

Xintec Inc.

2017 Annual Report

Taiwan Stock Exchange Market Observation Post System :

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

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

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(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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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,

Xintec still faced a tough situation that the demand for wafer-level packaging in the mobile imaging sensor market continued a decline trend in 2017, and the selling price eroded. In response to this rapid market change, Xintec re-integrated the resources and production lines, expanded the new sensor packaging services, and the production scale gradually in the second half of 2017 to increase revenue effectively.

Based on the needs of driving safety and the trend of automatic driving, the market demand for automotive image sensor packages will continue to grow. Automotive electronics products have high-tech thresholds, long product life cycle, and stable revenue. After completed the mass production lines for 8-inch automotive packaging, Xintec passed reliability qualification of the 12-inch automotive wafer-level package in 2017 and started to mass production. Due to the orders for 12-inch automotive are still unstable and not reaching the economic scale, Xintec has sustained losses in 12-inch operations. Xintec will continue to develop more customers and services for automotive image sensors, and improve the utilization rate and decrease the losses as soon as possible. Industrial and medical image sensors packaging are more custom-made, higher gross profit, and longer life cycle. It is also a niche market for Xintec and some products has been mass production. Xintec has worked out with customers closely to provide tailor-made services for a variety of different technology in the new project of sensor and related components packaging, and made significant contributions to revenue from the second half of 2017.

Revenue and Profit

Xintec's operating revenue was NT\$4,078 million in 2017 which represented an increase of 4% over NT\$3,921 million in 2016; the net loss of 2017 was NT\$733 million, which was an increase of 15% compared to net loss NT\$637 million in the previous year; loss per share was NT\$2.71 in 2017. The loss increased was mainly due to the loss of 12-inch CSP production line still had no significant improvement. The orders of 8-inch product line decreased due to the inventory adjustment and sustained price competition of the image sensor market in the first half of 2017. Although the new project has obvious contribution for revenue and profit in Q4, 2017, Xintec still cannot change the loss situation for whole year.

The major figures are as below,

(In Millions of New Taiwan Dollars, except basic EPS)

Items	2016	2017	Increase or (decrease) %
Operating Revenue	3,921	4,078	4.02%
Gross loss	(299)	(350)	-16.99%
Net loss	(637)	(733)	-15.15%
Return on Total Assets (%)	-7.28%	-8.42%	-1.14%
Return on Total Equity (%)	-11.62%	-15.42%	-3.80%
Loss from Operations to Paid-in Capital (%)	-26.44%	-26.46%	-0.02%
Pre-tax Income to Paid-in Capital (%)	-27.48%	-27.98%	-0.50%
Net Margin (%)	-16.24%	-17.98%	-1.74%
Basic Earnings Per Share(NT\$)	(2.36)	(2.71)	-14.83%

Technology and Innovation

The continuous R&D of advanced technology and manufacturing technology improvement not only enhances the competitive advantage of Xintec, but also brings breakthroughs to customers and the market share. The intensification of manufacturing technology can improve the yield and cost down. Both of these are Xintec's commitment to customers. It brought significant benefits to the operation in the second half of 2017 that existing 8-inch packaging technology applied to the new sensor components project and went mass production successfully. Wafer-level packaging technology of 12-inch image sensor passed the first reliability certification of automotive electronic component. Xintec will integrate existing 8-inch production lines and enhance automation of inspections in the second half of the year. This will increase productivity in the coming year.

Corporation Development

Sustainable development and growth are Xintec's commitments to shareholders and society. Xintec coworked 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 WLCSP (wafer level chip scale package) and PPI (post passivation interconnect) technologies of video sensor have been expanded to the vehicle electronics, medical and monitoring devices. TSV (Through Silicon Via) technology has also been applied to MEMS. The WLCSP and PPI technology applied to biometric components are Xintec's major service areas. In recent years, the development of the Internet of Things (IoT) or Handheld Devices applications has become increasingly demanding for sensors's quantities and high precision. The continuous developing WLCSP solutions and PPI technology are the core strategy for Xintec.

Visions and Outlook

Looking to 2018, besides continuing to cost down and improve quality to enhance the competitiveness in the existing market, Xintec will continue to cooperate with customers in smart cars, and vehicle monitoring applications and help customers to get niche market. PPI technology will play a key role in industrial, medical and biometric components. Xintec will focus on integration of advanced WLCSP technology and to provide the best technology and services to customers.

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, CH Chen

II. Company Introduction

A. Funding date : September 11, 1998

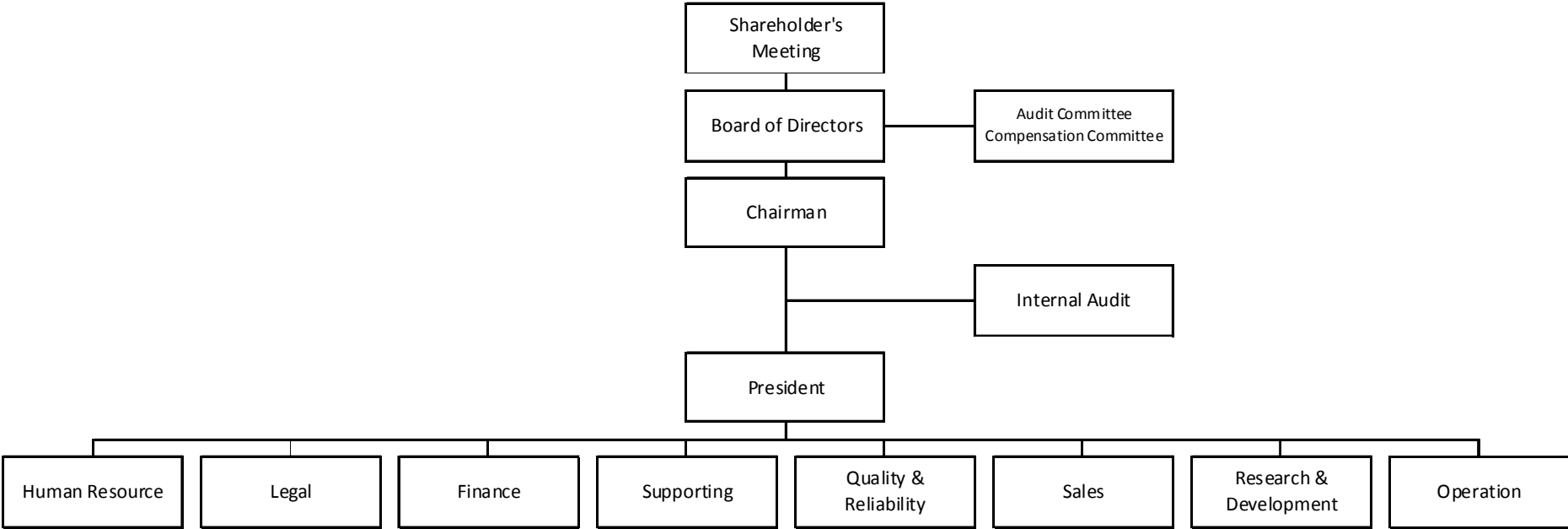
B. Formation History :

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.
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. 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.
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 2, 2018

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	CH Chen (Note1)	R.O.C.	Male	6/30/2017	6/30/2017	3	0	0	0	0	0	0	0	0	Backend Technology and Service Division Senior Director, TSMC President of TSMC China President of TSMC Solar Vice president, Systems on Silicon Manufacturing Co. Pte. Ltd. National Chung-Shan Institute of Science & Technology, Industrial Technology Research Institute. M.S. degree, Institute of Electro-Optical Engineering, NCTU	President, Xintec Inc.	None	None	None
	Representative of TSMC	R.O.C.		3/5/2007	6/14/2016	3	92,778,303	34.47	111,281,925	40.96	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	92,778,303	34.47	111,281,925	40.96	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, IAFL 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, IAFL 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	Independent Director, ChipMOS Technologies Inc. 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

Note1 : CH Chen was designated to Representative of TSMC and Robert Kuan resigned on June 30, 2017.

(2) Major Shareholders of the Institutional Shareholders:

As of 07/02/2017 (last record date)

Institutional Shareholder	Major Shareholders of the Institutional Shareholders	Percentage
Taiwan Semiconductor Manufacturing Company, Ltd.	ADR-Taiwan Semiconductor Manufacturing Company, Ltd.	20.60%
	National Development Fund, Executive Yuan	6.38%
	Government of Singapore	2.52%
	JPMorgan Chase Bank N.A. Taipei Branch in Custody for EuroPacific Growth Fund	1.66%
	Norges Bank	1.22%
	JPMorgan Chase Bank N.A. Taipei Branch in Custody for Oppenheimer Developing Markets Funds, managed by Oppenheimer Funds, Inc.	1.11%
	JPMorgan Chase Bank N.A. Taipei Branch in Custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	1.10%
	JPMorgan Chase Bank N.A. Taipei Branch in Custody for Saudi Arabian Monetary Agency	0.97%
	Vanguard Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds	0.92%
New Perspective Fund	0.85%	

(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		10
CH Chen			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	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 2, 2018

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	CH Chen	R.O.C.	7/1/2017	0	0	0	0	0	0	Backend Technology and Service Division Senior Director, TSMC President of TSMC China President of TSMC Solar Vice president, Systems on Silicon Manufacturing Co. Pte. Ltd. National Chung-Shan Institute of Science & Technology, Industrial Technology Research Institute. M.S. degree, Institute of Electro-Optical Engineering, NCTU	None	None	None	None
Sales Vice President	CA Lin	R.O.C.	1/6/2006	150,162	0.06	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
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	59,012	0.02	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	313	0.00	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, 2017, 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 (Note 1)	0	0	0	0	0	0	60	60	-0.0%	-0.0%	36 (Note2)	36 (Note2)	0	0	0	0	0	0	-0.0%	-0.0%	None
Chairman	CH Chen Representative of TSMC	0	0	0	0	0	0	70	70	-0.0%	-0.0%	2,002	2,002	9	9	0	0	0	0	-0.3%	-0.3%	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	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	600	600	0	0	0	0	70	70	-0.1%	-0.1%	0	0	0	0	0	0	0	0	-0.1%	-0.1%	None

Note1: Robert Kuan, Chairman resigned on June 30, 2017.

Note2: The Company reversed total expenses of NT\$1,843 thousand in respect of the SARs for the years ended December 31, 2017.

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, CH Chen: Representative of TSMC, J.K. Lin: Representative of TSMC, Wen-Yeu Wang, C.S. Hsu, Robert Hsieh, Stella Wen	Robert Kuan: Representative of TSMC, CH Chen: 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	Robert Kuan: Representative of TSMC, J.K. Lin: Representative of TSMC, Wen-Yeu Wang, C.S. Hsu, Robert Hsieh, Stella Wen
2,000,000 (included) ~ 5,000,000 (excluded)	-	-	CH Chen: Representative of TSMC	CH Chen: 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, 2017, 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 (Note 3)	16,200	16,200	468	468	254	254	0	0	0	0	-2.2%	-2.2%	None
President	CH Chen													
Vice President	CA Lin													
Vice President	Yens Ho (Note 4)													
Vice President	LS Yeou (Note 4)													
Vice President	WL Fang (Note 5)													
Vice President	Davis Chou													
Sr. Director	Simon Lin													

Note1: The Company reversed total expenses of NT\$1,843 thousand in respect of the SARs for the years ended December 31, 2017.

