in economic conditions, industry trends or management's operational strategies, which involve significant uncertainty, impairment of PP&E has been identified as a key audit matter.

Our key audit procedures performed in respect of the above area included the following:

1. We understood and tested the design and operating effectiveness of the key controls over the process to assess the impairment of PP&E;
2. We understood and reviewed whether the estimation of the independent cash flows of the specific asset group was consistent with the financial projection approved by the Board of Directors. We inspected and evaluated whether the management prepared its expected future 5-year operation results based on the Company's current operating results, historical trend and industry conditions that are updated timely;

3. We understood and assessed the reasonableness of the assumptions and model that the management adopted to estimate the recoverable amount of specific asset group, including the evaluation process and basis of expected future 5-year operation. We evaluated whether the risk-free interest rate, expected volatility and risk premium used in calculating weighted average cost of capital rate were consistent with the Company's current operating status and industry conditions, and we performed recalculation;
4. We compared the recent financial statements subsequent to financial reporting date to the current period and evaluated any significant impact to the assumptions in assessing impairment of PP&E.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the Audit Committee, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures

in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Yu Feng Huang and Cheng Chih Lin.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 17, 2017

Notice to Readers

The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent 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. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.

XINTEC INC.

BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2016		December 31, 2015		LIABILITIES AND EQUITY	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Note 6)	\$ 1,209,162	14	\$ 824,386	10	Financial liabilities at fair value through profit or loss (Note 7)	\$ 9,534	-	\$ 5,423	-
Accounts receivable, net (Note 9)	426,571	5	344,108	4	Derivative financial liabilities for hedging (Note 8)	-	-	1,774	-
Receivables from related parties, net (Notes 9 and 30)	124,539	2	240,676	3	Accounts payable	216,171	2	277,606	3
Other receivables from related parties (Note 30)	-	-	27,720	-	Salary and bonus payable	155,672	2	159,670	2
Inventories (Notes 5 and 10)	171,444	2	239,935	3	Accrued profit sharing bonus to employees and compensation to directors (Notes 18 and 27)	-	-	21,965	-
Other financial assets	647	-	672	-	Payables to contractors and equipment suppliers	324,456	4	424,941	5
Other current assets (Notes 14 and 30)	91,415	1	93,964	1	Current tax liabilities (Note 25)	-	-	1,866	-
Total current assets	<u>2,023,778</u>	<u>24</u>	<u>1,771,461</u>	<u>21</u>	Provisions - current (Notes 5 and 15)	55,367	1	83,115	1
NONCURRENT ASSETS					Long-term borrowings - current portion (Notes 16 and 31)	146,875	2	336,000	4
Financial assets measured at cost (Note 11)	-	-	-	-	Accrued expenses and other current liabilities (Note 30)	306,287	3	280,532	4
Property, plant and equipment (Notes 5, 12 and 31)	6,128,613	73	6,561,638	77	Total current liabilities	<u>1,214,362</u>	<u>14</u>	<u>1,592,892</u>	<u>19</u>
Intangible assets (Note 13)	69,361	1	81,986	1	NONCURRENT LIABILITIES				
Deferred income tax assets (Notes 5 and 25)	199,669	2	94,857	1	Long-term borrowings (Notes 16 and 31)	2,078,125	25	1,049,000	12
Refundable deposits	11,015	-	9,271	-	Provisions - non-current (Notes 5 and 15)	36,837	-	25,076	-
Net defined benefit assets (Note 17)	1,840	-	-	-	Net defined benefit liabilities (Note 17)	-	-	364	-
Total noncurrent assets	<u>6,410,498</u>	<u>76</u>	<u>6,747,752</u>	<u>79</u>	Total noncurrent liabilities	<u>2,114,962</u>	<u>25</u>	<u>1,074,440</u>	<u>12</u>
					Total liabilities	<u>3,329,324</u>	<u>39</u>	<u>2,667,332</u>	<u>31</u>
					EQUITY (Notes 18 and 27)				
TOTAL	<u>\$ 8,434,276</u>	<u>100</u>	<u>\$ 8,519,213</u>	<u>100</u>	Share capital	<u>2,698,534</u>	<u>32</u>	<u>2,688,761</u>	<u>32</u>
					Capital surplus	<u>1,592,780</u>	<u>19</u>	<u>1,580,613</u>	<u>18</u>
					Retained earnings				
					Appropriated as legal reserve	274,233	3	259,553	3
					Appropriated as special reserve	1,774	-	823	-
					Unappropriated earnings	<u>537,631</u>	<u>7</u>	<u>1,323,905</u>	<u>16</u>
					Other	<u>813,638</u>	<u>10</u>	<u>1,584,281</u>	<u>19</u>
					Total equity	<u>5,104,952</u>	<u>61</u>	<u>5,851,881</u>	<u>69</u>
					TOTAL	<u>\$ 8,434,276</u>	<u>100</u>	<u>\$ 8,519,213</u>	<u>100</u>

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

XINTEC INC.

STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except (Loss) Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 5, 20 and 30)	\$ 3,920,698	100	\$ 4,878,088	100
OPERATING COSTS (Notes 10, 27 and 30)	<u>4,219,531</u>	<u>108</u>	<u>4,186,717</u>	<u>86</u>
GROSS (LOSS) PROFIT	<u>(298,833)</u>	<u>(8)</u>	<u>691,371</u>	<u>14</u>
OPERATING EXPENSES (Notes 27 and 30)				
Sales and marketing	39,078	1	43,315	1
General and administrative	116,450	3	109,767	2
Research and development	<u>316,282</u>	<u>8</u>	<u>359,845</u>	<u>7</u>
Total operating expenses	<u>471,810</u>	<u>12</u>	<u>512,927</u>	<u>10</u>
OTHER OPERATING INCOME AND EXPENSES, NET (Notes 12, 21, 27 and 30)	<u>57,261</u>	<u>2</u>	<u>56,175</u>	<u>1</u>
(LOSS) INCOME FROM OPERATIONS	<u>(713,382)</u>	<u>(18)</u>	<u>234,619</u>	<u>5</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 22)	2,882	-	4,807	-
Finance costs (Note 23)	(23,934)	(1)	(24,614)	(1)
Other gains and losses (Note 24)	<u>(7,197)</u>	<u>-</u>	<u>(547)</u>	<u>-</u>
Total non-operating income and expenses	<u>(28,249)</u>	<u>(1)</u>	<u>(20,354)</u>	<u>(1)</u>
(LOSS) INCOME BEFORE INCOME TAX	(741,631)	(19)	214,265	4
INCOME TAX BENEFIT (EXPENSE) (Note 25)	<u>104,812</u>	<u>3</u>	<u>(67,466)</u>	<u>(1)</u>
NET (LOSS) INCOME	<u>(636,819)</u>	<u>(16)</u>	<u>146,799</u>	<u>3</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans (Note 17)	614	-	(2,908)	-
Items that may be reclassified subsequently to profit or loss				
Cash flow hedge (Note 18)	<u>1,774</u>	<u>-</u>	<u>(951)</u>	<u>-</u>
Other comprehensive income (loss) for the year	<u>2,388</u>	<u>-</u>	<u>(3,859)</u>	<u>-</u>
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	<u>\$ (634,431)</u>	<u>(16)</u>	<u>\$ 142,940</u>	<u>3</u>
(LOSS) EARNINGS PER SHARE (Note 26)				
Basic (loss) earnings per share	<u>\$ (2.36)</u>		<u>\$ 0.56</u>	
Diluted (loss) earnings per share	<u>\$ (2.36)</u>		<u>\$ 0.56</u>	

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

XINTEC INC.

STATEMENTS OF CHANGES IN EQUITY

(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Share Capital - Common Stock			Retained Earnings				Other	Total Equity
	Share (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Cash Flow Hedges	
BALANCE, JANUARY 1, 2015	238,121	\$ 2,381,207	\$ 547,724	\$ 196,688	\$ 281	\$ 1,529,166	\$ 1,726,135	\$ (823)	\$ 4,654,243
Appropriation and distribution of 2014 earnings									
Legal reserve	-	-	-	62,865	-	(62,865)	-	-	-
Special reserve	-	-	-	-	542	(542)	-	-	-
Cash dividends to shareholders	-	-	-	-	-	(285,745)	(285,745)	-	(285,745)
Total	-	-	-	62,865	542	(349,152)	(285,745)	-	(285,745)
Net income in 2015	-	-	-	-	-	146,799	146,799	-	146,799
Other comprehensive loss in 2015, net of income tax	-	-	-	-	-	(2,908)	(2,908)	(951)	(3,859)
Total comprehensive income in 2015	-	-	-	-	-	143,891	143,891	(951)	142,940
Issue of ordinary shares for cash	30,000	300,000	960,000	-	-	-	-	-	1,260,000
Issuance of stock from exercise of employee stock options	755	7,554	9,518	-	-	-	-	-	17,072
Compensation cost of employee stock options	-	-	63,371	-	-	-	-	-	63,371
BALANCE, DECEMBER 31, 2015	268,876	2,688,761	1,580,613	259,553	823	1,323,905	1,584,281	(1,774)	5,851,881
Appropriation and distribution of 2015 earnings									
Legal reserve	-	-	-	14,680	-	(14,680)	-	-	-
Special reserve	-	-	-	-	951	(951)	-	-	-
Cash dividends to shareholders	-	-	-	-	-	(134,438)	(134,438)	-	(134,438)
Total	-	-	-	14,680	951	(150,069)	(134,438)	-	(134,438)
Net loss in 2016	-	-	-	-	-	(636,819)	(636,819)	-	(636,819)
Other comprehensive income in 2016, net of income tax	-	-	-	-	-	614	614	1,774	2,388
Total comprehensive (loss) income in 2016	-	-	-	-	-	(636,205)	(636,205)	1,774	(634,431)
Issuance of stock from exercise of employee stock options	977	9,773	11,652	-	-	-	-	-	21,425
Compensation cost of employee stock options	-	-	515	-	-	-	-	-	515
BALANCE, DECEMBER 31, 2016	269,853	\$ 2,698,534	\$ 1,592,780	\$ 274,233	\$ 1,774	\$ 537,631	\$ 813,638	\$ -	\$ 5,104,952

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

XINTEC INC.

STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) income before income tax	\$ (741,631)	\$ 214,265
Adjustments for:		
Depreciation	1,179,098	1,247,814
Amortization	41,474	36,329
Impairment loss recognized (reversal of impairment loss) on accounts receivable	89	(166)
Finance costs	23,934	24,614
Interest income	(2,882)	(4,807)
Compensation cost of employee stock options	515	63,371
Gain on disposal of property, plant and equipment, net	(53,302)	(550)
Impairment loss recognized on property, plant and equipment	2,884	24,411
Gain on foreign exchange, net	(934)	(867)
Changes in operating assets and liabilities:		
Derivative financial instruments	4,111	(6,832)
Accounts receivable, net	(82,550)	(78,384)
Receivables from related parties, net	116,135	432,851
Other receivables from related parties	1,571	(1,571)
Inventories	68,491	(26,158)
Other current assets	3,277	(17,389)
Other financial assets	-	10,326
Accounts payable	(61,435)	(9,440)
Salary and bonus payable	(3,998)	(39,994)
Provisions	(27,748)	22,960
Accrued expenses and other current liabilities	25,703	(12,779)
Net defined benefit assets/liabilities	(1,590)	(655)
Accrued profit sharing bonus to employees and compensation to directors	(21,965)	(65,222)
Cash generated from operations	469,247	1,812,127
Income tax paid	(1,866)	(146,109)
Net cash generated from operating activities	<u>467,381</u>	<u>1,666,018</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(875,840)	(1,332,499)
Intangible assets	(28,849)	(30,878)
Proceeds from disposal of:		
Property, plant and equipment	118,489	22,208
Refundable deposits paid	(3,559)	(3,157)
Refundable deposits refunded	1,815	2,790
Interest received	2,907	4,792
Net cash used in investing activities	<u>(785,037)</u>	<u>(1,336,744)</u>

(Continued)

XINTEC INC.

STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	\$ 990,000	\$ 300,000
Repayments of long-term borrowings	(150,000)	(1,577,500)
Cash dividends paid	(134,438)	(285,745)
Issue of ordinary shares for cash	-	1,260,000
Proceeds from exercise of employee stock options	21,425	17,072
Interest paid	<u>(24,555)</u>	<u>(25,160)</u>
Net cash generated from (used in) financing activities	<u>702,432</u>	<u>(311,333)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	384,776	17,941
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>824,386</u>	<u>806,445</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,209,162</u>	<u>\$ 824,386</u>

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

(Concluded)

XINTEC INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

Xintec Inc. (the “Company”) was incorporated on September 11, 1998. The Company is a dedicated subcontractor of advanced packaging services in the semiconductor industry which engages mainly in wafer level chip scale packaging (CSP) and wafer level post passivation interconnection services (PPI). The Company’s shares have been listed on the Taipei Exchange since March 30, 2015. The address of its registered office and principal place of business is 9F, No.23, Jilin Rd., Jhongli Dist., Taoyuan City 32062, Taiwan.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized by the Board of Directors for issue on February 17, 2017.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, “IFRSs”) endorsed by Financial Supervisory Commission (FSC) for application starting from 2017

According to Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Company should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs issued by the International Accounting Standards Board (IASB) and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations(the “New IFRSs”)	Effective Date Issued by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception	January 1, 2016
Amendment to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
IFRS 14 Regulatory Deferral Accounts	January 1, 2016
Amendment to IAS 1 Disclosure Initiative	January 1, 2016
Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants	January 1, 2016
Amendment to IAS 19 Defined Benefit Plans: Employee Contributions	July 1, 2014
Amendment to IAS 27 Equity Method in Separate Financial Statement	January 1, 2016

(Continued)

New, Amended or Revised Standards and Interpretations(the “New IFRSs”)	Effective Date Issued by IASB (Note 1)
Amendment to IAS 36 Recoverable Amount Disclosures for Non-financial Assets	January 1, 2014
Amendment to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014
IFRIC 21 Levies	January 1, 2014

(Concluded)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

Except for the following, the adoption of aforementioned IFRSs with effective date starting 2017 will not have any material effect on the Company’s accounting policies:

1) Amendments to IAS 36, “Recoverable Amount Disclosures for Non-Financial Assets”

The amendments to IAS 36 clarify that the Company is required to disclose the recoverable amount of an asset or a cash-generating unit only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Company is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2 or Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. The Company expects the aforementioned amendments will result in a broader disclosure of recoverable amount for non-financial assets.

2) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Company are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Company has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Company’s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefits on acquisition date.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

Except for the above impacts, as of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the adoption of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the amended IFRSs with effective starting 2017 will have on the Company's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

b. The IFRSs issued by IASB but not endorsed by FSC

The Company has not applied the following IFRSs issued by the IASB but not endorsed by the FSC. As of the date that the financial statements were issued, the initial adoption to the following standards and interpretations is still subject to the effective date to be published by the FSC, except for IFRS 4 (only the overlay approach can be applied), IFRS 9 and IFRS 15 which have been endorsed by the FSC with effective date starting 2018.

New IFRSs	Effective Date Issued by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 Classification and Measurement of Share-based Payment Transactions	January 1, 2018
Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	January 1, 2018
IFRS 9 Financial Instruments	January 1, 2018
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosure	January 1, 2018
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 15 Revenue from Contracts with Customers	January 1, 2018
Amendment to IFRS 15 Clarifications to IFRS 15	January 1, 2018
IFRS 16 Leases	January 1, 2019
Amendment to IAS 7 Disclosure Initiative	January 1, 2017
Amendment to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
Amendment to IAS 40 Transfers of Investment Property	January 1, 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	January 1, 2018

Note 1: Unless stated otherwise, the aforementioned new, revised or amended standards and interpretations are effective after fiscal year beginning on or after the effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Company's accounting policies, except for the following:

1) Amendments to IFRS 2, "Classification and Measurement of Share-based Payment Transactions"

The amendment requires that market condition and non-vesting condition should be taken into account and vesting conditions, other than market conditions, should not be taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, they should be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction. This amendment applies to share-based payment transactions that are unvested at the date the Company first applies the amendment and to share-based payment transactions with a grant date on or after the date the Company first applies the amendment.

2) IFRS 9, "Financial Instruments"

All recognized financial assets currently in the scope of IAS 39, "Financial Instruments: Recognition and Measurement," will be subsequently measured at either the amortized cost or the fair value. The classification and measurement requirements in IFRS 9 are stated as follows:

For the debt instruments invested by the Company, if the contractual cash flows that are solely for payments of principal and interest on the principal amount outstanding, the classification and measurement requirements are stated as follows:

a) If the objective of the Company's business model is to hold the financial asset to collect the contractual cash flows, such assets are measured at the amortized cost. Interest revenue should be recognized in profit or loss by using the effective interest method, continuously assessed for impairment and the impairment loss or reversal of impairment loss should be recognized in profit and loss.

b) If the objective of the Company's business model is to hold the financial asset both to collect the contractual cash flows and to sell the financial assets, such assets are measured at fair value through other comprehensive income and are continuously assessed for impairment. Interest revenue should be recognized in profit or loss by using the effective interest method. A gain or loss on a financial asset measured at fair value through other comprehensive income should be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When such financial asset is derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

The other financial assets which do not meet the aforementioned criteria should be measured at the fair value through profit or loss. However, the Company may irrevocably designate an investment in equity instruments that is not held for trading as measured at fair value through other comprehensive income. All relevant gains and losses shall be recognized in other comprehensive income, except for dividends which are recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

IFRS 9 adds a new expected loss impairment model to measure the impairment of financial assets. A loss allowance for expected credit losses should be recognized on financial assets measured at amortized cost and financial assets mandatorily measured at fair value through other comprehensive income. If the credit risk on a financial instrument has not increased significantly since initial recognition, the Company should measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. If the credit risk on a financial instrument has increased significantly since initial recognition and is not deemed to be a low credit risk, the Company should measure the loss allowance for that financial instrument at an amount equal to the

lifetime expected credit losses. The Company should always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables.

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risk eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

3) IFRS 15, "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18, "Revenue," IAS 11, "Construction Contracts," and a number of revenue-related interpretations.

When applying IFRS 15, the Company shall recognize revenue by applying the following steps:

Identify the contract with the customer;
Identify the performance obligations in the contract;
Determine the transaction price;
Allocate the transaction price to the performance obligations in the contract; and
Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 and related amendment are effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

4) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the statements of cash flows, cash payments for both the principal and interest portion of the lease liability are classified within financing activities.

When IFRS 16 becomes effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

Except for the above impact, as of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the R.O.C. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

Statement of Compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed by the FSC.

Basis of Preparation

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within 12 months after the reporting period; and
- c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- c. Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

Foreign Currencies

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Such exchange differences are recognized in profit or loss in the year in which they arise. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the year except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items that are measured at historical cost in foreign currencies are not retranslated.

Cash Equivalents

Cash equivalents, for the purpose of meeting short-term cash commitments and investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Inventories

Inventories consist of raw materials, work-in-process and finished goods. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on an item-by-item basis, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. Inventories are recorded at weighted-average cost on the balance sheet date.

Property, Plant and Equipment and Assets Leased to Others

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment. Costs include any incremental costs that are directly attributable to the construction or acquisition of the item of property, plant and equipment. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Properties, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation is recognized so as to write off the cost of the assets less their residual values over their useful lives, and it is computed using the straight-line method over the following estimated useful lives:

Buildings	3 to 35 years
Machinery and equipment	3 to 8 years
Office equipment	3 to 11 years
Leased improvements	3 to 16 years
Other equipment	3 to 11 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis. Freehold land is not depreciated.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized using the straight-line method over the following estimated useful lives:

Acquired special technology	20 years
Software	3 years
Others	2 to 6 years

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Expenditure on research activities is recognized as an expense when incurred. An internally-generated intangible asset arising from development activities is capitalized and then amortized on a straight-line basis over its useful life if the recognition criteria for an intangible asset have been met; otherwise, the development expenditure is recognized as an expense when incurred.

Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial Instruments

Financial assets and liabilities shall be recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially recognized at fair values. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. Fair value is determined in the manner described in Note 29.

Financial Assets

Financial assets are classified into the following categories: Financial assets “at fair value through profit or loss” (FVTPL), “available-for-sale” financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

a. Financial assets at fair value through profit or loss

Derivative financial instruments that do not meet the criteria for hedge accounting are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

b. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity financial assets or (c) financial assets at fair value through profit or loss.

Available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

c. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including cash and cash equivalents, notes and accounts receivable (including receivables from related parties) and other receivables are measured at amortized cost using the effective interest method less any impairment, except for those receivables with immaterial discounted effect.

d. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Those financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets; their estimated future cash flows have been affected.

For financial assets carried at amortized cost, such as accounts receivable, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. The Company assesses the collectability of receivables by performing the account aging analysis and examining current trends in the credit quality of its customers.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

e. Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the financial asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Financial Liabilities and Equity Instruments

a. Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

b. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

c. Financial liabilities

Financial liabilities are subsequently measured either at amortized cost using effective interest method or at FVTPL.

Financial liabilities measured at FVTPL are derivative financial instruments that do not meet the criteria for hedge accounting, and they are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

Financial liabilities other than those held for trading purposes and designated as at FVTPL are subsequently measured at amortized cost at the end of each reporting period.

d. Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative Financial Instruments

The Company enters into a variety of derivative financial instruments to manage its market risk exposure to foreign exchange rate and interest rate, including forward exchange contracts and interest rate swap contracts.

Derivative financial instruments are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative financial instrument is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedges reserve. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the period when the hedged item is recognized in profit or loss.

Provision

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest Income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating lease is recognized on a straight-line basis over the term of the relevant lease. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Employee Benefits

Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for service rendered by employees.

Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and rereasurement) under the defined benefit retirement benefit plans are determined using the Projected Unit Credit Method. Service cost (including current service cost), and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Rereasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Rereasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

Share-based Payment Arrangements

The Company elected to take the optional exemption under IFRS 1, "First-time Adoption of International Financial Reporting Standards" for the share-based payment transactions granted and vested before the date of transition to IFRSs.

Employee stock options that were granted after January 1, 2012 are measured at the fair value of the stock options at the grant date. The fair value of the stock option granted determined at the grant date of the stock options is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in capital surplus - employee stock option. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from original estimates. It is recognized as an expense in full at the grant date if vesting immediately.

For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability incurred. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is rereasured, with any changes in fair value recognized in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Income tax on unappropriated earnings at a rate of 10% is expensed in the year the shareholders approved the appropriation of earnings which is the year subsequent to the year the earnings are generated.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards, and unused tax credits from purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. The deferred tax assets which originally not recognized is also reviewed at the end of each reporting period and recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset is realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 4, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

The following are the critical judgments, apart from those involving assumptions and estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Revenue Recognition

The Company recognizes revenue when the conditions described in Note 4 are satisfied. The Company also records a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provision for estimated sales returns and other allowances is generally made and adjusted based on historical experience and the varying contractual terms that would significantly affect the allowance, and our management periodically reviews the adequacy of the percentage used.

Impairment of Property, Plant and Equipment

In the process of evaluating the potential impairment of property, plant and equipment, the Company is required to make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups with the consideration of the nature of the industry. Any changes in these estimates based on changes in economic conditions, industry trends or management's operational strategies could result in significant impairment charges in future years.

Realization of Deferred Income Tax Assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires the Company's subjective judgment and estimate including the future revenue growth and profitability, tax holidays, the amount of tax credits that can be utilized and feasible tax planning strategies. Any changes in the global economic environment, the industry trends and relevant laws and regulations could result in significant adjustments to the deferred tax assets.

Valuation of Inventory

Inventories are stated at the lower of cost or net realizable value, and the Company has to use judgment and estimate to determine the net realizable value of inventory at the end of each reporting period.

Due to the rapid technological changes, the Company estimates the net realizable value of inventory for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Cash and deposits in banks	\$ 1,168,362	\$ 725,886
Repurchase agreements collateralized by corporate bonds	<u>40,800</u>	<u>98,500</u>
	<u>\$ 1,209,162</u>	<u>\$ 824,386</u>

7. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2016	2015
<u>Derivative financial liabilities</u>		
Forward exchange contracts	\$ <u>9,534</u>	\$ <u>5,423</u>

The Company entered into derivative contracts to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for derivative contracts.

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2016</u>		
Sell US\$/Buy NT\$	January 2017-March 2017	US\$19,263/NT\$610,715
<u>December 31, 2015</u>		
Sell US\$/Buy NT\$	January 2016-March 2016	US\$20,960/NT\$684,056

8. DERIVATIVE FINANCIAL INSTRUMENT FOR HEDGING

	<u>December 31</u>	
	2016	2015
<u>Financial liabilities - current</u>		
Cash flow hedge		
Interest rate swap contracts	\$ <u>-</u>	\$ <u>1,774</u>

The Company entered into interest rate swap contracts to mitigate the risk of changes in interest rates on the cash flow exposure related to the outstanding variable rate debt. The contracts had matured on December 15, 2016.

Outstanding interest rate swap contracts consisted of the following:

Contract Amount (In thousands)	Maturity Date	Range of Interest Rates Paid	Range of Interest Rates Received
<u>December 31, 2015</u>			
\$ 500,000	December 15, 2016	1.108%	0.805%-0.876%

For the years ended December 31, 2016 and 2015, net loss arising from changes in fair value of the hedged items recognized in other comprehensive income and accumulated in other equity were NT\$97 thousand and NT\$1,625 thousand, respectively. For the years ended December 31, 2016 and 2015, losses of hedging instruments reclassified from equity to loss recognized as financial costs in comprehensive income were NT\$1,871 thousand and NT\$674 thousand, respectively.

9. ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Unrelated Parties</u>		
Accounts receivable	\$ 427,014	\$ 344,464
Allowance for doubtful receivables	<u>(443)</u>	<u>(356)</u>
Accounts receivable, net	<u>426,571</u>	<u>344,108</u>
<u>Related Parties</u>		
Accounts receivable	124,541	240,676
Allowance for doubtful receivables	<u>(2)</u>	<u>-</u>
Accounts receivable, net	<u>124,539</u>	<u>240,676</u>
	<u>\$ 551,110</u>	<u>\$ 584,784</u>

In principle, the payment term granted to customers is due 30 days to 45 days from the end of the month of when the invoice is issued. The term granted to some customers is 30 days from the invoice date, and to few customers is 60 days or 75 days from the end of the month when the invoice is issued. The allowance for doubtful receivables is assessed by reference to the collectability of receivables by performing the account aging analysis, historical experience and current financial condition of customers.

Except for those impaired, for the rest of the accounts receivable, the account aging analysis at the end of the reporting period is summarized in the following table. Accounts receivable include amounts that are past due but for which the Company has not recognized a specific allowance for doubtful receivables after the assessment since there has not been a significant change in the credit quality of its customers and the amounts are still considered recoverable.