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

Note3: Robert Kuan President resigned on June 30, 2017.

Note4: Yens Ho, Vice President and LS Yeou, Vice President adjusted position on August 18, 2017.

Note5: 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	Robert Kuan , WL Fang	Robert Kuan , WL Fang
2,000,000 (included) ~ 5,000,000 (excluded)	CH Chen, CA Lin, , Yens Ho, LS Yeou, Davis Chou, Simon Lin	CH Chen, CA Lin, , Yens Ho, LS Yeou, Davis Chou, 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	8	8

(4) Employee compensation granted to the management team

Unit: NT\$Thousand

	Title	Name	Stock	Cash	Total	Remunerations as of Net Income
Management team	President	CH Chen	0	0	0	0
	Vice President	CA Lin				
	Vice President	Davis Chou				
	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\$2,410 thousand and NT\$2,410 thousand in 2016 and 2017, the proportion of remuneration to net income were -0.4% and -0.3%, mainly were remunerations from performing duties, allowance for transportation. Remuneration from distribution of earnings was zero in 2016 and 2017. 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\$22,155 thousand and NT\$16,922 thousand in 2016 and 2017, the proportion of remuneration to net income were -3.5% and -2.2%. Remuneration was depending on Regulations for Management of recruitment and appointment and was resolved by Compensation Committee and Board 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 five (A) meetings of the Board of Directors were held in 2017. 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	2	0	100%	CH Chen was designated to Representative of TSMC on June 30, 2017, to replace Robert Kuan.
Chairman	CH Chen: Representative of TSMC	3	0	100%	
Director	J.K. Lin: Representative of TSMC	5	0	100%	
Independent Director	Wen-Yeu Wang	5	0	100%	
Independent Director	Robert Hsieh	5	0	100%	
Independent Director	Stella Wen	5	0	100%	

Other mentionable items:

1. In the event that the Board of Directors encounters any of the following conditions during the course of its operations, a description of the date, term, and content of the proposed motion of the Board of Directors along with the opinion of the Independent directors and the Company's handling of the Independent directors' opinion shall be provided.

(1) Conditions stipulated in Article 14-3 of the *Securities and Exchange Act*:

Board of Directors	Proposed Motions	Independent Directors' opinion	Action taken by the Company
7th Meeting (8th Term) 2017/2/17	Appointed Mr. Davis Chou as Vice President and to release the prohibition on him from participation in competitive business.	None	None
7th Meeting (8th Term) 2017/2/17	Remuneration and compensation for directors of 2016 and 2017, performance evaluation of 2016, salary adjust and remuneration of 2017 for manager with the identity of director and managers, remuneration of 2016 and 2017 for manager with the identity of director and managers.	None	None
7th Meeting (8th Term) 2017/2/17	Revision of Procedures for Acquisition or Disposal of Assets.	None	None
7th Meeting (8th Term) 2017/2/17	Issue 1,500,000 shares of new shares for employee restricted stock.	None	None
7th Meeting (8th Term) 2017/2/17	Approved a contract with KGI to obtain credit lines because Wen-Yeu Wang, an independent director, also served as an independent director of KGI, evading the discussion and voting of the case.	None	None
8th Meeting (8th Term) 2017/5/3	Approve lease agreement with TSMC for plant.	None	None
9th Meeting (8th Term) 2017/6/30	Appointed Mr. CH Chen as President from July 1, 2017, remuneration is according to company regulations.	None	None
10th Meeting (8th Term) 2017/8/4	Approve remuneration of Chairman and President, CH Chen.	None	None

11th Meeting (8th Term) 2017/11/3	Appointment and independence, suitability for appointment, and performance evaluation of the Company's certified public accountants.	None	None
11th Meeting (8th Term) 2017/11/3	Revision of internal control system and internal audit system.	None	None
11th Meeting (8th Term) 2017/11/3	Approved a contract with KGI to obtain credit lines because Wen-Yeu Wang, an independent director, also served as an independent director of KGI, evading the discussion and voting of the case.	None	None

(2) Other board meeting decisions that are opposed or reserved by independent directors and have record or written statements: 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) Appointed Mr. Davis Chou as Vice President on February 17, 2017, Directors of Robert Kuan and J.K. Lin avoided voting causes for avoidance of motions in conflict of interest.
- (2) To release the prohibition on Davis Chou, Vice President from participation in competitive business on February 17, 2017, Directors of Robert Kuan and J.K. Lin avoided voting causes for avoidance of motions in conflict of interest.
- (3) Approve to Issue 1,500,000 shares of new shares for employee restricted stock on February 17, 2017, Directors of Robert Kuan avoided voting causes for avoidance of motions in conflict of interest.
- (4) Board of Directors approved remuneration paid to directors of 2016 and 2017 on February 17, 2017. Directors avoided voting causes for avoidance of motions in conflict of interest.
- (5) Board of Directors approved performance evaluation of 2016 and salary adjustment of 2017 on February 17, 2017. Robert Kuan, Chairman and President avoided voting causes for avoidance of motions in conflict of interest.
- (6) Board of Directors approved salary remuneration of 2016 and 2017 on February 17, 2017. Robert Kuan, Chairman and President avoided voting causes for avoidance of motions in conflict of interest.
- (7) Approved a contract with KGI to obtain credit lines on February 17, 2017 because Wen-Yeu Wang, an independent director, also served as an independent director of KGI, evading the discussion and voting of the case.
- (8) Approve lease agreement with TSMC for plant on May 3, 2017, Directors of Robert Kuan and J.K. Lin avoided voting causes for avoidance of motions in conflict of interest.
- (9) Appointed Mr. CH Chen as President from July 1, 2017, remuneration is according to company regulations on Jun 30, 2017, Directors of CH Chen and J.K. Lin avoided voting causes for avoidance of motions in conflict of interest.
- (10) Approve remuneration of Chairman and President, CH Chen, Directors of CH Chen avoided voting causes for avoidance of motions in conflict of interest.
- (11) Approved a contract with KGI to obtain credit lines on November 3, 2017 because Wen-Yeu Wang, an independent director, also served as an independent director of KGI, evading the discussion and voting of the case.

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 four regular meetings in 2017. 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	4	0	100%	
Independent director	Robert Hsieh	4	0	100%	
Independent director	Stella Wen	4	0	100%	

Other mentionable items:

1. In the event that the Audit Committee encounters any of the following conditions during the course of its operations, a description of the date, term, and content of the proposed motion of the Board of Directors along with the result of the Audit Committee's resolution and the Company's handling of the Audit Committee's opinion shall be provided.

(1) Conditions stipulated in Article 14-5 of the *Securities and Exchange Act*.

Board of Directors	Proposed Motions	Audit Committee's opinion	Action taken by the Company
5th Meeting (2nd Term) 2017/2/15	Approve the 2016 Business Report and Financial Statements.	None	None
5th Meeting (2nd Term) 2017/2/15	Approve Statement of internal control of 2016.	None	None
6th Meeting (2nd Term) 2017/5/2	Approve lease agreement with TSMC for plant	None	None
7th Meeting (2nd Term) 2017/8/2	Approve the 2017 Second Quarter Financial Statements.	None	None
8th Meeting (2nd Term) 2017/11/1	Appointment and independence, suitability for appointment, and performance evaluation of the Company's certified public accountants.	None	None
8th Meeting (2nd Term) 2017/11/1	Revision of internal control system and internal audit system.	None	None

(2) Other resolutions not approved by the Audit Committee but passed by more than a two-thirds majority of all Board members: 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.

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.	

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons																																										
	Yes	No	Abstract Illustration																																											
3. Composition and Responsibilities of the Board of Directors (1) Does the Board develop and implement a diversified policy for the composition of its members?	V		(1) The selection of directors of the company should consider the overall configuration of the board of directors. Board members should generally possess the knowledge, skills, and literacy needed to perform their duties, such as operational judgment, accounting and financial analysis, business management, crisis management, industry knowledge, international market outlook, leadership, and decision-making capabilities. Diversification of Board of Directors: <table border="1" data-bbox="952 930 1812 1115"> <thead> <tr> <th></th> <th>Gender</th> <th>business management</th> <th>Leadership decision</th> <th>industry knowledge</th> <th>Financial Accounting</th> <th>Legal</th> </tr> </thead> <tbody> <tr> <td>CH Chen</td> <td>Male</td> <td>✓</td> <td>✓</td> <td>✓</td> <td></td> <td></td> </tr> <tr> <td>J.K. Lin</td> <td>Male</td> <td>✓</td> <td>✓</td> <td>✓</td> <td></td> <td></td> </tr> <tr> <td>Wen-Yeu Wang</td> <td>Male</td> <td>✓</td> <td>✓</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td>Robert Hsieh</td> <td>Male</td> <td>✓</td> <td>✓</td> <td></td> <td>✓</td> <td></td> </tr> <tr> <td>Stella Wen</td> <td>Female</td> <td>✓</td> <td>✓</td> <td>✓</td> <td></td> <td></td> </tr> </tbody> </table>		Gender	business management	Leadership decision	industry knowledge	Financial Accounting	Legal	CH Chen	Male	✓	✓	✓			J.K. Lin	Male	✓	✓	✓			Wen-Yeu Wang	Male	✓	✓			✓	Robert Hsieh	Male	✓	✓		✓		Stella Wen	Female	✓	✓	✓			No difference
	Gender	business management	Leadership decision	industry knowledge	Financial Accounting	Legal																																								
CH Chen	Male	✓	✓	✓																																										
J.K. Lin	Male	✓	✓	✓																																										
Wen-Yeu Wang	Male	✓	✓			✓																																								
Robert Hsieh	Male	✓	✓		✓																																									
Stella Wen	Female	✓	✓	✓																																										

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(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 Board of directors and audit committees.	
(3) Does the company establish a standard to measure the performance of the Board, and implement it annually?	V		(3)The company has a board performance appraisal mechanism. The appraisal form includes the self-assessment of the directors and the overall appraisal of the board of directors. The appraisal is conducted at the beginning of each year, and the appraisal results are reported in the next board of directors.	
(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 Board 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 holds annual training courses for directors and 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 2 deficient items without score:

The improvement for the deficient item without score:

Assessment indicator	Improvement
Whether the company has established a policy of diversification of board members and disclosed the implementation of the diversity policy in the annual report and company website?	The company has disclosed the implementation status of the policy on diversification of board members on the company's website and the 2017 annual report.

The urgent matters and actions for the item not improved:

Assessment indicator	Improvement action implementation
Is the company established and detailed on the company's website to expose the company's internal and external personnel's reporting system for illegal (including corruption) and unethical behavior?	The company has developed a method for internal and external inspections of professional ethics. It plans to aggregate and report the system procedures and expose it on the company's website for reference by internal and external personnel.

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 4 (A) Remuneration Committee meetings were held in 2017. 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	4	0	100%	
Committee Member	Robert Hsieh	4	0	100%	
Committee Member	Stella Wen	4	0	100%	

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 that shall meet at least quarterly.</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 has relevant regulations in the supplier’s corporate social responsibility code of conduct.	

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 in 2016.				
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 Jhungle Standard Factory Management Committee 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. · 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. · The Volunteer Association held a charity auction of NT\$71,623 to help disadvantaged groups in 2016. · Hiring of visually impaired masseurs for four years. · Provide the Badge of Accredited Healthy Workplace for six years. 	
<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: 2/6/2018

According to the examination on internal control system done by the Company itself in 2017, 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, 2017 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 2/6/2018. Among the 5 attending Directors, no one raised any objection to the contents of this statement.

Xintec Inc.

Chairman and President: CH Chen

- (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 2017 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 2016 earnings.
Implementaion status: The resolution passed.
 - (2) Approved the revision of Articles of Incorporation: None.
 - (3) Approved the 2016 Business Report and Financial Statements.
 - (4) Re-elect directors: None.
 - (5) Revision of Procedures for Acquisition or Disposal of Assets.

During the 2017 year and as of the date of this Annual Report, the Company held six Board Meetings and approved the following resolutions:

Approve the 2016 Business Report and Financial Statements; approve the distribution of 2016 earnings; approve revision of Procedures for Acquisition or Disposal of Assets; approve Issue new shares for employee restricted stock of 2016; approve reconvene a Shareholders' meeting; approve annual plan for 2017; approve appointed Mr.Davis Chou as Vice President and to release the prohibition on him from participation in competitive business; approve remuneration and compensation for directors of 2016 and evaluation regulations for compensation pay to directors of 2017; approve performance evaluation and remuneration of 2016 for manager with the identity of director and mangers; approve salary adjustment and remuneration of 2017; approve employee compensation of 2016 to manager with the identity of director; approve Statement of internal control of 2016; approve capital appropriations; approve lease agreement with TSMC for plant; approve acquire bank credit lines; approve apply for alteration of the registered capital amount from exercise employee stock option; approve Election of the eighth Chairman; approve appointed Mr. CH Chen as President; approve remuneration of Chairman and President, CH Chen; approve recover and cancel new shares for employee restricted stock of retired employee; approve audit fee of 2018; approve revision of Rule and Procedures of Shareholder Meeting; approve revision of Audit Committee Charter; approve revision of internal control system and internal audit system; approve audit plan for 2018; approve the 2017 Business Report and Financial Statements; approve the deficit compensation proposal of 2017; approve regulation of issue employee restricted stock plans of 2018; approve reconvene a Shareholders' meeting of 2018; approve annual plan for 2018; approve special incentive bonus to manager with the identity of director; approve remuneration and compensation for directors of 2017; approve remuneration and compensation policy for directors of 2018; approve performance evaluation of 2017 and salary adjustment of 2018 for manager with the identity of director and mangers; approve

compensation of 2017 to manager with the identity of director and salary policy of 2018; approve Statement of internal control of 2017.

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:

Title	Name	Appointment Date	Effective Date	Reasons for retirement or dismissal
Chairman	Robert Kuan	2011.4.29	2017.6.30	Resigned for personal reason, and concentrate on the operation and strategy of VisEra.
President	Robert Kuan	2011.9.2	2017.6.30	
Head of R&D	Yens Ho	2010.8.2	2017.8.18	Personal career planning

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	2017.1.1~2017.12.31	

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: None non-audit fee for 2017.

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	2017		As of April 2, 2018	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Director	Taiwan Semiconductor Manufacturing Company, Ltd.	0	0	0	0
	Representative: Robert Kuan (Note1)	32,000	0	NA	NA
	Representative: CH Chen (Note1)	0	0	0	0
	Representative: J.K. Lin	0	0	0	0
Independent director	Wen-Yeu Wang	0	0	0	0
Independent director	Robert Hsieh	0	0	0	0
Independent director	Stella Wen	0	0	0	0
President	Robert Kuan (Note1)	32,000	0	NA	NA
President	CH Chen	0	0	0	0
Vice President	CA Lin	73,000	0	(47,000)	0
Vice President	Yens Ho (Note2)	14,000	0	NA	NA
Vice President	LS Yeou (Note2)	55,000	0	NA	NA
Vice President	WL Fang (Note3)	0	0	0	0
Vice President	Davis Chou	0	0	0	0
Finance Sr. Director	Simon Lin	32,000	0	0	0
Major shareholders	Taiwan Semiconductor Manufacturing Company, Ltd.	0	0	0	0

Note 1: CH Chen was designated to Representative of TSMC and Robert Kuan resigned on June 30, 2017.

Note2: He adjusted duty on Aug. 18, 2017. The change in shareholding was before this date.

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

2. Shares Trading with Related Parties: None

3. Shares Pledge with Related Parties: None

H. Top 10 shareholders relation

As of April 2, 2018; 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	40.96	0	0	0	0	None	None	
He, Tsung-Han	2,780	1.02	0	0	0	0	None	None	
Shao, Chien-Hua	2,308	0.85	1,459	0.54	0	0	Hou, Quan-Xing	Spouse	
Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	2,159	0.79	0	0	0	0	None	None	
Lin, Cang-Hai	2,000	0.74	0	0	0	0	None	None	
Wu, Tai-Ping	1,900	0.70	0	0	0	0	None	None	
Vanguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds	1,840	0.68	0	0	0	0	None	None	
Hou, Quan-Xing	1,459	0.54	2,308	0.85	0	0	Shao, Chien-Hua	Spouse	
Huang, Yi-Long	1,195	0.44	0	0	0	0	None	None	
Zheng, Gun-Fang	1,171	0.43	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 2, 2018

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
6/2017		300,000	3,000,000	272,149	2,721,493	Exercise of Employee Stock Options 7,959	None	6/2/2017 Jing Shou Shang Tzu No. 10601069300
8/2017		300,000	3,000,000	272,109	2,721,093	Exercise of Employee Stock Options 1,480 Cancel restricted employee stocks 1,880	None	8/17/2017 Jing Shou Shang Tzu No. 10601111270
11/2017		300,000	3,000,000	271,919	2,719,193	Cancel restricted employee stocks 1,900	None	11/28/2017 Jing Shou Shang Tzu No. 10601158830
2/2018		300,000	3,000,000	271,695	2,716,949	Cancel restricted employee stocks 2,244	None	2/22/2018 Jing Shou Shang Tzu No. 10701019760

Unit: Shares, As of April 2, 2018

Share Type	Authorized Capital			Un-issued Shares	Total Shares
	Issued Shares				
	Listed	Non-listed	Total		
Common Stock	271,694,916	-	271,694,916	28,305,084	300,000,000

B. Shareholder Structure

Unit: Shares, As of April 2, 2018

Shareholder Structure Quantity	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	0	22	54	25,974	60	26,110
Shareholding Percentage	0%	3,004,010 1.11%	114,412,750 42.11%	142,367,966 52.40%	11,910,190 4.38%	271,694,916 100.00%

C. Distribution Profile of Shareholder Ownership

Unit: Shares, As of April 2, 2018

Class of Shareholding	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	1,740	247,456	0.09
1,000 ~ 5,000	19,950	39,400,082	14.50
5,001 ~ 10,000	2,343	18,776,049	6.91
10,001 ~ 15,000	684	8,772,388	3.23
15,001 ~ 20,000	431	8,029,139	2.96
20,001 ~ 30,000	357	9,313,644	3.43
30,001 ~ 40,000	169	6,184,032	2.28
40,001 ~ 50,000	100	4,638,513	1.71
50,001 ~ 100,000	188	13,406,775	4.93
100,001 ~ 200,000	81	11,091,053	4.08
200,001 ~ 400,000	33	9,038,858	3.33
400,001 ~ 600,000	16	7,775,555	2.86
600,001 ~ 800,000	3	1,994,543	0.73
800,001 ~ 1000,000	4	3,780,600	1.39
1,000,001 of over	11	129,246,229	47.57
Total	26,110	271,694,916	100.00

D. Major Shareholders

Unit: Shares, As of April 2, 2018

Major shareholder's Name	Shares held	Share holdings
Taiwan Semiconductor Manufacturing Company , Ltd. (Representative:Morris Chang)	111,281,925	40.96
He,Tsung-Han	2,780,000	1.02
Shao,Chien-Hua	2,308,000	0.85
Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	2,159,079	0.79
Lin,Cang-Hai	2,000,000	0.74
Wu,Tai-Ping	1,900,000	0.70
Vanguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds	1,840,225	0.68
Hou,Quan-Xing	1,459,000	0.54
Huang,Yi-Long	1,195,000	0.44
Zheng,Gun-Fang	1,171,000	0.43

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

Unit: NT\$; Stocks, in thousands

Item		Year			
		2016	2017	Current year to March 31, 2018	
Market price per share	Highest	38.10	106.50	85.90	
	Lowest	19.30	32.45	51.60	
	Average	29.19	63.10	71.25	
Equity per share	Before distribution	18.92	16.20	-	
	After distribution	18.92	16.20	-	
Earnings per share	Weighted average shares	269,339	270,649	-	
	Earnings per share	(2.36)	(2.71)	-	
Dividends per share	Cash dividends		-	-	-
	Stock dividends	-	-	-	-
		-	-	-	-
	Accumulated undistributed dividends		-	-	-
Investment return analysis	Price/ earning ratio		(12.37)	(23.28)	-
	Price/ dividend ratio		-	-	-
	Cash dividend yield rate		-	-	-

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 2017 had been approved for no distribution in the meeting of the Board of Directors held on February 6, 2018.

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 2017, 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 divided 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 6, 2018, 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:

The Company paid no profit sharing bonus to employees and compensation to directors due to net loss on 2017. 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 Jun 13, 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	4,091,275
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	91,238,953
No. of unexercised shares	0	0	0	0	0
Price per share of unexercised option(NT\$)	-	-	-	-	-
Percentage of unexercised options to total common stock shares (%)	0%	0%	0%	0%	0%
Effects on shareholder's equity	No effects	No effects	No effects	No effects	No 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				
				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 (Note 1)	Robert Kuan	2,515,000	0.93%	1,536,250	16.98	26,090,600	0.57%	0	-	0	0%
	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 (Note 1)	LS Yeou										
	Vice President (Note 1)	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.