Aging analysis of accounts receivable, net

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Neither past due nor impaired	\$ 531,624	\$ 584,784
Past due within 30 days	<u>19,486</u>	<u>-</u>
	<u>\$ 551,110</u>	<u>\$ 584,784</u>

Aging analysis of past due but not impaired accounts receivable, net

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Past due within 30 days	<u>\$ 19,486</u>	<u>\$ -</u>

Movements of the allowance for doubtful receivables

	Collectively Assessed for Impairment
Balance at January 1, 2016	\$ 356
Provision	<u>89</u>
Balance at December 31, 2016	<u>\$ 445</u>
Balance at January 1, 2015	\$ 522
Reversal	<u>(166)</u>
Balance at December 31, 2015	<u>\$ 356</u>

Aging analysis of accounts receivable that was impaired

	<u>December 31</u>	
	2016	2015
Not past due	<u>\$ 445</u>	<u>\$ 356</u>

10. INVENTORIES

	<u>December 31</u>	
	2016	2015
Finished goods	\$ 16,113	\$ 20,582
Work in process	37,901	45,155
Raw materials	<u>117,430</u>	<u>174,198</u>
	<u>\$ 171,444</u>	<u>\$ 239,935</u>

The cost of inventories recognized as cost of goods sold consisted of the following:

	<u>Years Ended December 31</u>	
	2016	2015
Write-downs of inventory	<u>\$ 7,329</u>	<u>\$ 3,383</u>
Revenue from sale of scraps	<u>\$ 9,605</u>	<u>\$ 6,028</u>

11. FINANCIAL ASSETS MEASURED AT COST

The Company invested in Compositeltd. in 1998 which was delisted in 2002. The Company believed that the investment had been fully impaired; thus, in 2002, the Company recognized the whole investment amount as impairment loss.

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and Equipment	Office Equipment	Leased Improvement	Other Equipment	Equipment under Installation and Construction in Progress	Total
<u>Cost</u>								
Balance at January 1, 2016	\$ 772,029	\$ 1,597,921	\$ 9,618,017	\$ 164,932	\$ 652,579	\$ 770,311	\$ 202,981	\$13,778,770
Additions	-	299,715	434,677	24,178	12,464	81,179	(64,163)	788,050
Disposals or retirements	-	(300)	(288,641)	(67)	(5,826)	-	-	(294,834)
Reclassification	-	-	(55)	-	-	-	-	(55)
Balance at December 31, 2016	<u>\$ 772,029</u>	<u>\$ 1,897,336</u>	<u>\$ 9,763,998</u>	<u>\$ 189,043</u>	<u>\$ 659,217</u>	<u>\$ 851,490</u>	<u>\$ 138,818</u>	<u>\$14,271,931</u>
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2016	\$ -	\$ 442,534	\$ 5,949,658	\$ 90,365	\$ 467,879	\$ 266,696	\$ -	\$ 7,217,132
Depreciation	-	125,935	895,916	21,857	46,427	88,963	-	1,179,098
Impairment losses	-	-	2,884	-	-	-	-	2,884
Disposals or retirements	-	(150)	(250,611)	(67)	(4,968)	-	-	(255,796)
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 568,319</u>	<u>\$ 6,597,847</u>	<u>\$ 112,155</u>	<u>\$ 509,338</u>	<u>\$ 355,659</u>	<u>\$ -</u>	<u>\$ 8,143,318</u>
Carrying amount at December 31, 2016	<u>\$ 772,029</u>	<u>\$ 1,329,017</u>	<u>\$ 3,166,151</u>	<u>\$ 76,888</u>	<u>\$ 149,879</u>	<u>\$ 459,831</u>	<u>\$ 138,818</u>	<u>\$ 6,128,613</u>
<u>Cost</u>								
Balance at January 1, 2015	\$ 772,029	\$ 1,392,371	\$ 8,149,599	\$ 116,352	\$ 641,844	\$ 641,762	\$ 1,072,083	\$12,786,040
Additions	-	205,550	1,765,579	48,580	10,735	128,549	(860,815)	1,298,178
Disposals or retirements	-	-	(297,161)	-	-	-	-	(297,161)
Reclassification	-	-	-	-	-	-	(8,287)	(8,287)
Balance at December 31, 2015	<u>\$ 772,029</u>	<u>\$ 1,597,921</u>	<u>\$ 9,618,017</u>	<u>\$ 164,932</u>	<u>\$ 652,579</u>	<u>\$ 770,311</u>	<u>\$ 202,981</u>	<u>\$13,778,770</u>
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2015	\$ -	\$ 332,594	\$ 5,181,038	\$ 74,683	\$ 418,721	\$ 187,226	\$ -	\$ 6,194,262
Depreciation	-	109,940	993,564	15,682	49,158	79,470	-	1,247,814
Impairment losses	-	-	24,411	-	-	-	-	24,411
Disposals or retirements	-	-	(249,355)	-	-	-	-	(249,355)
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 442,534</u>	<u>\$ 5,949,658</u>	<u>\$ 90,365</u>	<u>\$ 467,879</u>	<u>\$ 266,696</u>	<u>\$ -</u>	<u>\$ 7,217,132</u>
Carrying amount at December 31, 2015	<u>\$ 772,029</u>	<u>\$ 1,155,387</u>	<u>\$ 3,668,359</u>	<u>\$ 74,567</u>	<u>\$ 184,700</u>	<u>\$ 503,615</u>	<u>\$ 202,981</u>	<u>\$ 6,561,638</u>

The significant part of the Company's buildings includes main plants, mechanical and electrical power equipment and clean rooms, and the related depreciation is calculated using the estimated useful lives of 18 to 32 years, 7 to 11 years and 10 to 11 years, respectively. The significant part of the Company's machinery and equipment includes etching machines and sputters, and the related depreciation is calculated using the estimated useful lives of 3 to 8 years.

For the years ended December 31, 2016 and 2015, the Company recognized impairment loss of NT\$2,884 thousand and NT\$24,411 thousand, respectively since the carrying amount of some of property, plant and equipment is expected to be unrecoverable. Such impairment loss was included in other operating income and expenses.

The Company leased certain machinery and equipment to Taiwan Semiconductor Manufacturing Company Limited (TSMC) under operating lease agreement. The lease term and rental were both determined in accordance with mutual agreements. The lease term was from May 2013 to December 2015 and the rental was received quarterly. The Company leased certain buildings to VisEra Technologies Company Ltd. (VisEra) under operating lease agreement. The lease term and rental were both determined in accordance with mutual agreements. The lease term was from November 2016 to November 2018 and the rental was received monthly. The related rental and depreciation of such leased assets were included in other operating income and expenses.

The carrying amount and future minimum lease payments of leased assets were as follows:

	December 31	
	2016	2015
Carrying amount of leased machinery and equipment	\$ <u> -</u>	\$ <u>269,844</u>
Carrying amount of leased buildings	\$ <u>29,145</u>	\$ <u> -</u>
Future minimum lease payments	\$ <u>100,500</u>	\$ <u> -</u>

Machinery and equipment pledged as collateral for bank borrowings were set out in Note 31.

13. INTANGIBLE ASSETS

	Acquired Special Technology	Software	Patents and Others	Total
<u>Cost</u>				
Balance at January 1, 2016	\$ 113,340	\$ 60,804	\$ 91,874	\$ 266,018
Additions	<u> -</u>	<u>7,290</u>	<u>21,559</u>	<u>28,849</u>
Balance at December 31, 2016	<u>\$ 113,340</u>	<u>\$ 68,094</u>	<u>\$ 113,433</u>	<u>\$ 294,867</u>
<u>Accumulated amortization</u>				
Balance at January 1, 2016	\$ 80,755	\$ 38,301	\$ 64,976	\$ 184,032
Additions	<u>5,667</u>	<u>13,275</u>	<u>22,532</u>	<u>41,474</u>
Balance at December 31, 2016	<u>\$ 86,422</u>	<u>\$ 51,576</u>	<u>\$ 87,508</u>	<u>\$ 225,506</u>
Carrying amount at December 31, 2016	<u>\$ 26,918</u>	<u>\$ 16,518</u>	<u>\$ 25,925</u>	<u>\$ 69,361</u>
<u>Cost</u>				
Balance at January 1, 2015	\$ 113,340	\$ 49,915	\$ 71,885	\$ 235,140
Additions	<u> -</u>	<u>10,889</u>	<u>19,989</u>	<u>30,878</u>
Balance at December 31, 2015	<u>\$ 113,340</u>	<u>\$ 60,804</u>	<u>\$ 91,874</u>	<u>\$ 266,018</u>
<u>Accumulated amortization</u>				
Balance at January 1, 2015	\$ 75,088	\$ 25,824	\$ 46,791	\$ 147,703
Additions	<u>5,667</u>	<u>12,477</u>	<u>18,185</u>	<u>36,329</u>
Balance at December 31, 2015	<u>\$ 80,755</u>	<u>\$ 38,301</u>	<u>\$ 64,976</u>	<u>\$ 184,032</u>
Carrying amount at December 31, 2015	<u>\$ 32,585</u>	<u>\$ 22,503</u>	<u>\$ 26,898</u>	<u>\$ 81,986</u>

14. OTHER CURRENT ASSETS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Prepaid expenses	\$ 59,891	\$ 55,485
Tax receivable	22,575	23,603
Prepayments to Suppliers	3,121	2,669
Others	<u>5,828</u>	<u>12,207</u>
	<u>\$ 91,415</u>	<u>\$ 93,964</u>

15. PROVISIONS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Sales returns and allowances	\$ 55,367	\$ 83,115
Decommissioning cost	<u>36,837</u>	<u>25,076</u>
	<u>\$ 92,204</u>	<u>\$ 108,191</u>
Current portion	\$ 55,367	\$ 83,115
Noncurrent portion	<u>36,837</u>	<u>25,076</u>
	<u>\$ 92,204</u>	<u>\$ 108,191</u>

	Sales Returns and Allowances	Decommissioning Cost	Total
<u>Year Ended December 31, 2016</u>			
Balance, beginning of year	\$ 83,115	\$ 25,076	\$ 108,191
Provision	23,313	11,761	35,074
Payment	<u>(51,061)</u>	<u>-</u>	<u>(51,061)</u>
Balance, end of year	<u>\$ 55,367</u>	<u>\$ 36,837</u>	<u>\$ 92,204</u>
<u>Year Ended December 31, 2015</u>			
Balance, beginning of year	\$ 60,155	\$ 25,076	\$ 85,231
Provision	100,823	-	100,823
Payment	<u>(77,863)</u>	<u>-</u>	<u>(77,863)</u>
Balance, end of year	<u>\$ 83,115</u>	<u>\$ 25,076</u>	<u>\$ 108,191</u>

Provisions for sales returns and allowances are estimated based on historical experience, management judgment, and the varying contractual terms that would significantly affect the returns and allowances, and are recognized as a reduction of revenue in the same year of the related product sales.

Decommissioning cost represents provision for cost of disassembly and removal of leased equipment and restoration of the location. Such amount of provision is measured using the discounted cash flows estimated to settle future obligation. The estimated decommissioning cost is assessed and adjusted reasonably at the end of each reporting period.

16. LONG-TERM BORROWINGS

	December 31	
	2016	2015
Unsecured borrowings:		
Repayable with annual interest rates at 0.96%-0.99% in 2016 and will redeem in April 2021	\$ 400,000	\$ -
Repayable with annual interest rates at 1.09%-1.18% and 1.18%-1.34% in 2016 and 2015, respectively and will redeem in May 2019; acquired bank borrowing in the amount of NT\$290,000 thousand and NT\$100,000 thousand in 2016 and 2015, respectively	390,000	100,000
Repayable with annual interest rates at 1.06%-1.16% and 1.16% in 2016 and 2015, respectively and will redeem in August 2018; acquired bank borrowing in the amount of NT\$250,000 thousand and NT\$100,000 thousand in 2016 and 2015, respectively	350,000	100,000
Repayable quarterly from February 2019 in 2 installments; with annual interest rates at 1.19%-1.34% and 1.28%-1.51% in 2016 and 2015, respectively	310,000	310,000
Repayable quarterly from July 2014 in 16 installments; with annual interest rates at 1.05%-1.18% and 1.18%-1.24% in 2016 and 2015, respectively	112,500	187,500
Repayable quarterly from October 2014 in 16 installments; with annual interest rates at 1.05%-1.18% and 1.18%-1.24% in 2016 and 2015, respectively	65,625	103,125
Repayable with annual interest rates at 1.08% in 2016 and will redeem in December 2019	50,000	-
Repayable quarterly from September 2014 in 16 installments; with annual interest rates at 1.05%-1.11% and 1.11%-1.24% in 2016 and 2015, respectively	37,500	62,500
Repayable quarterly from October 2013 in 16 installments; with annual interest rates at 1.05%-1.18% and 1.18%-1.24% in 2016 and 2015, respectively	9,375	21,875
Secured borrowings:		
Repayable with annual interest rates at 0.96%-1.11% and 1.11%-1.19% in 2016 and 2015, respectively and will redeem in August 2018	<u>500,000</u>	<u>500,000</u>
	<u>\$ 2,225,000</u>	<u>\$ 1,385,000</u>
Current	\$ 146,875	\$ 336,000
Non-current	<u>2,078,125</u>	<u>1,049,000</u>
	<u>\$ 2,225,000</u>	<u>\$ 1,385,000</u>

Under certain bank loan agreements, the Company has to meet certain financial covenants and criteria per semiannual reviewed financial statements and annual audited financial statements. As of December 31, 2016, the Company was in compliance with all of the loan covenants.