Title	Name	No. of shares granted	No. of shares granted to common stock shares	Exercised				Unexercised				
				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 2)	Leo Tsai										
	Director (Note 2)	SM Chen										
	Director (Note 2)	WJ Chyan										
	Deputy Director (Note 2)	SY Wang										

Note2 : The employee has resigned.

L. Status of Restricted Employee Shares :

1. Issuance of Restricted Employee Shares

As of April 2, 2018

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	0.56%
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	602,400 shares
Number of restricted employee shares removed	0 shares
Number of restricted employee shares intact	897,600 shares
Number of restricted shares with restrictions remaining as a percentage to total outstanding shares (%)	0.33%
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

As of April 2, 2018

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(Note1)	423,000	0.16%	0	0	0	0	112,800 (Note2)	0	0	0.04%
	Vice President	CA Lin										
	Vice President	LS Yeou(Note1)										
	Vice President	Yens Ho(Note1)										
	Sr. Director	Simon Lin										
Employees	Sr. Director	CM Fan	453,000	0.17%	0	0	0	0	362,400	0	0	0.13%
	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										

Note 1 : The manager has resigned.

Note 2 : Resigned managers' 282,000 shares of restricted shares have been deducted.

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 2017	(%) of Total Sales
Wafer Level Chip Scale Packaging	2,825,076	69.27
Wafer Level Post Passivation Interconnection	1,233,017	30.23
Others	20,391	0.50
Total	4,078,484	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, Biometric 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 2.64%, which was increased by 1.23% if compared with that in the previous year, 1.41%, showing an increasing trend on a quarterly basis. The global economic recovery has strengthened, the semiconductor

market and machinery demand are hot, and the net output has increased from -0.53% last year to 2.8% this year.

In terms of the price, due to the price of international oil increased, this year the Consumer Price Index (CPI) was increased by 0.62%. The price level on the whole was stable. The Wholesale Price Index (WPI) increased by 0.9%.

In terms of the employment, the domestic labor market was stable this year, with the labor participation rate 58.83%, which was increased by 0.08% if compared with that in the previous year. The average number of employed persons was 11,352,000, which was increased by 85,000 (3.76%) if compared with that in the previous year. The average unemployment rate was 3.76%, with the decrease rate of 0.16% if compared with that in the previous year.

3. Industrial Overview

(1) Current situation and development of the industry

According to WSTS, the total sales revenue of the global semiconductor market reached US\$387 billion in 2017, which represents an increase of 11.5% from 2016; it reached US\$388 billion in 2018, representing a growth of 2.6%, mainly contributed by the growth of the memory market by more than 30%.

In 2017, the total output value of semiconductor industry will reach NT\$2.535 trillion, which represents a growth of 3.5% from 2016. The growth rate of the packaging and testing industry is better than the average of the semiconductor industry in Taiwan.

From the perspective of product characteristics, the wafer industry falls into digital, analog, OSD (optical, sensor and actuator, discrete) and memory (DRAM, Flash). Although the percentage of OSD fell from 2016 to 2018, the output value increased from 63.346 billion U.S. dollars in 2016 to 70.176 billion U.S. dollars in 2018.

The company mainly applies its 2.5D/3D packaging technology in Optical, Sensor and Actuator. The following lists the status of OSD in the automotive, mobile communications, surveillance and other markets.

a. Market outlook for optical and various sensors –automotive electronics

In the market of high-end vehicles, each vehicle may be equipped with about ten image sensors. Apart from the in-car monitor, pre-collision braking system equipped with head camera, there are also a front, rear, left and right camera to form an around view image monitoring system. Such image information can also be applied in ADAS (Advanced Driver Assistance System) which has entered into trial in America, Japan, Hong Kong and several countries in Europe. Annual compound growth rate and annual growth rate of automotive electronics are higher than all other markets.

b. Market outlook for optical and various sensors – smart phones

The number of sensors in mobile communication devices is increasing. In optics, in addition to CMOS Image Sensor, recently released mobile phones are equipped with ambient light sensors and proximity sensors. Higher-level mobile phones are equipped with a color sensor as a photographic correction, and some mobile phones use the Time of Flight to increase the focusing speed of photography.

Taking the dual-lens mobile phone behind the scenes as an example, there are about seven optical sensors. Plus the Finger Print Sensor, Accelerometer, Gyroscope, Magnetic Sensor, Thermometer, Barometer, Microphone and so on, a mobile phone installed more than ten sensors

c. Market outlook for optical and various sensors – surveillance

In recent years, people have paid more and more attention to public safety. Whether it is transportation or public safety is the direction of countries, the monitoring market will rise. Since 2001, the monitoring market has grown at a compound annual growth rate of 19%. Monitoring sensor element reliability requirements are very similar to those used in automobiles and need to operate outdoors in harsh environments with high and low temperatures. The photoelectric conversion characteristics also require low light sensitivity at night and strong resolution in high sunlight (High Dynamic Range).

d. 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.

In new applications, 3D sensing is a new application that uses infrared for depth and distance measurements whether the development in industrial electronics or consumer electronics applications is burgeoning. The wafer-level size package of the material technology just provides the miniature solution of the infrared 3D sensor to meet its rapid development.

(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 / Fingerprint sensor	China Wafer Level CSP Co., Ltd., Fitek industrial Corp., Huatian Technology Co., Ltd

4. Research and Development

(1) Research and development expense for recent years

Unit: NT\$ Thousand

Item \ Year	2017	As of March 31, 2018
R&D expense	285,150	66,907
Operating revenues	4,078,484	1,047,077
R&D expense to revenue (%)	6.99%	6.39%

(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.
- 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. Development and production of FPS (Finger Printer Sensor) application.
- i. Development and production of 300mm wafer level package for diverse applications.
- j. Development and production of new-generation biometric sensor.
- k. Taiwan has achieved 222 patents, 141 China patents, six Japanese patents, one Germany patent and 215 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
2016	Thin form factor package development	Provide for the needs of more thin form factor CSP package needs
2017	Biometric sensor development	Provide for the application of mobile phone and financial trading market

5. Long-term and Short-term Business Development Plan

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

(1) Short-term plan:

- a. To develop the customer-oriented packaging service and enhance customer satisfaction.

We will promote our high quality services trusted by all clients to meet their demands with faster and better technology and services, and also provide diversified packaging technology of wafer level processing to adapt to the requirements of multiple products.

- b. To strengthen the cooperation between the upstream, midstream and downstream industrial chains.

On the occasion of higher requirements for advanced process, the cooperation and integration between upstream, midstream and downstream industries are the keys to the success of advanced process. The Company has formed a strategic alliance with the wafer manufactures and the primary testing factories, and collaborates with the large-sized integrated element manufacturer globally, hoping to become the leading enterprise in advanced packaging technology and services.

- c. To establish a sound operation mechanism with function as the core of cultivation, so as to improve the management and operation performance.

Through the education and training, the company can achieve its strategic goals in business. With the improvement of management and technology as its appeal, effective performance of the functions as the core of cultivation, and improvement of work performance as the orientation, it will enhance the staff's work efficiency to make the company able to cope with the rapid change of environment and challenges.

(2) Medium and long term plan:

- a. To maintain the long term cooperation and partnership with our clients and suppliers

We will attach more attention on the long term cooperation with the upstream and downstream manufacturers. During the process of division of labor based on

specialization, the Company will insist on acting as a trustworthy packaging manufacturer to provide our clients with desired quality and service and also maintain a good relationship with our suppliers.

b. To develop the innovation in R&D

We will devote ourselves in researching and developing the derived and new process, such as the application of advanced 3D wafer stacking, new biological sensor and substrate for connecting wafer connection. The application of products shall be extended to monitor, medical and other electronic industries rather than consume, automotive and PC products.

B. Industry Survey and Market Analysis

1. Market Analysis

(1) Sales region

Unit: NT\$ Thousand

Year Region	2017	
	Amount	%
Taiwan	2,405,599	59
United States	1,264,164	31
Europe	357,871	9
Asia	50,850	1
otal	4,078,484	100

(2) Market Analysis and Market Share of Advanced Packaging

The electronics industry has entered a new century beyond Moore's Law. The traditional method of reducing the line width for faster operation and more power saving is no longer applicable in some applications. The System on Chip (SoC) design that semiconductors are proud of over the past decade is no longer a tool for designing and changing package methods because the speed of digital circuits and analog circuit lines is becoming increasingly different and the interference between them is becoming more and more serious. Raising efficiency has become the epitome beyond Moore's Law.

Advanced packaging methods such as 2.5D/3D package can reduce the package size and reduce the impedance of the interconnect, which can significantly increase the wafer speed. For example, various packaging technologies that package different chips together can exert the highest efficiency of different semiconductor technology nodes and can also minimize mutual interference.

According to Yole Development's estimation, the entire advanced packaging

output will grow at 6 percent CAGR.

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

The newly emerging technology in manufacturing semiconductor components in the past few years is represented by the Mid-End process between the Front-End and Back-End processes, which covers the wafer bumping technique, wafer level package, such as Fan-out, WLP, WLCSP, 3DWLP, WL optics and 3D IC, with its overall production value beyond USD 1.5 billion. Being the leading enterprise in professional wafer level IC package, we are also the first company to realize the commercialization of 3D wafer level packaging techniques. The technique can be applied in various fields, including consumer electronic products, communication, portable PCs and automobiles, with the products covering image sensors, optical sensors, PMICs (power management integrated circuit), power discrete products, analog integrated circuit, hybrid integrated circuit, MEMS (micro-electromechanical systems), fingerprint sensor and integrated passive device.

Given the requirements for high level packaging process such as flip chip BGA or flip chip CSP, wafer level CSp, Cu wire bond and Cu pillar, especially considering the rising of 2.5D/3D IC or TSV (Through Silicon Via) in the future, the wafer level packaging will continually play a key role.

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

a. Competitive Edge

- (a) To enhance the competitive advantage by improving the production efficiency and reducing the costs

In recent years, the Company has actively facilitated the equipment automation and optimization of production line to increase the utilization rate. It will also take advantage of the allocation of production capacity of all plants to provide products and services quickly in return for the loyalty of the customers.

- (b) Leading Technology to Produce Diversified Products and Application

Experienced in the R&D, manufacture and selling of IC semiconductor for years, apart from our fine products, short delivery period and great after-sales service that are highly praised by the clients, our marketing and R&D teams also develop new comprehensive technical patent. Besides, to meet the clients' requirements, we also develop kinds of advanced wafer level packaging and are selected by famous international brands as the qualified supplier.

(c) Group Integration

As the subsidiary of Taiwan Semiconductor Manufacturing Company, we utilize our own techniques and marketing ability to build a powerful client base, and also work together with TSMC to provide the Turn-key service including R&D and manufacture in the semi-conductor supply chain.