Machinery and equipment pledged as collateral for bank borrowings were set out in Note 31.

17. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The pension plan under the Labor Pension Act (the “Act”) is deemed a defined contribution retirement plan. Pursuant to the Act, the Company makes monthly contributions equal to 6% of each employee’s monthly salary to employees’ pension accounts. Accordingly, the Company recognized expenses of NT\$56,834 thousand and NT\$57,554 thousand in the statements of comprehensive income for the years ended December 31, 2016 and 2015, respectively.

b. Defined benefit plans

The Company has defined benefit plans under the Labor Standards Law that provide benefits based on an employee’s length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to their respective pension funds (the Fund), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee’s name in the Bank of Taiwan.

Before the end of each year, the Company assesses the balance in the Fund. If the amount of the balance in the Fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The Fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); as such, the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company’s defined benefit plans were as follows:

	December 31	
	2016	2015
Present value of defined benefit obligation	\$ 41,350	\$ 41,984
Fair value of plan assets	<u>(43,190)</u>	<u>(41,620)</u>
Net defined benefit (assets) liabilities	<u>\$ (1,840)</u>	<u>\$ 364</u>

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2016	\$ 41,984	\$ (41,620)	\$ 364
Service cost	-	-	-
Net interest expense (income)	<u>629</u>	<u>(637)</u>	<u>(8)</u>
Recognized in profit or loss	<u>629</u>	<u>(637)</u>	<u>(8)</u>
Remeasurement			
Return on plan assets	-	339	339
Actuarial loss - changes in demographic assumptions	428	-	428
Actuarial gain - experience adjustments	<u>(1,381)</u>	<u>-</u>	<u>(1,381)</u>
Recognized in other comprehensive income	<u>(953)</u>	<u>339</u>	<u>(614)</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Contributions from the employer	\$ <u>-</u>	\$ (1,582)	\$ (1,582)
Benefits paid	<u>(310)</u>	<u>310</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ 41,350</u>	<u>\$ (43,190)</u>	<u>\$ (1,840)</u>
Balance at January 1, 2015	<u>\$ 38,495</u>	<u>\$ (40,384)</u>	<u>\$ (1,889)</u>
Service cost	-	-	-
Net interest expense (income)	<u>769</u>	<u>(825)</u>	<u>(56)</u>
Recognized in profit or loss	<u>769</u>	<u>(825)</u>	<u>(56)</u>
Remeasurement			
Return on plan assets	-	(241)	(241)
Actuarial loss - changes in demographic assumptions	648	-	648
Actuarial loss - changes in financial assumptions	3,130	-	3,130
Actuarial gain - experience adjustments	<u>(629)</u>	<u>-</u>	<u>(629)</u>
Recognized in other comprehensive income	<u>3,149</u>	<u>(241)</u>	<u>2,908</u>
Contributions from the employer	<u>-</u>	<u>(599)</u>	<u>(599)</u>
Benefits paid	<u>(429)</u>	<u>429</u>	<u>-</u>
Balance at December 31, 2015	<u>\$ 41,984</u>	<u>\$ (41,620)</u>	<u>\$ 364</u> (Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	Years Ended December 31	
	2016	2015
General and administrative expenses	\$ <u>(8)</u>	\$ <u>(56)</u>

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of plan assets and defined benefit obligations were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2016	2015
Discount rate	1.50%	1.50%
Expected rate of salary increase	2.00%	2.00%
Turnover rate	0.89%	1.13%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2016	2015
Discount rate		
0.25% increase	<u>\$ (1,526)</u>	<u>\$ (1,633)</u>
0.25% decrease	<u>\$ 1,601</u>	<u>\$ 1,716</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 1,589</u>	<u>\$ 1,703</u>
0.25% decrease	<u>\$ (1,522)</u>	<u>\$ (1,629)</u>
Turnover rate		
10% increase	<u>\$ (236)</u>	<u>\$ (331)</u>
10% decrease	<u>\$ 238</u>	<u>\$ 335</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2016	2015
The expected contributions to the plan for the next year	<u>\$ 1,692</u>	<u>\$ 1,757</u>
The average duration of the defined benefit obligation	15 years	16 years

The maturity analysis of undiscounted pension benefit is as follows:

	December 31	
	2016	2015
Less than 1 year	\$ 110	\$ 85
Later than 1 year and not later than 5 years	3,043	2,605
Later than 5 years	<u>48,463</u>	<u>50,340</u>
	<u>\$ 51,616</u>	<u>\$ 53,030</u>

18. EQUITY

a. Share capital

	December 31	
	2016	2015
Authorized shares (in thousands)	<u>300,000</u>	<u>300,000</u>
Authorized capital	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>
Issued and paid shares (in thousands)	<u>269,853</u>	<u>268,876</u>
Issued capital	<u>\$ 2,698,534</u>	<u>\$ 2,688,761</u>

A holder of issued common shares with par value of NT\$10 per share is entitled to vote and to receive dividends.

The authorized shares include 12,000 thousand shares allocated for the exercise of employee stock options.

On February 4, 2015, the Company's Board of Directors resolved to issue 30,000 thousand new shares, with a par value of NT\$10 each, for consideration of NT\$42 per share. On February 25, 2015, the above transaction was approved by the FSC, and the subscription base date was determined at March 27, 2015 by the Board of Directors on March 11, 2015.

b. Capital surplus

	December 31	
	2016	2015
Additional paid-in capital	\$ 1,585,470	\$ 1,568,222
Employee stock options	<u>7,310</u>	<u>12,391</u>
	<u>\$ 1,592,780</u>	<u>\$ 1,580,613</u>

Under the Company Law, the capital surplus generated from the excess of the issuance price over the par value of capital stock may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

The capital surplus arising from employee stock options may not be used for any purpose.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The amendments to the Company's Articles of Incorporation on profits distribution and the employees' compensation policy had been approved by the Company's shareholders in its meeting held on June 14, 2016. For policy about the profit sharing bonus to employees, please refer to Note 27.

Under the dividend policy as set forth in the amended Articles, if there is any profit after annual closing, it should be first deducted for income tax and accumulated deficits. Then appropriate 10% as legal reserve until the accumulated legal reserve equals the Company's paid-in capital, and appropriate (or reverse) the special reserve in accordance with relevant laws or regulations or as requested by the authorities in charge. Any remaining balance together with any unappropriated earnings shall be allocated according to the proposal of the board of directors and the resolution of the shareholders'

meeting.

The policy on the appropriation of dividends shall take the following factors into account: The Company's capital budget, intermediate and long term operational planning, and financial position. The following principles shall be followed and earnings shall be allocated according to the resolution of the shareholders' meeting:

- 1) The Company shall consider financial, business and operating factors when distributing profits. The profits may be distributed by way of cash dividend and/or stock dividend. However, due to the Company's business growing stage at present, the proportions of dividends that will be distributed depend on future expansion plans and capital budget needs. The proportion of cash dividends shall not be lower than 50% of the total dividends.
- 2) If there is no profit or the distributable profit is far lower than the previous year's amounts distributed, or in consideration of financial, business and operating factors, the appropriation for capital reserve shall be in accordance with relevant laws or regulations or as requested by the authorities in charge.

Any appropriations of the profits are subject to shareholders' approval in the following year.

The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends in cash or stocks for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

Pursuant to existing regulations, the Company is required to set aside additional special reserve equivalent to the net debit balance of the other components of shareholders' equity, such as gain/loss from changes in fair value of hedging instruments in cash flow hedges, etc. For the subsequent decrease in the deduction amount to shareholders' equity, any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The appropriations of 2015 and 2014 earnings had been approved by the Company's shareholders in its meetings held on June 14, 2016 and on June 16, 2015, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2015	For Fiscal Year 2014	For Fiscal Year 2015	For Fiscal Year 2014
Legal reserve	\$ 14,680	\$ 62,865		
Special reserve	951	542		
Cash dividends to shareholders	<u>134,438</u>	<u>285,745</u>	\$0.50	\$1.06
	<u>\$ 150,069</u>	<u>\$ 349,152</u>		

The Company's appropriations of earnings for 2016 had been approved in the meeting of the Board of Directors held on February 17, 2017. The Company reversed special reserve in accordance with the relevant regulations in the amount of NT\$1,774 thousand and planned not to distribute dividend.

The appropriations of earnings for 2016 are to be resolved in the shareholders' meeting which is expected to be held on June 7, 2017.

Under the Integrated Income Tax System that became effective on January 1, 1998, the R.O.C. resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by the Company on earnings generated since January 1, 1998.

d. Others

Movement in cash flow hedge was as follows:

	Years Ended December 31	
	2016	2015
<u>Cash flow hedge</u>		
Balance, beginning of year	\$ (1,774)	\$ (823)
Gain/(loss) arising on changes in the fair value of hedging instruments	(97)	(1,625)
(Gain)/loss arising on changes in fair value of hedging instruments reclassified to profit or loss	<u>1,871</u>	<u>674</u>
Balance, end of year	<u>\$ -</u>	<u>\$ (1,774)</u>

The cash flow hedges reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of the hedging instruments entered into as cash flow hedges. The cumulative gains or losses arising on changes in fair value of the hedging instruments that are recognized and accumulated in cash flow hedges reserve will be reclassified to profit or loss only when the hedge transaction affects profit or loss.

19. SHARE-BASED PAYMENT

a. Optional exemption from adopting IFRS 2 “Share-based Payment” (IFRS 2)

The Company elected to take the optional exemption from adopting IFRS 2 retrospectively for share-based payment transactions granted and vested before January 1, 2012. Such employee stock option plans are described as follows:

The Company’s Employee Stock Option Plans, consisting of the 2007 Plan and 2006 Plan, were approved by the Securities and Futures Bureau (SFB) on June 26, 2007 and July 3, 2006, respectively. The maximum number of stock options authorized to be granted was 6,000 thousand units for both plans, respectively, with each stock option eligible to subscribe for one common stock when exercised. The stock options may be granted to qualified employees of the Company. The stock options of all the plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date.

Information about the Company’s employee stock options is described as follows:

	<u>2007 Employee Stock Option Plans</u>		<u>2006 Employee Stock Option Plans</u>	
	Number of Stock Options (In Thousands)	Weighted-average Exercise Price (NT\$)	Number of Stock Options (In Thousands)	Weighted-average Exercise Price (NT\$)
Year ended December 31, 2016				
Balance, beginning of year	7	\$ 14.80	72	\$ 9.00
Options exercised	(5)		(62)	
)	14.80)	8.59
Options canceled	-		(10)	
))	8.50
Balance, end of year	2	14.80	-	-
Balance exercisable, end of year	2	14.80	-	-

(Continued)

	<u>2007 Employee Stock Option Plans</u>		<u>2006 Employee Stock Option Plans</u>	
	Number of Stock Options (In Thousands)	Weighted-average Exercise Price (NT\$)	Number of Stock Options (In Thousands)	Weighted-average Exercise Price (NT\$)
<u>Year ended December 31, 2015</u>				
Balance, beginning of year	45	\$ 15.74	73	\$ 10.10
Options exercised	<u>(38)</u>	15.90	<u>(1)</u>	10.10
Balance, end of year	<u>7</u>	14.80	<u>72</u>	9.00
Balance exercisable, end of year	<u>7</u>	14.80	<u>72</u>	9.00
				(Concluded)

The exercise prices of outstanding stock options have been adjusted to reflect the distribution of earnings by the Company in accordance with the plans.

Information about the Company's outstanding stock options was as follows:

<u>December 31, 2016</u>		<u>December 31, 2015</u>	
Range of Exercise Price (NT\$)	Weighted-average Remaining Contractual Life (Years)	Range of Exercise Price (NT\$)	Weighted-average Remaining Contractual Life (Years)
\$ -	-	\$ 9.00	0.75
\$ 14.80	0.50	\$ 14.80	1.50

b. Adoption of IFRS 2

1) Equity-settled share-based compensation

The Company adopted IFRS 2 for the following plans of the shared-based payment transactions granted and vested after January 1, 2012. Such employee stock option plans are described as follows:

On February 4, 2015, the Company's Board of Directors resolved to issue new shares for cash and reserved 4,500 thousand shares for subscription by employees under employee stock option plans in accordance with the Company Law. The aforementioned employee stock options were wholly vested on the grant date. Information about such employee stock options related to the aforementioned new shares issued was as follows:

	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
<u>Year ended December 31, 2015</u>		
Options granted	4,500	\$ 42.00
Options exercised	<u>(4,500)</u>	42.00
Balance exercisable, end of year	<u>-</u>	-

The aforementioned stock options granted on March 23, 2015 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

Grant date	March 23, 2015
Options granted (in thousand)	4,500
Stock price on grant date (NT\$/share)	\$ 55.50
Exercise price (NT\$/share)	\$ 42.00
Expected volatility	43.91%
Expected life	3 days
Risk-free interest rate	0.87%

The stock price on grant date was determined based on the closing price of the Company's common shares listed on the Emerging Stock market. The expected volatility was based on the historical stock price volatility over the past three months.

Compensation cost of the above stock options recognized was NT\$60,764 thousand for the year ended December 31, 2015.

The Company's Employee Stock Option Plan was approved by the SFB on January 10, 2012 (2011 Plan). The maximum number of stock options authorized to be granted under the 2011 Plan was 6,000 thousand units, with each stock option eligible to subscribe for one common stock when exercised. The stock options may be granted to qualified employees of the Company and an affiliated company. The options of 2011 Plan are valid for five years and exercisable at certain percentages subsequent to the second anniversary of the grant date.

Information about the Company's employee stock options is described as follows:

	2011 Employee Stock Option Plans	
	Number of Stock Options (In Thousands)	Weighted- average Exercise Price (NT\$)
<u>Year ended December 31, 2016</u>		
Balance, beginning of year	2,070	\$ 23.20
Options exercised	(910)	22.87
Options canceled	<u>(126)</u>	22.94
Balance, end of year	<u>1,034</u>	22.70
Balance exercisable, end of year	<u>1,034</u>	22.70
<u>Year ended December 31, 2015</u>		
Balance, beginning of year	2,910	\$ 21.40
Options exercised	(716)	22.91
Options canceled	<u>(124)</u>	23.21
Balance, end of year	<u>2,070</u>	23.20
Balance exercisable, end of year	<u>1,039</u>	23.20

The exercise price of outstanding stock options has been adjusted to reflect the distribution of earnings by the Company in accordance with the plan.

Information about the Company's outstanding stock options was as follows:

December 31, 2016		December 31, 2015	
Range of Exercise Price (NT\$)	Weighted-average Remaining Contractual Life(Years)	Range of Exercise Price (NT\$)	Weighted-average Remaining Contractual Life(Years)
\$22.70	0.46	\$23.20	1.46

The aforementioned stock options granted on June 14, 2012 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

Stock price on grant date (NT\$/share)	\$ 19.42
Exercise price (NT\$/share)	\$ 22.30
Expected volatility	43.73%
Expected life	3.88 years
Expected dividend yield	-
Risk-free interest rate	0.96%

The stock price on grant date was determined based on the market approach. The expected volatility was calculated based on the historical stock prices of the competitive companies of the Company.

Compensation cost of the above stock options recognized was NT\$515 thousand and NT\$2,607 thousand for the years ended December 31, 2016 and 2015, respectively.

2) Cash-settled share-based compensation

Cash-settled share-based compensation plan (Stock Appreciation Rights, SARs) was approved by the Company's Board of Directors on June 14, 2012, and the options may be granted to qualified employees of the Company. The aforementioned SARs are valid for ten years and holders of the SARs could exercise their rights at a cumulative proportion basis after the grant date. The Company shall pay the intrinsic value of the SARs to the employees at the date of exercise.

The Company's SARs plan is described as follows:

	2012 SARs
Grant date	June 14, 2012
SARs granted (in thousand)	2,000
Valid period	10 years
Current turnover rate	-
Future turnover rate (estimated)	-
Exercise price on grant date (NT\$/share)	\$ 49.4

Information about the Company's SARs plan was as follows:

	Number of SARs (In Thousands)	Weighted- average Exercise Price (NT\$)
<u>Year ended December 31, 2016</u>		
Balance, beginning of year	<u>1,000</u>	\$ 47.70
Balance, end of year	<u>1,000</u>	47.20
Balance exercisable, end of year	<u>1,000</u>	47.20
<u>Year ended December 31, 2015</u>		
Balance, beginning of year	2,000	\$ 48.80
SARs exercised	<u>(1,000)</u>	48.80
Balance, end of year	<u>1,000</u>	47.70
Balance exercisable, end of year	<u>600</u>	47.70

The exercise price of outstanding SARs has been adjusted to reflect the distribution of earnings by the Company in accordance with the plan.

The aforementioned SARs were priced using the Black-Scholes pricing model at each balance sheet date, and the inputs to the model were as follows:

	<u>December 31</u>	
	2016	2015
Stock price on measurement date (NT\$/share)	\$ 32.55	\$ 32.40
Exercise price (NT\$/share)	\$ 47.20	\$ 47.70
Expected volatility	47.12%-48.06%	44.44%-47.29%
Expected life	0.45-2.45years	1.45-3.45 years
Expected dividend yield	-	-
Risk-free interest rate	0.56%-0.73%	0.44%-0.56%

The expected volatility was calculated based on the historical stock prices of the competitive companies of the Company.

The Company reversed total expenses of NT\$1,157 thousand and NT\$15,807 thousand in respect of the SARs for the years ended December 31, 2016 and 2015, respectively. A total of 1,000 thousand SARs were exercised and the Company wrote off the related compensation liabilities of NT\$11,000 thousand for the year ended December 31, 2015. As of December 31, 2016 and 2015, the Company recognized compensation liabilities of NT\$4,843 thousand and NT\$6,000 thousand, respectively; the total intrinsic value of the vested SARs was both NT\$0; and the weighted-average remaining contractual life of the SARs was 5.45 years and 6.45 years, respectively.

3) Employee Restricted Stock Plans

On June 14, 2016, the shareholder's meeting of the Company approved a restricted stock plan for employees with a total amount of NT\$15,000 thousand, consisting of 1,500 thousand shares with a par value of NT\$10, for consideration of NT\$0 (issued for no consideration). The employee restricted stock plan was approved by the FSC on June 27, 2016.

According to the abovementioned resolution, the Company's Board of Directors had approved to grant the restricted stocks to employees with a total amount of NT\$15,000 thousand, consisting of 1,500 thousand shares with a par value of NT\$10, for consideration of NT\$0 (issued for no consideration) on February 17, 2017. The restricted stocks were granted on February 17, 2017 and expected to be issued on March 15, 2017; the value of the stock was based on a fair value of NT\$41.70 per share at the date of grant.

Vesting conditions requires an employee should reach the Company's performance and the individual's performance at the same time. Vesting shares are to be calculated as full one share. Fractional share less than one share shall be rounded-down.

a) The First Year Vesting (One year has elapsed from the time of issuance date)

The Company's Performance EPS (Note1) is positive number, and that equal to or grow more than previous year 10%. An employee who remains employed at the Company after one year has elapsed from the time of vesting, and also never against labor contract and who in the current year performance rating equal to or higher than S, will be eligible for vesting of an installment of 20% of the shares.

b) The Second Year Vesting (Two years have elapsed from the time of issuance date)

The Company's Performance EPS is positive number, and that equal to or grow more than previous year 10%. An employee who remains employed at the Company after two year has elapsed from the time of vesting, and also never against labor contract and who in the current year performance rating equal to or higher than S, will be eligible for vesting of an installment of 20% of the shares.

c) The Third Year Vesting (Three years have elapsed from the time of issuance date)

i. The Company's Performance EPS is positive number, and that equal to or grow more than previous year 10%. An employee who remains employed at the Company after three year has elapsed from the time of vesting, and also never against labor contract and who in the current year performance rating equal to or higher than S, will be eligible for vesting of an installment of 26.7% of the shares.

ii. Company's Performance EPS equal to or achieve more than NT\$2. An employee who remains employed at the Company after three year has elapsed from the time of vesting, and also never against labor contract and who in the current year performance rating equal to or higher than S, will be eligible for vesting of more installment of 33.3% of the shares.

Note 1: The Company's Performance EPS: That means Earning per Share in financial statements audited by CPA of the recent year prior to the vesting date.

Note 2: The Company's Performance Rating Rule: O (Outstanding), S (Successful), I (Improvement Needed) and U (Unacceptable).

Restrictions on the rights associated with shares that have not yet vested:

i. During the vesting period, an employee may not sell, pledge, transfer, give to another person, request the Company to buy back, or otherwise dispose of, new restricted employee shares.

- ii. The shareholder's right due to the new restricted employee shares is executed based on Trust contract signed by employees.
- iii. During the vesting period, the new restricted employee shares can still participate in stock and cash dividends and subscription to cash rights issues and such cash dividends and subscription is not required to be deposited in trust and will not be subject to restrictions.

20. OPERATING REVENUE

The analysis of the Company's operating revenue was as follows:

	Years Ended December 31	
	2016	2015
Wafer Level Chip Scale Packaging	\$ 2,353,976	\$ 2,907,033
Wafer Level Post Passivation Interconnection	1,543,795	1,946,009
Others	<u>22,927</u>	<u>25,046</u>
	<u>\$ 3,920,698</u>	<u>\$ 4,878,088</u>

21. OTHER OPERATING INCOME AND EXPENSES, NET

	Years Ended December 31	
	2016	2015
Income (expenses) of leased assets		
Rental income	\$ 11,501	\$ 514,095
Depreciation of leased assets	(465)	(405,323)
Relocation of machinery and equipment	(2,310)	(27,537)
Others	<u>(1,883)</u>	<u>(1,199)</u>
	6,843	80,036
Gain on disposal of property, plant and equipment, net	53,302	550
Impairment loss on property, plant and equipment	<u>(2,884)</u>	<u>(24,411)</u>
	<u>\$ 57,261</u>	<u>\$ 56,175</u>

22. INTEREST INCOME

	Years Ended December 31	
	2016	2015
Interest income-Bank deposits	<u>\$ 2,882</u>	<u>\$ 4,807</u>

23. FINANCE COSTS

	<u>Years Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Interest expense		
Bank loans	\$ 17,591	\$ 20,673
Others	<u>4,472</u>	<u>3,267</u>
	22,063	23,940
Loss arising on cash flow hedge reclassified from equity to profit or loss	<u>1,871</u>	<u>674</u>
	<u>\$ 23,934</u>	<u>\$ 24,614</u>

24. OTHER GAINS AND LOSSES

	<u>Years Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Net gain/(loss) arising on financial instruments designated as at FVTPL	\$ 11,749	\$ (23,526)
Proceeds of insurance settlement	5	80
Foreign exchange (loss)/gain, net	(20,581)	23,818
Others	<u>1,630</u>	<u>(919)</u>
	<u>\$ (7,197)</u>	<u>\$ (547)</u>

25. INCOME TAX

a. Income tax expense recognized in profit or loss

Income tax expense consisted of the following:

	<u>Years Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Current income tax benefit (expense)		
Current tax expense recognized in the current year	\$ -	\$ (24,634)
Additional income tax on unappropriated earnings	-	(28,018)
Income tax adjustments on prior years	<u>-</u>	<u>(7,661)</u>
	<u>-</u>	<u>(60,313)</u>
Deferred income tax benefit (expense)		
The origination and reversal of temporary differences	(36,841)	30,948
Income tax credits and loss carryforwards	<u>141,653</u>	<u>(38,101)</u>
	<u>104,812</u>	<u>(7,153)</u>
Income tax benefit (expense) recognized in profit or loss	<u>\$ 104,812</u>	<u>\$ (67,466)</u>

A reconciliation of income before income tax and income tax expense recognized in profit or loss was as follows:

	Years Ended December 31	
	2016	2015
(Loss) income before tax	<u>\$ (741,631)</u>	<u>\$ 214,265</u>
Income tax (expense) benefit at the statutory rate (17%)	\$ 126,077	\$ (36,425)
Tax effect of adjusting items:		
Deductible items in determining (expense) taxable income	12,244	(31,766)
Tax-exempt income	-	8,911
Additional income tax on unappropriated earnings	-	(28,018)
The origination and reversal of temporary differences	(36,841)	30,948
Remeasurement of investment tax credits	3,332	(3,455)
Income tax adjustments on prior years	<u>-</u>	<u>(7,661)</u>
Income tax benefit (expense) recognized in profit or loss	<u>\$ 104,812</u>	<u>\$ (67,466)</u>

b. Deferred income tax balance

The analysis of deferred income tax assets in the balance sheets was as follows:

	December 31	
	2016	2015
Loss carryforwards	\$ 141,653	\$ -
Temporary differences		
Depreciation	38,863	72,102
Provision for sales returns and allowance	9,412	14,130
Unrealized loss on inventories	4,893	3,647
Others	<u>4,848</u>	<u>4,978</u>
	<u>\$ 199,669</u>	<u>\$ 94,857</u>

Movements of deferred income tax assets were as follows:

	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
<u>Year ended December 31, 2016</u>			
Loss carryforwards	\$ -	\$ 141,653	\$ 141,653
Temporary differences			
Depreciation	72,102	(33,239)	38,863
Provision for sales returns and allowance	14,130	(4,718)	9,412
Unrealized loss on inventories	3,647	1,246	4,893
Others	<u>4,978</u>	<u>(130)</u>	<u>4,848</u>
	<u>\$ 94,857</u>	<u>\$ 104,812</u>	<u>\$ 199,669</u>

(Continued)

	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
<u>Year ended December 31, 2015</u>			
Loss carryforwards	\$ 32,350	\$ (32,350)	\$ -
Temporary differences			
Depreciation	55,278	16,824	72,102
Provision for sales returns and allowance	10,226	3,904	14,130
Unrealized loss on inventories	3,072	575	3,647
Others	<u>1,084</u>	<u>3,894</u>	<u>4,978</u>
	<u>\$ 102,010</u>	<u>\$ (7,153)</u>	<u>\$ 94,857</u>
			(Concluded)

- c. Deductible temporary differences for which no deferred tax assets have been recognized in the balance sheets

	<u>December 31</u>	
	2016	2015
Deductible temporary differences		
Depreciation	<u>\$ 137,120</u>	<u>\$ 45,804</u>

- d. Information about unused loss carryforwards and tax-exemption

Loss carryforwards as December 31, 2016 comprised of:

Expiry Year	Unused Amount
2022	\$ 19,598
2026	<u>813,655</u>
	<u>\$ 833,253</u>

As of December 31, 2016, the profits generated from integrated circuit packaging are exempt from income tax for a five-year period:

	Tax-exemption Period
Third construction and expansion	2015 to 2019

- e. Integrated income tax information

	<u>December 31</u>	
	2016	2015
Balance of the Imputation Credit Account	<u>\$ 151,831</u>	<u>\$ 191,600</u>

Due to the net loss for the year ended December 31, 2016, the Company planned not to distribute accumulated unappropriated retained earnings. Thus, tax creditable ratio was not calculated. The actual creditable ratio for distribution of the Company's earnings of 2015 was 12.93%; however, effective from January 1, 2015, the creditable ratio for individual shareholders residing in the Republic of China will be half of the original creditable ratio according to the revised Article 66 - 6 of the Income Tax Law.