(d) Advantage of International Division

The development of packaging industry in Taiwan is positioned as the partner for global semiconductor manufacturer in the supply chain. With the advanced strategy for technical development, we take the advantage of the integration of quality, cost, delivery, production capacity and service to enhance its overall competitiveness in the international division. Being the provider of advanced wafer level packaging service, we can not only offer both domestic and foreign clients with complete system of supply chain designed by the upstream IC design. Moreover, by cooperating with IC Foundry Company, we are able to solve the issues derived during the production process.

b. Positive Factors in the Prospect

(a) Advancement in Wafer Level CSP

To meet the requirements for end products, we have constantly promoted the development of the Wafer Level CSP process. Currently we aim to achieve the following goals for packaging process: miniaturization, adoption of energy-saving components, heterogeneous Integration, and improvement of product performance; by pursuing those goals, we hope to break through the boundaries of Moore's law and bring the utmost performance and integration of semiconductor components and modules. It is worth noting that the stacking technologies for Wafer Level CSP have already been developed from Embedded WLP to Stacked Chip Scale Package (SCSP) and Through Silicon Via (TSV), etc. As shown by the progress of this technological development, enterprises in semiconductor packaging are constantly pursuing the 3D stacked package technology which can make chips thinner, cut down the material costs and improve the power-efficiency of chips with reduced electromagnetic interference and lower power consumption. In face of the opportunities created by the development of Wafer Level CSP, enterprises of Taiwan have an edge in industrial ecology since it has a complete industrial chain for semiconductors. Therefore, it is reasonable to predict a good prospect for the application of Wafer Level CSP techniques.

(b) Global economy continues to recover steadily

Recent major research institutes are optimistic about the economic outlook in 2018 and the leading indicators are rising steadily. The World Economic Survey of Germany's Ifo Institute of Economics in the fourth quarter of last year showed that most economists globally are optimistic about the current and the next six months. The OECD Composite Leading Indicators (CLIs) rose month by month and exceeded 100. The Global Manufacturing Purchasing Managers Index (PMI) also rose steadily. Manufacturing orders in the United States, the Eurozone, and Japan increased. The increase in employees to increase production capacity led to a significant increase in the manufacturing PMI for developed markets.

(c) Independent research and development of core technologies

The company is always strengthening its R&D ability. In recent years, we have successfully developed the technique of Wafer Level Post Passivation Interconnection which can be applied to automobile electronics, and because of the outstanding quality of our products, we have been recognized as a qualified supplier by many prestigious international brands and automobile manufacturers. At the mean time, we have also developed the technique of Wafer Level Post Passivation Interconnection specifically to be adopted for multiple types of micro-electro mechanical (MEMS) sensors. It is worth mentioning that this technique can meet the demand for producing thinner and lighter chips; therefore, it is deemed an indispensable technique for developing the cutting-edge mobile devices and wearable devices.

c. Negative Factors in the Prospect and Relevant Countermeasures

(a) End products with a shorter product life cycle and a lower average sales price

Since the products are highly substitutable, they are faced with particularly fierce competition when a large number of competitors are taking their own shares in the market. As a result, price will drop at an accelerating rate, and the profit margin will be thinner.

Countermeasures:

In view of constant changes in the market and the technology of electronic and semiconductor industries, the company should explore a competitive niche by continuously developing advanced process of manufacturing and new derivative technologies. Meanwhile, we should strengthen the cooperation with key customers and strive to integrate the leading technologies of upstream industries, so as to provide our customers with high value-added solutions for packaging. Apart from ensuring the timely introduction of customers' products into the market, we should also strain to

enhance our productivity and lower the operating costs by improving the management of manufacturing, which will lead to higher profits or at least a stable profit margin.

(b) China vigorously fostering mainland semiconductor enterprises

The Chinese government has offered strong financial support for developing advanced manufacturing technologies of semiconductors, including IC design, IC foundry, package testing, and equipment research and development, etc. Backed by a large number of funds, mainland manufacturers can obtain larger market share and attract more talents by lowering the market price.

Countermeasures:

The company should concentrate on exploring advanced techniques of Wafer Level CSP and achieve product differentiation by designing products according to requirements for different functions and applications. Meanwhile, automatic equipment should be introduced to the production so as to enhance productivity and product quality and effectively cut down the costs. Besides, we should divert the company to the niche application market in other fields like sustainable energy, healthcare and automotive electronics. In view of the increasing demand for analog chips and sensor chips, etc., the company should gain an edge by obtaining more patented techniques and thus makes us more stand in the advantageous position in front of the severe 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

(2) Manufacturing processes for the company's main products

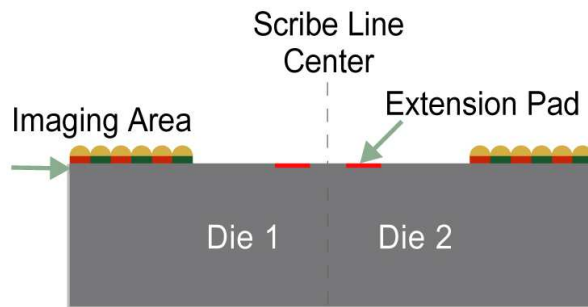
a. Wafer level CSP packaging technology manufacturing processes:

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:

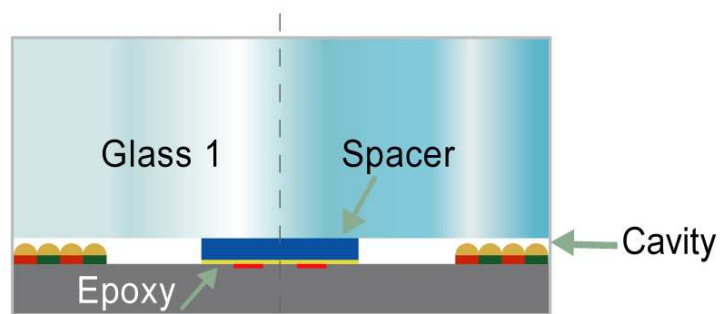
- (a) With a piece of adhesive high light-transmissive thin glass wafer affixed to the front of the customer to protect the wafer surface from contamination.
- (b) Grinding sticky back glass wafer so that the thickness of the wafer becomes thin, thereby reducing the thickness of the package after. And 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

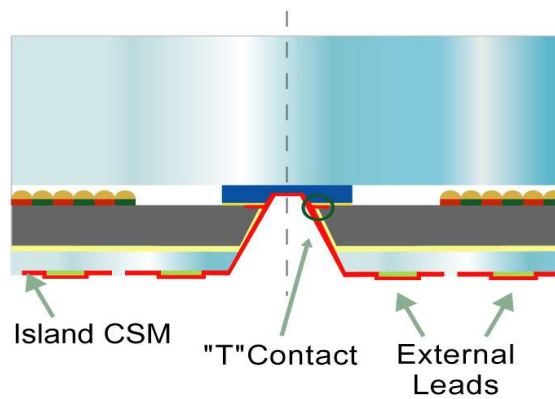
Step A: Passivation and Pad Extension Layers



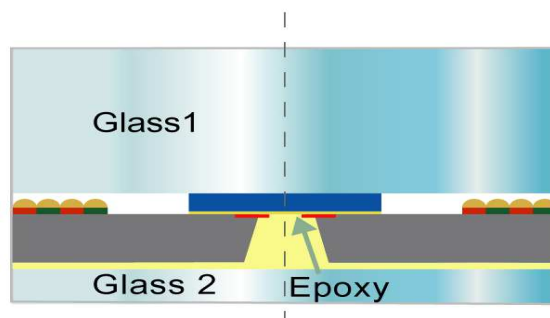
Step B: Glass 1 Attachment



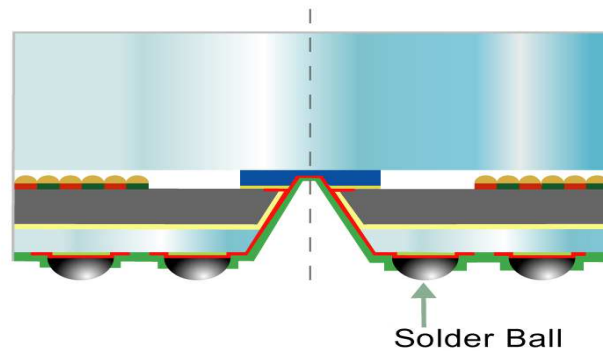
Step C: Etching and Glass-2 bonding



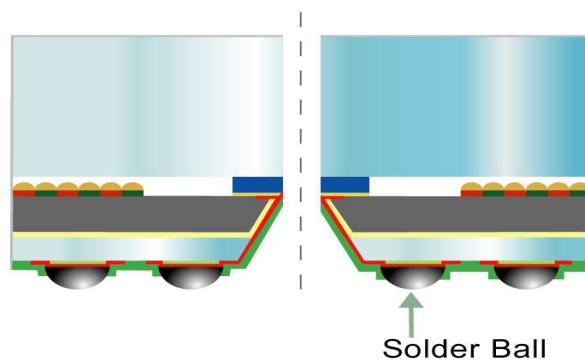
Step D: Barrier deposition and T-contact formation



Step E: Passivation coating and BGA formation



Step F: Dicing and Final inspection

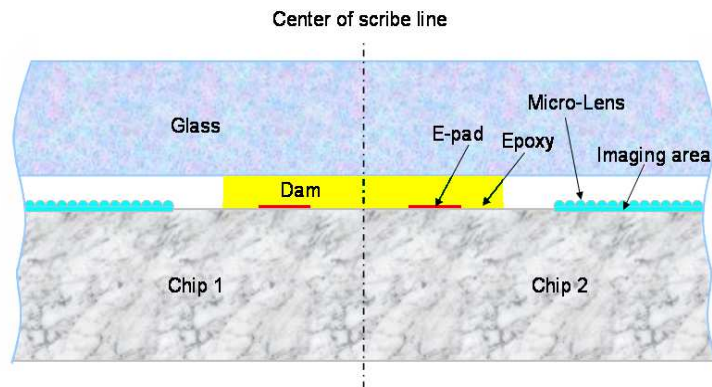


b. TSV (through-silicon via packaging) technology step description:

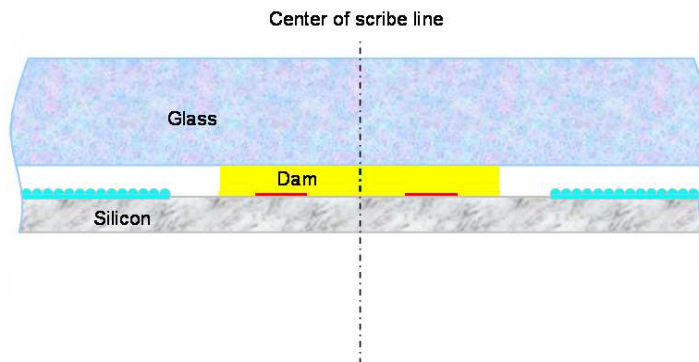
- (a) In a piece of adhesive high light-transmissive thin glass wafer affixed to the front of the customer to protect the wafer surface from contamination.
- (b) After grinding sticky back glass wafer so that the thickness of the wafer becomes thin, thereby reducing the thickness of the package.
- (c) 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