The imputation credit allocated to shareholders is based on its balance as of the date of the dividend distribution. The estimated creditable ratio may change when the actual distribution of the imputation credit is made.

There were no earnings generated prior to December 31, 1997.

f. Income tax examination

The tax authorities have examined income tax returns of the Company through 2014. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

26. (LOSS) EARNINGS PER SHARE

	<u>Years Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Basic (loss) earnings per share	<u>\$(2.36)</u>	<u>\$0.56</u>
Diluted (loss) earnings per share	<u>\$(2.36)</u>	<u>\$0.56</u>

(Loss) earnings per share is computed as follows:

	<u>Amounts</u> <u>(Numerator)</u>	<u>Number of</u> <u>Shares</u> <u>(Denominator)</u> <u>(In Thousands)</u>	<u>(Loss) Earnings</u> <u>Per Share</u> <u>(NT\$)</u>
<u>Year ended December 31, 2016</u>			
Basic and diluted loss per share			
Net loss available to common shareholders	<u>\$(636,819)</u>	<u>269,339</u>	<u>\$(2.36)</u>
<u>Year ended December 31, 2015</u>			
Basic earnings per share			
Net income available to common shareholders	\$ 146,799	261,574	<u>\$ 0.56</u>
Effect of dilutive potential common share	<u>-</u>	<u>2,691</u>	
Diluted earnings per share			
Net income available to common shareholders (including effect of dilutive potential common share)	<u>\$ 146,799</u>	<u>264,265</u>	<u>\$ 0.56</u>

If the Company offered to settle the obligation by cash or by issuing shares, the profit sharing bonus to employees which will be settled in shares were included in the weighted average number of shares outstanding in the calculation of diluted EPS, as the shares have a dilutive effect. Such dilutive effect of the potential shares is included in the calculation of diluted EPS until the profit sharing bonus to employees to be settled in the form of common stocks is approved in the following year.

27. ADDITIONAL INFORMATION OF EXPENSES BY NATURE

Net (loss) income included the following items:

	Years Ended December 31	
	2016	2015
a. Depreciation of property, plant and equipment		
Recognized in operating costs	\$ 1,166,600	\$ 832,839
Recognized in operating expenses	12,033	9,652
Recognized in other operating income and expenses	<u>465</u>	<u>405,323</u>
	<u>\$ 1,179,098</u>	<u>\$ 1,247,814</u>
b. Amortization of intangible assets		
Recognized in operating costs	\$ 15,894	\$ 15,702
Recognized in operating expenses	<u>25,580</u>	<u>20,627</u>
	<u>\$ 41,474</u>	<u>\$ 36,329</u>
c. Research and development costs expensed as incurred	<u>\$ 316,282</u>	<u>\$ 359,845</u>
d. Employee benefits expenses		
Post-employment benefits (Note 17)		
Defined contribution plans	\$ 56,834	\$ 57,554
Defined benefit plans	<u>(8)</u>	<u>(56)</u>
	<u>56,826</u>	<u>57,498</u>
Share-based payments		
Cash-settled	(1,157)	(15,807)
Equity-settled	<u>515</u>	<u>63,371</u>
	<u>(642)</u>	<u>47,564</u>
Other employee benefits	<u>1,406,418</u>	<u>1,533,514</u>
	<u>\$ 1,462,602</u>	<u>\$ 1,638,576</u>
Employee benefits expense summarized by function		
Recognized in operating costs	\$ 1,144,797	\$ 1,307,863
Recognized in operating expenses	<u>317,805</u>	<u>330,713</u>
	<u>\$ 1,462,602</u>	<u>\$ 1,638,576</u>

In accordance with the amendments to the Company Act in May 2015 and the amended the Company's Articles of Incorporation approved by the Company's shareholders in its meeting held in June, 2016. If the Company has annual profits, the Company shall allocate profit sharing bonus to employees and compensation to directors not less than 1% and not more than 2% of annual profits, respectively. Directors who also serve as executive officers of the Company are not entitled to receive the compensation to directors. The Company's profit sharing bonus to employees and compensation to directors have to be resolved by a majority vote at a Board of Directors meeting attended by two-thirds of the total number of directors and shall be reported to the shareholders' meeting. However, the Company shall reserve a sufficient profit to offset its accumulated deficits, and then set aside profit sharing bonus to employees and compensation to directors in accordance with the predetermined ratio. The Company also can allocate profit sharing bonus to the employees of an affiliated company upon meeting the conditions set by the Board of directors.

The Company accrued profit sharing bonus to employees and compensation to directors based on a percentage of income before income tax (before profit sharing bonus to employees and compensation to directors during the period under the amended Company Act), which amounted to NT\$1,800 thousand and NT\$23,765 thousand (both including NT\$1,800 thousand compensation to independent directors) for the years ended December 31, 2016 and 2015, respectively.

If there is a change in the proposed amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

The Board of Directors of the Company held on February 3, 2016 approved the profit sharing bonus to employees and compensation to directors in the amounts of NT\$23,765 thousand (including NT\$1,800 thousand of the compensation to independent directors) in cash for 2015. The Company's profit sharing bonus to employees and compensation to directors in the amounts of NT\$88,987 thousand (including NT\$1,800 thousand of the compensation to independent directors) in cash for 2014, had been approved by the shareholders in its meetings held on June 16, 2015. The profit sharing bonus to employees and compensation to directors in cash for 2015 had been reported to the Company's shareholders in its meeting held on June 14, 2016, after the amended the Company's Articles of Incorporation had been approved. The aforementioned approved amount has no difference with the one recognized in the financial statements for the years ended December 31, 2015 and 2014, respectively.

The Board of Directors of the Company held a meeting on February 17, 2017 and decided not to grant profit sharing bonus to employees and compensation to directors but approved NT\$1,800 thousand of compensation to independent directors for 2016.

The information about the appropriations of the Company's profit sharing bonus to employees, bonus and compensation to directors is available at the Market Observation Post System website.

28. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company manages its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, capital asset purchases, research and development activities, dividend payments, debt service requirements and other business requirements associated with its existing operations over the next 12 months.

29. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Financial assets</u>		
Loans and receivables		
Cash and cash equivalents	\$ 1,209,162	\$ 824,386
Accounts receivable, net (including related parties)	551,110	584,784
Other receivables from related parties	-	27,720
Other financial assets	647	672
Refundable deposits	<u>11,015</u>	<u>9,271</u>
	<u>\$ 1,771,934</u>	<u>\$ 1,446,833</u>
<u>Financial liabilities</u>		
FVTPL		
Held for trading derivatives	\$ 9,534	\$ 5,423
Derivative financial instruments in designated hedge accounting relationships	-	1,774
Measured at amortized cost		
Accounts payable	216,171	277,606
Payables to contractors and equipment suppliers	324,456	424,941
Accrued expenses and other current liabilities	271,191	274,036
Long-term borrowings	<u>2,225,000</u>	<u>1,385,000</u>
	<u>\$ 3,046,352</u>	<u>\$ 2,368,780</u>

b. Financial risk management objectives and policies

The Company seeks to ensure sufficient cost-efficient funding readily available when needed. The Company manages its exposure to foreign currency risk, interest rate risk, credit risk and liquidity risk with the objective to reduce the potentially adverse effects the market uncertainties may have on its financial performance.

The plans for material treasury activities are reviewed by Board of Directors in accordance with procedures required by relevant regulations and internal controls. During the implementation of such plans, the treasury function must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties.

c. Market risk

The Company is exposed to the market risks arising from changes in foreign exchange rates, interest rates, and utilizes some derivative financial instruments to reduce the related risks.

Foreign currency risk

Most of the Company's operating activities are denominated in foreign currencies. Consequently, the Company is exposed to foreign currency risk. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, the Company utilizes derivative financial instruments, including currency forward contracts, to hedge its currency exposure. These instruments help to reduce, but do not eliminate, the impact of foreign currency exchange rate movements.

The Company's sensitivity analysis to foreign currency risk mainly focuses on the foreign currency monetary items at the end of the reporting period. Assuming an unfavorable 10% movement in the levels of foreign exchanges against the New Taiwan dollar, the net (loss) income for the years ended December 31, 2016 and 2015 would have increased/decreased by NT\$356 thousand and NT\$916 thousand, respectively, after taking into consideration of the hedging contracts and the hedged items.

Interest rate risk

Variable-rate long-term bank borrowings cause the Company to be exposed to cash flow interest rate risk, but not fair value interest rate risk. Consequently, the Company entered into interest rate swap contracts to mitigate the risk of changes in interest rates on cash flow.

The Company's analysis of sensitivity to interest rate risk is prepared assuming the amount of the variable-rate long-term bank borrowings outstanding at the end of the reporting period was outstanding for the whole year. If interest rates had been 100 basis points (1%) higher and all other variables were held constant, the Company's interest expense, net of income tax, for the years ended December 31, 2016 and 2015 would have been higher by NT\$18,468 thousand and NT\$7,346 thousand, respectively,

d. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is exposed to credit risk from operating activities, primarily accounts receivable, and from investing activities, primarily deposits with banks. As of the balance sheet date, the Company's maximum credit risk exposure is mainly from the carrying amount of financial assets recognized in the balance sheet.

Business related credit risk

The Company has considerable accounts receivable outstanding with its customers worldwide. A substantial majority of the Company's outstanding accounts receivable are not covered by collateral or credit insurance. While the Company has procedures to monitor and limit exposure to credit risk on accounts receivable, there can be no assurance such procedures will effectively limit its credit risk and avoid losses.

The Company's concentration of credit risk of 68% and 62% in total accounts receivables as of December 31, 2016 and 2015, respectively, was related to the Company's two largest customers.

Financial credit risk

The Company regularly monitors and reviews the transaction limit applied to counterparties and adjusts the concentration limit according to market conditions and the credit standing of the counterparties. The Company mitigates its exposure by selecting creditworthy financial institutions.

e. Liquidity risk management

The objective of liquidity risk management is to ensure the Company has sufficient liquidity to fund its business requirements. The Company manages its liquidity risk by maintaining adequate cash and banking facilities.

The Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2016 and 2015, the unused financing facilities of the Company amounted to NT\$2,377,343 thousand and NT\$4,244,647 thousand, respectively.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments, including principal and interest.

	Less Than 1 Year	2-3 Years	4-5 Years	5+ Years	Total
<u>December 31, 2016</u>					
<u>Non-derivative financial liabilities</u>					
Accounts payable	\$ 216,171	\$ -	\$ -	\$ -	\$ 216,171
Payables to contractors and equipment suppliers	324,456	-	-	-	324,456
Accrued expenses and other current liabilities	271,191	-	-	-	271,191
Long-term borrowings	<u>169,223</u>	<u>1,702,187</u>	<u>404,794</u>	<u>-</u>	<u>2,276,204</u>
	<u>981,041</u>	<u>1,702,187</u>	<u>404,794</u>	<u>-</u>	<u>3,088,022</u>
<u>Derivative financial liabilities</u>					
Forward exchange contracts					
Outflows	620,249	-	-	-	620,249
Inflows	<u>(610,715)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(610,715)</u>
	<u>9,534</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,534</u>
	<u>\$ 990,575</u>	<u>\$ 1,702,187</u>	<u>\$ 404,794</u>	<u>\$ -</u>	<u>\$ 3,097,556</u>
<u>December 31, 2015</u>					
<u>Non-derivative financial liabilities</u>					
Accounts payable	\$ 277,606	\$ -	\$ -	\$ -	\$ 277,606
Payables to contractors and equipment suppliers	424,941	-	-	-	424,941
Accrued expenses and other current liabilities	274,036	-	-	-	274,036
Long-term borrowings	<u>350,335</u>	<u>1,062,140</u>	<u>-</u>	<u>-</u>	<u>1,412,475</u>
	<u>1,326,918</u>	<u>1,062,140</u>	<u>-</u>	<u>-</u>	<u>2,389,058</u>
<u>Derivative financial liabilities</u>					
Forward exchange contracts					
Outflows	689,479	-	-	-	689,479
Inflows	<u>(684,056)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(684,056)</u>
	<u>5,423</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,423</u>
Interest rate swap contracts					
Outflows	5,297	-	-	-	5,297
Inflows	<u>(3,846)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,846)</u>
	<u>1,451</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,451</u>
	<u>\$ 1,333,792</u>	<u>\$ 1,062,140</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,395,932</u>

f. Fair value of financial instruments

1) Fair value of financial instruments carried at amortized cost

The Company considers that the carrying amounts of financial assets and financial liabilities carried at amortized cost recognized in the financial statements approximate their fair values.

2) Fair value measurements recognized in the balance sheets

The Company's financial assets and liabilities are measured at fair value. The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 inputs are unobservable inputs for the asset or liability.