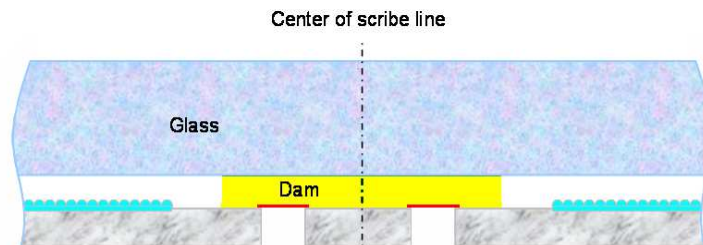
Step A: Glass attachment



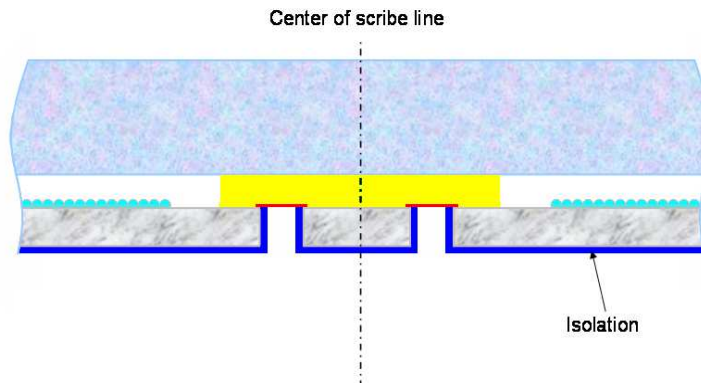
Step B: Wafer thin down



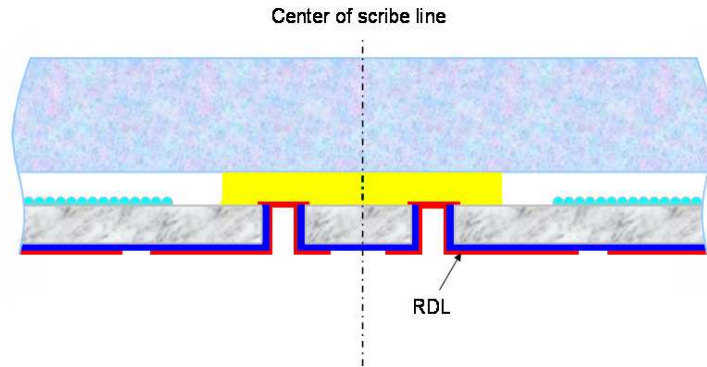
Step C: TSV formation



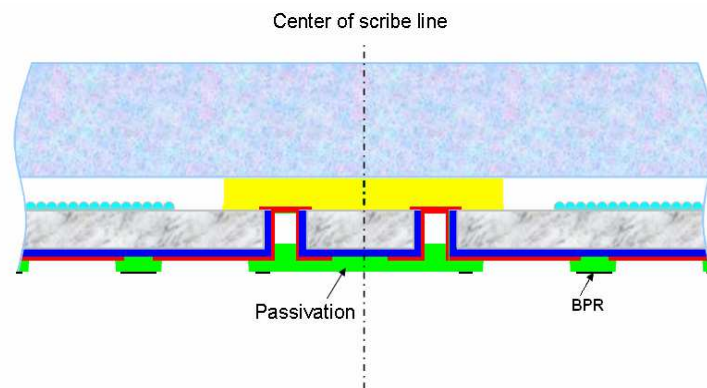
Step D: Isolation formation



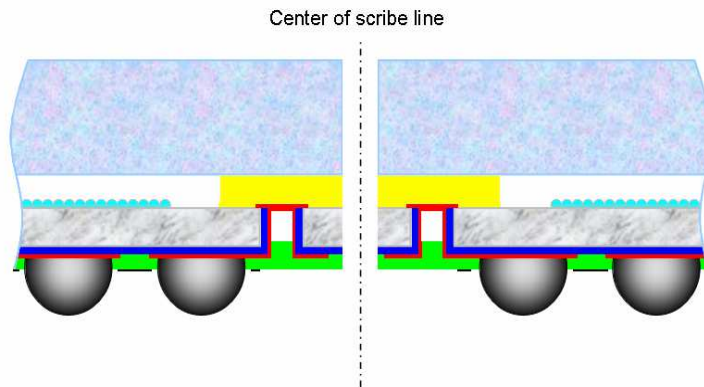
Step E: RDL process



Step F: Passivation process



Step G: BGA & Dicing processes



c. Future development plans:

To fulfill the market and customer demand for new product technologies, we continue to develop wafer-level new process technologies for diverse biometric sensors, image sensors, ambient light sensors, and micro-electromechanical systems (MEMS), MOSFETs and other products. To provide technical services including wafer-level packaging and wafer-level processes at backend market.

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

Major Raw Materials	Supply Name	Foreign	Domestic	Supply Situation
Thin Glass	SCHOTT · NEG	✓		Good
Aluminum Etch	Thipod · KANTO-PPC		✓	Good
Target	Umicore · Grikin		✓	Good
Solder Mask	Rohm & Haas		✓	Good
Photo Resist	Merk Performance Material		✓	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	2016				2017			
	Company Name	Amount	%	Relation with issuer	Company Name	Amount	%	Relation with issuer
1	Company A	1,376,437	35	Investors that have significant influence over the Company	Company A	2,074,265	51	Investors that have significant influence over the Company
2	Company B	1,294,256	33	None	Company B	1,078,319	26	None
3	Company C	533,869	14	None	Company C	292,872	7	None
	Others	716,136	18		Others	633,028	16	
	Net Sales	3,920,698	100		Net Sales	4,078,484	100	

5. Production in the last two years:

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

Output	Year	2016			2017		
		Capacity	Output	Amount	Capacity	Output	Amount
Major Products							
Wafer Level Chip Scale Packaging		468	237	2,582,313	460	255	3,104,608
Wafer Level Post Passivation Interconnection		611	381	1,298,478	437	389	1,070,146
Others		0	0	10,767	0	0	10,110
Total		1,079	618	3,891,558	897	644	4,184,864

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

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

Year Shipemet & Revenue Major Products	2016				2017			
	Domestic		Export		Domestic		Export	
	Quantity	Net revenue	Quantity	Net revenue	Quantity	Net revenue	Quantity	Net revenue
Wafer Level Chip Scale Packaging	31	294,263	205	2,059,713	74	1,378,465	171	1,446,834
Wafer Level Post Passivation Interconnection	259	1,376,832	124	166,963	212	1,020,007	173	212,787
Others	0	10,313	0	12,614	0	7,127	0	13,264
Total	290	1,681,408	329	2,239,290	286	2,405,599	344	1,672,885

C. Personnel Structure

Year		2016	2017	As of March 31, 2017
Number of Employees	Direct Labor	1,189	1,294	1,247
	Indirect Labor	722	699	660
	Total	1,911	1,993	1,907
Average Age (years)		34	34	35
Average Years of Service (years)		4.4	4.6	4.8
Education	Ph.D.	13	9	9
	Masters	350	331	308
	Bachelor's Degree	913	1,013	967
	Senior High School	592	594	580
	Below Senior High School	43	46	43

D. Environmental Protection Measures

1. The loss or penalty caused by environmental pollution:

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

2017: Waste solvent removal vendors were unable to clear the factory output and did not immediately declare the temporary deposit. They declared a temporary deposit in February of the year. The penalty was NT\$120,000. The EPA's on-site auditing of temporary wastes is not marked clearly. The penalty was NT\$60,000.

2. Countermeasures:

- (1) Add operating item and scope in daily report.
- (2) Increase 3 contract clearance companies to ensure the smooth removal of waste.
- (3) Actual factory temporary waste changes to monthly updates and online filing.

- (4) Set up inspection, reporting, and check points for waste removal, and a general platform for the control of waste storage, removal and reduce temporary storage in the factory.

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 2017, Xintec conducted 135 internal training sessions, which translated to a company-wide total of nearly 304.8 training hours with the participation of over 3,692

attendees. And also record or revised 50 e-courses. The total hours of e-courses are 13.8 hrs. The total training expenses reached NT\$1,026 thousand. 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
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.
		09/2010~03/2019	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)	
		10/2010~03/2019	Zhongli Industrial Park (A8-1)	
		01/2013~12/2018	Zhongli Industrial Park (C7-1,C7-2)	
		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.	05/2017~04/2019	Zhongli Industrial Park (C2-2)	
Borrowing contracts	Taipei Fubon Commercial Bank	06/2017~05/2022	Working capital	Line C shall not be a pledge to others or other financial commitments ratio without the consent of the Bank
	Taipei Fubon Commercial Bank	06/2017~05/2022	Working capital	
	Far Eastern International Bank	06/2017~06/2022	Working capital	
	Far Eastern International Bank	06/2017~06/2022	Machinery and equipment collateral	
	Far Eastern International Bank	10/2015~04/2021	Working capital	None
	First Commercial Bank	07/2012~07/2018	Working capital	
	Mega International Commercial Bank	08/2017~01/2023	Real estate guarantee	
	Mega International Commercial Bank	08/2017~02/2023	Real estate vice guarantee	
	Taishin International Bank	06/2017~09/2022	Real estate guarantee	
	Taishin International Bank	06/2017~09/2022	Working capital	
	Hua Nan Bank	10/2017~11/2022	Working capital	
	Entie Bank	09/2017~03/2018	Machinery and equipment collateral	
Shanghai Commercial Bank & Saving Bank	09/2017~03/2018	Working capital		
Backend service contract	TSMC	06/2013~(Note1)	Backend packing service	Duty of confidentiality

Note1: 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

Unit: NT\$, in thousands

Item \ Year	2013	2014	2015	2016	2017	
Current assets	2,211,767	2,035,251	1,771,461	2,023,778	2,470,933	
Net property, plant and equipment	6,026,007	6,591,778	6,561,638	6,128,613	5,457,634	
Intangible assets	71,694	87,437	81,986	69,361	57,240	
Others assets	52,689	112,803	104,128	212,524	216,845	
Total asstes	8,362,157	8,827,269	8,519,213	8,434,276	8,202,652	
Current liabilities	Befor Distribution	2,309,199	1,760,450	1,592,892	1,214,362	1,363,854
	After Distribution	2,439,220	2,046,195	1,727,330	1,214,362	(Note 2)
Non-current liabilities	1,937,542	2,412,576	1,074,440	2,114,962	2,434,681	
Total Liabilities	Befor Distribution	4,246,741	4,173,026	2,667,332	3,329,324	3,798,535
	After Distribution	4,376,762	4,458,771	2,801,770	3,329,324	(Note 2)
Equity attributable to shareholders of parent company	4,115,416	4,654,243	5,851,881	5,104,952	4,404,117	
Capital stock	2,364,018	2,381,207	2,688,761	2,698,534	2,719,193	
Capital surplus	524,855	547,724	1,580,613	1,592,780	1,630,968	
Retained earnings	Befor Distribution	1,226,824	1,726,135	1,584,281	813,638	79,104
	After Distribution	1,096,803	1,440,390	1,449,843	813,638	(Note 2)
Other equity	(281)	(823)	(1,774)	-	(25,148)	
Treasury stock	-	-	-	-	-	
Non-controlling interests	-	-	-	-	-	
Total equity	Befor Distribution	4,115,416	4,654,243	5,851,881	5,104,952	4,404,117
	After Distribution	3,985,395	4,368,498	5,717,443	5,104,952	(Note 2)

Note 1: Numbers were audited by CPA.

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

(2) Concise Statement of Comprehensive Income

Unit: NT\$, in thousands

Year	2013	2014	2015	2016	2017
Item					
Operating revenue	4,256,761	4,934,078	4,878,088	3,920,698	4,078,484
Gross profit	695,142	948,204	691,371	(298,833)	(349,608)
Operating income (loss)	380,636	675,630	234,619	(713,382)	(719,390)
Non-operating income and expense	(31,873)	(15,704)	(20,354)	(28,249)	(41,464)
Income (loss) before income tax	348,763	659,926	214,265	(741,631)	(760,854)
Profit (loss) from continuing operations	288,881	628,653	146,799	(636,819)	(733,280)
Loss from discontinuing operations	-	-	-	-	-
Net income (loss)	288,881	628,653	146,799	(636,819)	(733,280)
Other comprehensive income (loss)	1,188	137	(3,859)	2,388	(1,254)
Total comprehensive income (loss)	290,069	628,790	142,940	(634,431)	(734,534)
Net income (loss) attributable to owner of the corporation	288,881	628,653	146,799	(636,819)	(733,280)
Net income (loss) attributable to non-controlling interests	-	-	-	-	-
Comprehensive income (loss) attributable to owner of the corporation	290,069	628,790	142,940	(634,431)	(734,534)
Comprehensive income (loss) attributable to non-controlling interests	-	-	-	-	-
Earnings (loss) per share	1.22	2.65	0.56	(2.36)	(2.71)

Note 1: Numbers were audited by CPA.

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

Year	Name of CPA	Auditor's 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
2017	Huang Yu Feng Lin Cheng Chih	An Unqualified Opinion

B. Most Recent 5-Year Financial Analysis

1. Financial Analysis

Item		Year				
		2013	2014	2015	2016	2017
Capital Structure Analysis	Debts Ratio (%)	50.79	47.27	31.31	39.47	46.31
	Long-term Fund to Property, Plant and Equipment (%)	100.45	107.21	105.56	117.81	125.31
Liquidity Analysis	Current Ratio (%)	95.78	115.61	111.21	166.65	181.17
	Quick Ratio (%)	83.34	99.33	90.25	145.01	143.25
	Times Interest Earned (Times)	13.39	20.43	9.71	(29.99)	(18.16)
Operating Performance Analysis	Average Collection Turnover (Times)	7.28	5.84	6.40	6.90	4.78
	Average Collection Days	50.13	62.50	57.03	52.89	76.35
	Average Inventory Turnover (Times)	19.45	18.52	18.46	20.51	14.29
	Average Payment Turnover (Times)	17.83	15.02	14.83	17.09	15.43
	Average Inventory Turnover Days	18.76	19.70	19.77	17.79	25.54
	Property, Plant and Equipment Turnover (Times)	0.81	0.78	0.74	0.62	0.70
	Total Assets Turnover (Times)	0.59	0.57	0.56	0.46	0.49
Profitability Analysis	Return on Total Assets (%)	4.34	7.64	1.93	(7.28)	(8.42)
	Return on Total Equity (%)	7.27	14.34	2.79	(11.62)	(15.42)
	Pre-tax Income to Paid-in Capital Ratio (%)	14.75	27.71	7.97	(27.48)	(27.98)
	Net Margin (%)	6.79	12.74	3.01	(16.24)	(17.98)
	Basic Earnings Per Share (NT\$)	1.22	2.65	0.56	(2.36)	(2.71)
Cash flow	Cash Flow Ratio (%)	88.09	67.99	104.59	38.49	(12.43)
	Cash Flow Adequacy Ratio (%)	85.96	79.63	73.71	80.87	66.53
	Cash Flow Reinvestment Ratio (%)	18.09	8.05	9.76	2.17	(1.08)
Leverage	Operating Leverage	4.82	3.42	8.73	(2.80)	(2.55)
	Financial Leverage	1.08	1.05	1.12	0.97	0.95

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. Times interest earned increased was mainly due to the increase in the interest expense.
2. Average collection turnover decreased and average collection days increased was due to accounts receivable at the end of period increased.
3. Average inventory turnover decreased and average inventory turnover days increased was due to inventory at the end of period increased.
4. Return on total equity decreased was mainly due to the net loss increased.
5. Cash flow ratio and cash flow reinvestment ratio decreased was mainly due to cash flow from operating activities decreased in 2017.

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

C. Audit Committee's Review Report

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2017 Business Report, Financial Statements, and Proposal for the Offset of Deficits. 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 the Offset of Deficits 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 6, 2018

D. Financial Statements and Independent Auditors' Report

Xintec Inc.

**Financial Statements for the
Years Ended December 31, 2017 and 2016 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, 2017 and 2016, 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, 2017 and 2016, 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, 2017. 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, 2017 are stated as follows:

Provision for 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 by taking into account business incentives earned by customers and records a provision for estimated business incentives in the same period in which the related revenue is recorded. Such provision is recorded under the provision for sales returns and allowances and is determined by management primarily based on historical experience and the varying contractual terms. Refer to Notes 4, 5

and 14 to the accompanying financial statements for the details of the information about the provision for sales returns and allowances. Since the provision for 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 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 provision for sales returns and allowances;
2. We understood and assessed the reasonableness of management's assumptions made and the methodology used in estimating the provision for sales returns and allowances;
3. We sampled and inspected the Company's sales contracts of its main products by agreeing the contractual terms and performing an analysis to challenge management's estimation of whether specific products have met business incentive conditions and to verify the reasonableness of the accrual of the provision;
4. We evaluated the reasonableness of the estimated provision by comparing it with the actual business incentives paid in the past; and
5. We inspected the Company's sales returns and allowances general ledger subsequent to the financial reporting date for any significant unusual transactions.

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

As of December 31, 2017, the carrying amount of the Company's PP&E was NT\$5,457,634 thousand, representing 67% of its 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, 2017, the Company recognized impairment losses of NT\$21,863 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. Refer to Notes 4, 5 and 11 to the accompanying financial statements for the details of the accounting policies, judgments, estimations, uncertainty of assumptions and the related disclosure information about the impairment of PP&E.

In the process of evaluating the potential impairment of PP&E, the Company's management assessed the recoverable amount of specific asset groups with the consideration of each asset's model in use and the nature of the industry. In determining the independent cash flows of each specific asset group, management makes assumptions and subjective judgments about the expected future 5-year revenue and expenses, useful lives and discount rates calculated from the 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, the impairment of PP&E has been identified as a key audit matter.

Our 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 specific asset groups was consistent with the financial projections approved by the Board of Directors. We inspected and evaluated whether the Company's management prepared its expected future 5-year operations 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 Company's management adopted to estimate the recoverable amount of specific asset groups, including the evaluation process and basis of the expected future 5-year operations. We evaluated whether the risk-free interest rate, expected volatility and risk premium used in calculating the weighted average cost of capital rate were consistent with the Company's current operating status and industry conditions, and we performed a recalculation; and
4. We compared the recent financial statements subsequent to the financial reporting date to the current period and evaluated any significant impact to the assumptions in assessing the 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, 2017 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 6, 2018

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, 2017		December 31, 2016		LIABILITIES AND EQUITY	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Note 6)	\$ 788,186	10	\$ 1,209,162	14	Financial liabilities at fair value through profit or loss (Note 7)	\$ 178	-	\$ 9,534	-
Financial assets at fair value through profit or loss (Note 7)	11,372	-	-	-	Accounts payable	357,936	4	216,171	2
Accounts receivable, net (Note 9)	323,668	4	426,571	5	Salary and bonus payable	153,343	2	155,672	2
Receivables from related parties, net (Notes 9 and 29)	830,423	10	124,539	2	Payables to contractors and equipment suppliers	175,252	2	324,456	4
Inventories (Notes 5 and 10)	448,320	5	171,444	2	Provisions - current (Notes 5 and 14)	52,151	1	55,367	1
Other financial assets	129	-	647	-	Long-term borrowings - current portion (Notes 15 and 30)	126,250	1	146,875	2
Other current assets (Notes 13 and 29)	<u>68,835</u>	<u>1</u>	<u>91,415</u>	<u>1</u>	Accrued expenses and other current liabilities (Note 29)	<u>498,744</u>	<u>6</u>	<u>306,287</u>	<u>3</u>
Total current assets	<u>2,470,933</u>	<u>30</u>	<u>2,023,778</u>	<u>24</u>	Total current liabilities	<u>1,363,854</u>	<u>16</u>	<u>1,214,362</u>	<u>14</u>
NONCURRENT ASSETS					NONCURRENT LIABILITIES				
Property, plant and equipment (Notes 5, 11 and 30)	5,457,634	67	6,128,613	73	Long-term borrowings (Notes 15 and 30)	2,361,875	29	2,078,125	25
Intangible assets (Note 12)	57,240	1	69,361	1	Provisions - noncurrent (Notes 5 and 14)	<u>72,806</u>	<u>1</u>	<u>36,837</u>	<u>-</u>
Deferred income tax assets (Notes 5 and 24)	204,403	2	199,669	2	Total noncurrent liabilities	<u>2,434,681</u>	<u>30</u>	<u>2,114,962</u>	<u>25</u>
Refundable deposits	11,040	-	11,015	-	Total liabilities	<u>3,798,535</u>	<u>46</u>	<u>3,329,324</u>	<u>39</u>
Net defined benefit assets (Note 16)	<u>1,402</u>	<u>-</u>	<u>1,840</u>	<u>-</u>	EQUITY (Notes 17 and 26)				
Total noncurrent assets	<u>5,731,719</u>	<u>70</u>	<u>6,410,498</u>	<u>76</u>	Capital stock - common stock	<u>2,719,193</u>	<u>33</u>	<u>2,698,534</u>	<u>32</u>
					Capital surplus	<u>1,630,968</u>	<u>20</u>	<u>1,592,780</u>	<u>19</u>
					Retained earnings				
					Appropriated as legal reserve	274,233	3	274,233	3
					Appropriated as special reserve	-	-	1,774	-
					(Accumulated deficits) unappropriated earnings	<u>(195,129)</u>	<u>(2)</u>	<u>537,631</u>	<u>7</u>
						<u>79,104</u>	<u>1</u>	<u>813,638</u>	<u>10</u>
					Other	<u>(25,148)</u>	<u>-</u>	<u>-</u>	<u>-</u>
					Total equity	<u>4,404,117</u>	<u>54</u>	<u>5,104,952</u>	<u>61</u>
TOTAL	<u>\$ 8,202,652</u>	<u>100</u>	<u>\$ 8,434,276</u>	<u>100</u>	TOTAL	<u>\$ 8,202,652</u>	<u>100</u>	<u>\$ 8,434,276</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 Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 5, 19 and 29)	\$ 4,078,484	100	\$ 3,920,698	100
OPERATING COSTS (Notes 10, 26 and 29)	<u>4,428,092</u>	<u>109</u>	<u>4,219,531</u>	<u>108</u>
GROSS LOSS	<u>(349,608)</u>	<u>(9)</u>	<u>(298,833)</u>	<u>(8)</u>
OPERATING EXPENSES (Notes 26 and 29)				
Sales and marketing	43,097	1	39,078	1
General and administrative	111,981	3	116,450	3
Research and development	<u>285,150</u>	<u>7</u>	<u>316,282</u>	<u>8</u>
Total operating expenses	<u>440,228</u>	<u>11</u>	<u>471,810</u>	<u>12</u>
OTHER OPERATING INCOME AND EXPENSES, NET (Notes 11, 20, 26 and 29)	<u>70,446</u>	<u>2</u>	<u>57,261</u>	<u>2</u>
LOSS FROM OPERATIONS	<u>(719,390)</u>	<u>(18)</u>	<u>(713,382)</u>	<u>(18)</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 21)	5,866	-	2,882	-
Finance costs (Note 22)	(39,701)	(1)	(23,934)	(1)
Other gains and losses (Note 23)	<u>(7,629)</u>	<u>-</u>	<u>(7,197)</u>	<u>-</u>
Total non-operating income and expenses	<u>(41,464)</u>	<u>(1)</u>	<u>(28,249)</u>	<u>(1)</u>
LOSS BEFORE INCOME TAX	(760,854)	(19)	(741,631)	(19)
INCOME TAX BENEFIT (Note 24)	<u>27,574</u>	<u>1</u>	<u>104,812</u>	<u>3</u>
NET LOSS	<u>(733,280)</u>	<u>(18)</u>	<u>(636,819)</u>	<u>(16)</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans (Note 16)	(1,254)	-	614	-
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges (Note 17)	<u>-</u>	<u>-</u>	<u>1,774</u>	<u>-</u>
Other comprehensive (loss) income for the year	<u>(1,254)</u>	<u>-</u>	<u>2,388</u>	<u>-</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>\$ (734,534)</u>	<u>(18)</u>	<u>\$ (634,431)</u>	<u>(16)</u>
LOSS PER SHARE (Note 25)				
Basic loss per share	<u>\$ (2.71)</u>		<u>\$ (2.36)</u>	
Diluted loss per share	<u>\$ (2.71)</u>		<u>\$ (2.36)</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)