3) Fair value of financial instruments that are measured at fair value on a recurring basis

Fair value hierarchy

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
<u>Financial liabilities at FVTPL</u>				
Derivative financial instruments	\$ -	\$ 9,534	\$ -	\$ 9,534
<u>December 31, 2015</u>				
	Level 1	Level 2	Level 3	Total
<u>Financial liabilities at FVTPL</u>				
Derivative financial instruments	\$ -	\$ 5,423	\$ -	\$ 5,423
<u>Hedging derivative financial liabilities</u>				
Interest rate swap contracts	\$ -	\$ 1,774	\$ -	\$ 1,774

There were no transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended December 31, 2016 and 2015, respectively.

There were no purchases and disposals for financial assets on Level 3 for the years ended December 31, 2016 and 2015, respectively.

Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities were determined as follows:

- Forward exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps contracts are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.
- The fair values of other financial assets and financial liabilities were determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

30. RELATED PARTY TRANSACTIONS

Besides as disclosed elsewhere in the other notes, the transactions between the Company and its related parties are summarized as follows:

a. Operating transactions

	<u>Operating Revenue, Net</u>		<u>Manufacturing Overhead</u>	
	<u>Years Ended December 31</u>		<u>Years Ended December 31</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Investors that have significant influence over the Company	\$ 1,376,437	\$ 2,923,500	\$ -	\$ 882
Other related parties	<u>967</u>	<u>-</u>	<u>118</u>	<u>32</u>
	<u>\$ 1,377,404</u>	<u>\$ 2,923,500</u>	<u>\$ 118</u>	<u>\$ 914</u>
	<u>Operating Expenses</u>		<u>Rental Income</u>	
	<u>Years Ended December 31</u>		<u>Years Ended December 31</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Investors that have significant influence over the Company	\$ 1,352	\$ 22,392	\$ -	\$ 513,342
Other related parties	<u>1,973</u>	<u>1,693</u>	<u>11,501</u>	<u>753</u>
	<u>\$ 3,325</u>	<u>\$ 24,085</u>	<u>\$ 11,501</u>	<u>\$ 514,095</u>
	<u>Purchases</u>			
	<u>Years Ended December 31</u>			
	<u>2016</u>	<u>2015</u>		
Investors that have significant influence over the Company	<u>\$ -</u>	<u>\$ 878</u>		
	<u>Proceeds from Disposal of Property, Plant and Equipment</u>			
	<u>Years Ended December 31</u>			
	<u>2016</u>	<u>2015</u>		
Investors that have significant influence over the Company	\$ -	\$ 26,149		
Other related parties	<u>-</u>	<u>22,151</u>		
	<u>\$ -</u>	<u>\$ 48,300</u>		
	<u>Gains on Disposal of Property, Plant and Equipment</u>			
	<u>Years Ended December 31</u>			
	<u>2016</u>	<u>2015</u>		
Other related parties	\$ -	\$ 11,073		
Investor that have significant influence over the Company	<u>-</u>	<u>10,144</u>		
	<u>\$ -</u>	<u>\$ 21,217</u>		

The outstanding balances at the end of reporting period are as follows:

	Receivables from Related Parties	
	December 31	
	2016	2015
Investors that have significant influence over the Company	\$ 123,586	\$ 240,676
Other related parties	<u>953</u>	<u>-</u>
	<u>\$ 124,539</u>	<u>\$ 240,676</u>
	Other Receivables from Related Parties	
	December 31	
	2016	2015
Investors that have significant influence over the Company	\$ -	\$ 27,632
Other related parties	<u>-</u>	<u>88</u>
	<u>\$ -</u>	<u>\$ 27,720</u>
	Other Current Assets	
	December 31	
	2016	2015
Investors that have significant influence over the Company	<u>\$ -</u>	<u>\$ 59</u>
	Accrued Expenses and Other Current Liabilities	
	December 31	
	2016	2015
Investors that have significant influence over the Company	\$ -	\$ 1,036
Other related parties	<u>532</u>	<u>507</u>
	<u>\$ 532</u>	<u>\$ 1,543</u>

The prices and terms of sales to and purchases from related parties were not significantly different from those of sales to third parties. For other related party transactions, price and terms were determined in accordance with mutual agreements.

The Company leased property, plant and equipment to related parties. The lease terms and prices were both determined in accordance with mutual agreements. The rental income was received quarterly or monthly; the related rental income of leased assets was recognized under other operating income and expenses.

b. Compensation of key management personnel:

The compensation to directors and other key management personnel for the years ended December 31, 2016 and 2015 were as follows:

	<u>Years ended December 31</u>	
	2016	2015
Short-term employee benefits	\$ 20,851	\$ 32,964
Post-employment benefits	585	648
Share-based payments	<u>(1,027)</u>	<u>(13,048)</u>
	<u>\$ 20,409</u>	<u>\$ 20,564</u>

The compensation to directors and other key management personnel were determined by the Compensation Committee of the Company in accordance with the individual performance and the market trends.

31. PLEDGED ASSETS

The following assets were provided as collateral for long-term bank borrowings:

	<u>Years Ended December 31</u>	
	2016	2015
Pledged machinery and equipment	<u>\$ 456,261</u>	<u>\$ 571,360</u>

32. OPERATING LEASE ARRANGEMENTS

The Company leases several parcels of plants and offices from the Jhongli Industrial Park. These operating leases expire between January 2017 and July 2021. The lease agreement can be renewed upon expiration, and Jhongli Industrial Park can adjust annual rental amounts by lease agreement.

The Company expensed the lease payments as follows:

	<u>Years Ended December 31</u>	
	2016	2015
Minimum lease payments	<u>\$ 78,842</u>	<u>\$ 56,384</u>

Future minimum lease payments under the above non-cancellable operating leases are as follows:

	<u>December 31</u>	
	2016	2015
Not later than 1 year	\$ 65,036	\$ 47,004
Later than 1 year and not later than 5 years	174,006	80,945
Later than 5 years	<u>121,233</u>	<u>-</u>
	<u>\$ 360,275</u>	<u>\$ 127,949</u>

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant contingent liabilities and unrecognized commitments of the Company as of the end of the reporting period, excluding those disclosed in other notes, were as follows:

- a. In June 2000, the Company had entered into a technology license agreement with Engineering and IP Advanced Technologies Ltd. (formerly ShellCase Ltd.). According to the agreement, the Company should pay license fee by installments, which was fully paid as of June 2001. Such license fee was recognized in acquired special technology under intangible assets and was amortized over 20-year useful life. Besides, from April 2003 to March 2015 with a period of 12 years, the Company paid royalties at specific percentages of sales amount of identified products under the agreement.
- b. As of December 31, 2016 and 2015, unused letters of credit for purchases of machinery and equipment amounted to NT\$397 thousand and NT\$3,593 thousand, respectively.
- c. The amounts that the Company has committed to purchase property, plant and equipment were NT\$755,315 thousand.

34. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

The significant financial assets and financial liabilities denominated in foreign currencies were as follows:

	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Carrying Amount (In Thousands)
<u>December 31, 2016</u>			
<u>Financial assets</u>			
Monetary items			
USD	\$ 21,194	32.199	\$ 682,411
JPY	52,078	0.2756	14,353
EUR	283	33.90	9,577
CHF	100	31.53	3,150
<u>Financial liabilities</u>			
Monetary items			
USD	2,060	32.199	66,333
JPY	52,178	0.2756	14,380
EUR	285	33.90	9,672
CHF	100	31.53	3,150
<u>December 31, 2015</u>			
<u>Financial assets</u>			
Monetary items			
USD	26,341	32.895	866,476
JPY	46,264	0.2727	12,616
EUR	648	35.88	23,254
CHF	139	33.19	4,612

(Continued)

	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Carrying Amount (In Thousands)
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 5,699	32.895	\$ 187,456
JPY	46,264	0.2727	12,616
EUR	664	35.88	23,827
CHF	139	33.19	4,612
			(Concluded)

Note: Exchange rate represents the number of N.T. dollars for which one foreign currency could be exchanged.

The significant (realized and unrealized) foreign exchange gain (loss) was as follows:

Foreign Currencies	Years Ended December 31			
	2016		2015	
	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
USD	32.199	\$ (19,907)	32.895	\$ 23,351
JPY	0.2756	(500)	0.2727	441
EUR	33.90	(185)	35.88	13
CHF	31.53	<u>11</u>	33.19	<u>13</u>
		<u>\$ (20,581)</u>		<u>\$ 23,818</u>

35. OPERATING SEGMENT INFORMATION

a. Operating segments

The Company operates in individual industry on the basis of how the Company's chief operating decision maker regularly reviews information in order to allocate resources and assess performance. The basis for the measurement of the operating segment profit (loss), assets and liabilities is the same as that for the preparation of financial statements. Please refer to the financial statements for the related operating segment information.

b. Geographic operating revenue information

<u>Region</u>	Years Ended December 31	
	2016	2015
Taiwan	\$ 1,681,085	\$ 2,112,030
United States	1,462,703	1,309,416
Europe	582,679	1,068,168
Asia	<u>194,231</u>	<u>388,474</u>
	<u>\$ 3,920,698</u>	<u>\$ 4,878,088</u>

The geographic information is presented by billed regions. Non-current assets were all placed in Taiwan, so the disclosure of non-current asset information was not required.

c. Production information

Production	Years Ended December 31	
	2016	2015
Wafer Level Chip Scale Packaging	\$ 2,353,976	\$ 2,907,033
Wafer Level Post Passivation Interconnection	1,543,795	1,946,009
Others	<u>22,927</u>	<u>25,046</u>
	<u>\$ 3,920,698</u>	<u>\$ 4,878,088</u>

d. Major customers representing at least 10% of operating revenue

	Years Ended December 31			
	2016		2015	
	Amount	%	Amount	%
Customer A	\$ 1,376,437	35	\$ 1,812,248	37
Customer B	1,294,256	33	1,209,191	25
Customer C	533,869	14	1,015,974	21

36. ADDITIONAL DISCLOSURES

a. Significant transactions

- 1) Financing provided to others: None;
- 2) Endorsements/guarantees provided: None;
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint ventures): Please see Table 1 attached;
- 4) Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital: None;
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None;
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None;
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 2 attached;
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached;
- 9) Information about the derivative instruments transaction: Please see Notes 7 and 8

b. Information on investees: None;

c. Information on investments in mainland China: None.

E. Consolidated Financial Statements and Independent Auditors' Report: None

F. The Financial Impact to the Company due to Company or Affiliate Companies Financial Difficulties: None

VII. Financial Position, Operating Results and Risk Management

A. Financial Position

Unit: NT\$, in Thousands

Item \ Year	2016	2015	Difference	
			Amount	%
Current assets	2,023,778	1,771,461	252,317	14.24
Property, plant and equipment	6,128,613	6,561,638	(433,025)	(6.60)
Intangible assets	69,361	81,986	(12,625)	(15.40)
Other assets	212,524	104,128	108,396	104.10
Total assets	8,434,276	8,519,213	(84,937)	(1.00)
Current liabilities	1,214,362	1,592,892	(378,530)	(23.76)
Non current liabilities	2,114,962	1,074,440	1,040,522	96.84
Total liabilities	3,329,324	2,667,332	661,992	24.82
Capital stock	2,698,534	2,688,761	9,773	0.36
Capital Surplus	1,592,780	1,580,613	12,167	0.77
Retained earnings	813,638	1,584,281	(770,643)	(48.64)
Other equity	-	(1,774)	1,774	(100.00)
Total equity	5,104,952	5,851,881	(746,929)	(12.76)

Items will be analyzed and explained if ratio changed more than $\pm 20\%$ and changed amount excess NT\$10 millions:

1. Other assets increased were mainly due to deferred income tax assets increased.
2. Current liabilities decreased were Long-term borrowings - current portion and payables to equipment suppliers decreased.
3. Noncurrent liabilities increased were mainly due to increased of long-term bank loans.
4. Total liabilities increased were mainly due to increased of long-term bank loans.
5. Retained earnings and total equity decreased were mainly due to net loss of 2016.

B. Financial Performance

1. Financial Performance in Most Recent 2 Years:

Unit: NT\$, in Thousands

Item \ Year	2016	2015	Difference	%
Operating revenues	3,920,698	4,878,088	(957,390)	(19.63)
Operating costs	4,219,531	4,186,717	32,814	0.78
Gross (loss) profit	(298,833)	691,371	(990,204)	(143.22)
Operating expense	471,810	512,927	(41,117)	(8.02)
Other revenue and expense	57,261	56,175	1,086	1.93
(Loss) income from operation	(713,382)	234,619	(948,001)	(404.06)
Non-operating income and expense	(28,249)	(20,354)	(7,895)	(38.79)
(Loss) Income before income tax	(741,631)	214,265	(955,896)	(446.13)
Income tax	104,812	(67,466)	172,278	255.36
Net (loss) income	(636,819)	146,799	(783,618)	(533.80)
<p>Items will be analyzed and explained if ratio changed more than $\pm 20\%$ and changed amount excess NT\$10 millions:</p> <ol style="list-style-type: none"> 1. Gross margin, income from operating, income before income tax and net income decreased was mainly due to sales quantity and net revenue decreased. 2. Non-operating income and expense decreased was due to foreign exchange loss increased. 3. Income tax benefit increased was due to recognized deferred income tax benefit in 2016. 				

2. Sales Volume Forecast and Related Information, Major Impact and Future Plan on Financial Performance

(1) The Company forecast the next year revenue will grow up, compare to 2016 depending on macroeconomic, industry trend. Xintec continued to provide biometric sensor packaging services for existing customers, and developed new customers by new fingerprint packaging technology. Xintec also accelerated the development of new processes and production line conversion to provide other sensor packaging services and expected to go mass production in the next half year. Based on driving safety and Autonomous Driving trends, it is expected that the market demand for automotive image sensor packaging will continue to grow. With high-tech threshold, long product life, and stable revenue for the automotive packaging service, Xintec will continue to develop the automotive and monitoring image sensor customers and services. Xintec's 12-inch wafer-level packaging production line has been entered the mass production stage and applied the automotive and monitoring image sensor packaging in the future. Such investment and technology will be applied in other sensor fields in the future.

(2) Major Impact and Future Plan on Financial Performance: None.

C. Cash Flow

1. Analysis of Cash Flow

Unit: NT\$, in Thousands

Item \ Year	2016	2015	Difference	%
Operating activities	467,381	1,666,018	(1,198,637)	(71.95)
Investing activities	(785,037)	(1,336,744)	551,707	(41.27)
Financial activities	702,432	(311,333)	1,013,765	(325.62)
Total	384,776	17,941	366,835	2044.67

1. Cash flow from operating activities decreased was mainly due to net loss in 2016.

2. Cash flow from investing activities decreased was mainly due to decrease in capital expenditures.

3. Cash flow from financial activities increased was mainly due to increased in proceeds from long-term bank loans of NT\$2,117,500 thousands, decreased in issuing of new shares for cash of NT\$1,260,000 thousands, decreased in cash dividends of NT\$151,307 thousands.

2. Remedial Actions for Liquidity Shortfall

Cash flow generated from operation and long term debt. Not applicable for liquidity shortfall.

3. Cash Flow Projection for Next Year

Unit: NT\$, in Thousands

Cash Balance 2017/1/1	Net cash provided by operating activities in 2017	Net cash used in investing and financing activities in 2017	Cash Balance 2017/12/31	Remedy for Liquidity Shortfall	
				Investment Plan	Financing Plan
1,209,162	399,926	(299,882)	1,309,206	—	Bank loans

1. Analysis of cash flow for 2016:

(1) Cash provided by operating activities was mainly from cash receipted from customers.

(2) Cash used in investing and financing activities was mainly due to capital expenditures.

2. Remedial actions for cash shortfall and liquidity analysis: increase bank loans ◦

D. Major Capital Expenditure

Capital expenditure was to expand production equipment and capacity transfer in 2016, which cash flow generated from operation and long term debt. There was no unfavorable impact on the finance and operation.

E. Long Term Investment: Not applicable.

F. Risk Management

1. Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures:

(1) Interest Rate Fluctuation

The interest rate was in the rising trend recently and it is impacted the Company's profit and loss. The interest revenue was increased with the rising interest rate and also the interest expense was. The Company took attention on interest rate fluctuation and entered into interest rate swap contracts to mitigate the risk of changes in interest rates on the cash flow exposure related to the outstanding variable rate debt.

If interest rates had been 100 basis points (1%) higher and all other variables were held constant, the Company's interest expense, net of income tax, for the year of 2016 would have been higher by NT\$18,468 thousands.

(2) Foreign Exchange Volatility

The Company's revenues were mainly denominated in US dollars, and some of the manufacturing costs were denominated in currencies other than NT dollars. Therefore, any significant fluctuation to its disadvantage in such exchange rates would have an adverse effect on the Company's profit and loss. The Company utilizes derivative financial instruments, including currency forward contracts and cross currency swaps, to partially hedge its currency exposure. For more derivative transactions information, please refer to pages 136 of the Annual Report.

(3) Inflation Volatility

Faced with oil and electricity power price raising pressure, the Company monitors the supply status of the raw material, seeks the second source of the both good quality and price advantage, and improves the manufacturing process and products yield, and cost reduction to reduce the impact of rising prices.

2. Risks Associated with High-risk/high-leveraged Investment; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions:

The Company did not make high-risk or high-leveraged financial investments, loan to other parties, either the endorsements recently. The nature of the derivative transactions that Xintec entered into were strictly for hedging purposes to hedge foreign currency exposure. To control various types of financial transactions, The Company has established internal policies and procedures based on sound financial and business practices, all in compliance with the relevant rules and

regulations issued by the Taiwan Securities and Futures Bureau. The policies and procedures are “Procedures for Lending Funds to Other Parties”, “Procedures for Endorsement and Guarantee” and “Procedures for Acquisition or Disposal of Assets,” (“Policies and Procedures for Financial Derivative Transactions” included).

3. Future Research & Development Projects and Corresponding Budget:

In order to accelerate the development of advanced optical wafer-level packaging technology to expand in high-end image sensors used in mobile phones market, the future will focus on opening the package type through-silicon via (TSV) application, 3D wafer in a variety of optical sensor elements packaging technology (3D IC package) package and a new generation of improved through-silicon via (TSV CSP) and other wafer-level packaging technology research and development, innovation and wafer-level packaging technology will expand its product line and services to micro-electromechanical (MEMS), power field effect transistors, power control and analog components and other products. The budget for R&D expense will be NT\$ 330,434 thousands on 2017.

4. Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales:

The Company consistently pays close attention to any changes in Policies and Regulations Relating to Corporate Finance and Sales. Changes in related laws during 2016 have not had a significant impact on our operations.

5. Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales:

The Company carefully monitors market trends and assesses the impact they may have on the company's operations and attaches great importance to improvements in technology.

6. The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures:

The company attaches great importance to preparing for emergency management in natural or manmade disasters (like typhoon, earthquake, environmental pollution, communication outage, labor strike, shortage of raw material and of public supplies of water, gas and electricity, etc.). A comprehensive plan of emergency response has already been formulated, which specifies relevant procedures in setting up an emergency response team to cope with disasters. In an emergency, we can follow the plan to thoroughly analyze the cause of the incident and its consequence and then explore alternative schemes and relevant solutions in different circumstances; besides, the plan will also give us guidance in

formulating appropriate precautionary measures and disaster recovery strategies. In this way, we can survive an emergency while keeping damages from personnel injury, service interruption and financial impact to a minimum and maintaining the smooth operation of the company. Up to the printing date of this Annual Report, the company has not been faced with risks which may have a major impact on the daily operation and on the corporate image.

7. Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans: None.

8. Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans: please refer to pages 149 of the Annual Report.

9. Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration:

The Company procured raw materials from different suppliers as far as possible to ensure the smooth supply of raw materials and reduce the risk of centralized purchasing. Although the Company still made part of the raw materials from a single supplier, but the Company will continue to look for other suppliers to reduce the risk of centralized purchasing.

The largest customer, TSMC Group's net sales accounted for 35% of the company's sales of 2016, and decline to 31% as of March 31, 2017. The company will continue to actively develop new markets and new customers and maintain a good relationship with the existing customers continue to reduce risk.

10. Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%:

The price of the Company's stock may be impacted by possible future sales of the Company's shares owned by the major shareholders. The Director, TSMC, purchased Xintec's shares from VisEra Holding Company (from indirectly holding to directly holding). TSMC will remain as the largest shareholder of Xintec with approximately 41% ownership. TSMC announces to continue its close collaboration with Xintec in the business areas of CMOS image sensor, MEMS, and etc.

11. Effects of, Risks Relating to and Response to the Changes in Management Rights: None

12. Litigation or Non-litigation Matters

(1) Major ongoing lawsuits, non-lawsuits or administrative lawsuit

a. Civil Litigation for Returning the Purchase Payment

(a) Feng Hua Matter

The Company ordered several chip tray rotating machines in an amount equal to NT\$3,150,000 (tax included) with Fen Hua Technology Corporation (“Feng Hua”), and has already paid an 80% deposit in an amount equal to NT\$2,520,000 (tax included). But because Feng Hua was unable to provide the chip wafer rotating machines in accordance with the specification as stated in the purchase order, the Company provided Feng Hua a cancellation notice on December 31, 2013, and filed a civil law suit demanding the refund of the deposit with interest with Taiwan Taoyuan District Court on January 10, 2014. The Company has lost at the Taiwan Taoyuan District Court, because we already paid the 80% deposit, therefore we are ordered to pay the remaining 20% payment. This matter has no material effect to the Company’s finance or operation. This case is over.

(b) Yi Bao Matter

The Company ordered a LAM 4528 Etcher machine in an amount equal to NT\$394,000 (tax included) with Yi Bao Technology Corporation (“Yi Bao”), and has already paid a 90% deposit in an amount equal to NT\$354,000 (tax included) to Yi Bao. But because Yi Bao was unable to provide the LAM 4528 Etcher machine in accordance with the Company’s specification, continued demanding extensions, and were unable to correct the unconformity, the Company provided Yi Bao a notification notice to correct the unconformity on February 19, 2014, of which Yi Bao rejected our demand. As a result, the Company provided Yi Bao with a cancellation notice on March 10, 2014, and filed a civil law suit with Taiwan Taoyuan District Court demanding the refund of the deposit on March 31, 2014. Yi Bao has lost in Taiwan Taoyuan District Court on July 3, 2014 and filed an appeal on July 28, 2014, Due to its failure to pay the court cost in time, however, the Court of Second Instant has rejected its claim on September 9, 2014, and Yi Bao has failed to file an appeal during the statutory time limit for appeal. We have obtained the verdict and have filed a motion for compulsory enforcement of the verdict accordingly. The parties have reached a settlement on April 10, 2015, therefore the Company withdrew its motion for compulsory enforcement of the verdict. Unfortunately, Yi Bao so far has failed to carry out its obligation as of today, as a result we had filed a motion for compulsory enforcement of the verdict on May, 2016, and districted NT\$84,967. This matter has no

material effect to the Company's finance or operation, and is over.

(c) B.F.L. International Co., Ltd. Matter

The Company ordered a thermal shock tester in an amount equal to NT\$997,500 (tax included) with Bei Fuli International Co., Ltd. ("B.F.L."), and has already paid the full amount. But because B.F.L. was unable to provide the thermal shock tester in accordance with the specification as stated in the purchase order the machine could not pass inspection. The Company has demanded B.F.L. to correct the unconformity, but so far B.F.L. is unable to do so in the provided time period. Therefore, the Company provided B.F.L. with a cancellation notice on May 28, 2015, and filed a civil law suit demanding the refund of the payment with interest with Taiwan Taoyuan District Court in July, 2015. The Company has lost at the Taiwan Taoyuan District Court on April 18, 2016, therefore we cannot retrieve the payment. This matter has no material effect to the Company's finance or operation. This case is over.

b. Transactional Matter: None.

Other than the matters described above, the Company was not involved in any other material litigation in 2016 and is not currently involved in any other material litigation.

(2) Major ongoing lawsuits, non-lawsuits or administrative lawsuits caused by directors, supervisors or shareholders with over 10% shareholdings

Major ongoing lawsuits, non-lawsuits or administrative lawsuit by the director of the company, TSMC:

- a. In June 2010, Keranos, LLC. filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, and several other leading technology companies infringe three expired U.S. patents. In response, TSMC, TSMC North America, and several co-defendants in the Texas case filed a lawsuit against Keranos in the U.S. District Court for the Northern District of California in November 2010, seeking a judgment declaring that they did not infringe the asserted patents, and that those patents were invalid. These two litigations have been consolidated into a single lawsuit in the U.S. District Court for the Eastern District of Texas. In February 2014, the Court entered a final judgment in favor of TSMC and TSMC North America, dismissing all of Keranos's claims against TSMC and TSMC North America with prejudice. Keranos appealed the final judgment to the U.S. Court of Appeals for the Federal Circuit, and in August 2015, the Federal Circuit remanded the case back to the Texas court for further proceedings. In January 2017, the Texas court dismissed all of Keranos's claims against TSMC and TSMC North America with prejudice,

- and dismissed TSMC's and TSMC North America's counterclaims without prejudice. The case is over as to TSMC and TSMC North America.
- b. In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC North America and one other company of infringing several U.S. patents. In September 2014, the Court granted summary judgment of noninfringement in favor of TSMC and TSMC North America. Ziptronix, Inc. could appeal the Court's order. In August 2015, Tessa Technologies, Inc. announced it had acquired Ziptronix. In February 2017, the Court dismissed all of Ziptronix's claims against TSMC and TSMC North America with prejudice.
 - c. In March 2014, DSS Technology Management, Inc. (DSS) filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, TSMC Development, Inc., and several other companies infringe one U.S. patent. TSMC Development, Inc. has subsequently been dismissed. In May 2015, the Court entered a final judgment of noninfringement in favor of TSMC and TSMC North America. DSS appealed the final judgment to the U.S. Court of Appeals for the Federal Circuit (Federal Circuit). In November 2015, the Patent Trial and Appeal Board (PTAB) determined after concluding an Inter Partes Review (IPR) that the patent claims asserted by DSS in the District Court litigation are unpatentable. DSS appealed the PTAB's decision to the Federal Circuit in January 2016. In March 2016, the District Court's judgment of noninfringement was affirmed by the Federal Circuit. In April 2016, the District Court litigation between the parties and the related Federal Circuit appeal were dismissed, and the appeal proceeding of the PTAB's decision is also over as to TSMC.

As described above, TSMC's litigations are causing from commercial acts and there is no relationship with us, it has no materially affect shareholders' equity or the prices of the company's securities.

13. Other Major Risks: None.

G. Other Importmetnt Matters: None

VIII. Special Notes

A. Affiliated Information: None.

B. Private Placements Securities: None.

C. Common Shares Acquired, Disposed of and Held by Subsidiaries: Not applicable.

D. Any Events in Y2016 That Had Significant Impacts on Shareholders' Right or Security Prices as Started in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

E. Other Necessary Supplement: None.

Xintec Inc.

Chairman : Robert Kuan