	Capital Stock - Common Stock		Retained Earnings				Other		Total Equity	
	Stock (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficits)	Total	Cash Flow Hedges		Unearned Stock-Based Employee Compensation
BALANCE, JANUARY 1, 2016	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 stockholders	-	-	-	-	-	(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
Appropriation and distribution of 2016 earnings										
Reversal of special reserve	-	-	-	-	(1,774)	1,774	-	-	-	-
Net loss in 2017	-	-	-	-	-	(733,280)	(733,280)	-	-	(733,280)
Other comprehensive loss in 2017, net of income tax	-	-	-	-	-	(1,254)	(1,254)	-	-	(1,254)
Total comprehensive loss in 2017	-	-	-	-	-	(734,534)	(734,534)	-	-	(734,534)
Issuance of stock from exercise of employee stock options	944	9,439	11,978	-	-	-	-	-	-	21,417
Compensation cost of employee restricted stock	1,500	15,000	35,040	-	-	-	-	-	(37,758)	12,282
Retirement of employee restricted stock	(378)	(3,780)	(8,830)	-	-	-	-	-	12,610	-
BALANCE, DECEMBER 31, 2017	271,919	\$ 2,719,193	\$ 1,630,968	\$ 274,233	\$ -	\$ (195,129)	\$ 79,104	\$ -	\$ (25,148)	\$ 4,404,117

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

XINTEC INC.

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	\$ (760,854)	\$ (741,631)
Adjustments for:		
Depreciation	1,010,143	1,179,098
Amortization	40,548	41,474
Impairment loss (reversed) recognized on accounts receivable	(117)	89
Finance costs	39,701	23,934
Interest income	(5,866)	(2,882)
Compensation cost of employee stock options	-	515
Compensation cost of employee restricted stock	12,282	-
Gain on disposal of property, plant and equipment, net	(3,907)	(53,302)
Impairment loss recognized on property, plant and equipment	21,863	2,884
Gain on foreign exchange, net	(5,180)	(934)
Changes in operating assets and liabilities:		
Derivative financial instruments	(20,728)	4,111
Accounts receivable, net	103,018	(82,550)
Receivables from related parties, net	(705,882)	116,135
Other receivables from related parties	-	1,571
Inventories	(276,876)	68,491
Other current assets	27,721	3,277
Other financial assets	498	-
Accounts payable	141,765	(61,435)
Salary and bonus payable	(2,329)	(3,998)
Provisions	(3,216)	(27,748)
Accrued expenses and other current liabilities	191,887	25,703
Net defined benefit assets	(816)	(1,590)
Accrued profit sharing bonus for employees and compensation for directors	-	(21,965)
Cash (used in) generated from operations	(196,345)	469,247
Income tax refunded (paid)	26,824	(1,866)
Net cash (used in) generated from operating activities	<u>(169,521)</u>	<u>467,381</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(514,066)	(875,840)
Intangible assets	(28,427)	(28,849)
Proceeds from disposal of:		
Property, plant and equipment	48,891	118,489
Refundable deposits paid	(18,870)	(3,559)
Refundable deposits refunded	18,845	1,815
Interest received	5,886	2,907
Net cash used in investing activities	<u>(487,741)</u>	<u>(785,037)</u>

(Continued)

XINTEC INC.**STATEMENTS OF CASH FLOWS**
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	\$ 2,107,000	\$ 990,000
Repayments of long-term borrowings	(1,843,875)	(150,000)
Cash dividends paid	-	(134,438)
Proceeds from exercise of employee stock options	21,417	21,425
Interest paid	<u>(48,256)</u>	<u>(24,555)</u>
Net cash generated from financing activities	<u>236,286</u>	<u>702,432</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(420,976)	384,776
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,209,162</u>	<u>824,386</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 788,186</u>	<u>\$ 1,209,162</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, 2017 AND 2016

(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 stock 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. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements were approved and authorized by the Board of Directors for issue on February 6, 2018.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

- a. Initial application of the 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 and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact 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 and issued into effect by the FSC. 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 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.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 29 for related disclosures.

- b. The IFRSs issued by International Accounting Standards Board (IASB) and endorsed by the FSC with effective date starting 2018

New, Revised or Amended Standards and Interpretations	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 Disclosures"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments 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 above New IFRSs 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.

- 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 cash-settled share-based payment transactions that are unvested at January 1, 2018.

2) IFRS 9 “Financial Instruments” and related amendment

Classification, measurement and impairment of financial assets

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 investments in debt instruments 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 Company has performed an assessment in which it will apply the simplified approach to recognize full-lifetime expected credit loss for accounts receivables and contract assets.

The Company elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application.

The anticipated impact on measurement categories, carrying amount and related reconciliation for each class of the Company's financial assets and financial liabilities when retrospectively applying IFRS 9 on January 1, 2018 is detailed below:

	Measurement Category		Carrying Amount		Note
	IAS 39	IFRS 9	IAS 39	IFRS 9	
<u>Financial assets</u>					
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 788,186	\$ 788,186	(1)
Accounts receivable, net (including related parties), other financial assets, and refundable deposits	Loans and receivables	Amortized cost	1,165,260	1,165,260	(1)
<u>Financial liabilities</u>					
Accounts payable, payables to contractors and equipment suppliers, accrued expenses and other current liabilities, and long-term borrowings	Amortized cost	Amortized cost	3,480,325	3,480,325	

(1) Cash and cash equivalents, accounts receivables, net (including related parties), other financial assets and refundable deposits were classified as loans and receivables under IAS 39 are now classified at amortized cost with assessment of future 12-month or full-lifetime expected credit loss under IFRS 9.

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 risks eligible for hedge accounting of non-financial items; (2) changing the way the hedging cost of 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.

The Company will prospectively apply the requirements for hedge accounting upon initial application of IFRS 9.

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.

The Company elects only to retrospectively apply IFRS 15 to contracts that were not completed on January 1, 2018 and elects not to restate prior reporting period with the cumulative effect of the initial application recognized at the date of initial application.

The anticipated impact on assets, liabilities and equity when retrospectively applying IFRS 15 on January 1, 2018 is detailed below:

	Carrying Amount as of December 31, 2017 (IAS 18 and revenue-related interpretations)	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018 (IFRS 15)	Note
Inventories	\$ 448,320	\$ (258,834)	\$ 189,486	(1)
Other financial assets	<u>129</u>	<u>306,445</u>	<u>306,574</u>	(1)
Total effect on assets	<u>\$ 448,449</u>	<u>\$ 47,611</u>	<u>\$ 496,060</u>	
Provisions - current	\$ 52,151	\$ (52,151)	\$ -	(2)
Accrued expenses and other current liabilities	<u>498,744</u>	<u>52,151</u>	<u>550,895</u>	(2)
Total effect on liabilities	<u>\$ 550,895</u>	<u>\$ -</u>	<u>\$ 550,895</u>	
Retained earnings	<u>\$ 79,104</u>	<u>\$ 47,611</u>	<u>\$ 126,715</u>	(1)
Total effect on equity	<u>\$ 79,104</u>	<u>\$ 47,611</u>	<u>\$ 126,715</u>	

(1) Prior to the application of IFRS 15, the Company recognizes revenue based on the accounting treatment of the sales of goods. Under IFRS 15, the Company will change to recognize revenue over time because customers are deemed to have control over the products when the products are manufactured. As a result, the Company will recognize contract assets (classified under other financial assets) and adjust related assets and equity accordingly.

(2) Prior to the application of IFRS 15, the Company recognized the estimation of sales returns and allowance as provisions. Under IFRS 15, the Company recognizes such estimation as refund liability (classified under accrued expenses and other current liabilities).

c. The IFRSs issued by IASB but not yet endorsed and issued into effect by the FSC

New, Revised or Amended Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019
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 16 “Leases”	January 1, 2019 (Note 2)
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

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

Note 2: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

1) 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.

2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatments, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Company shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

3) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3, IFRS 11, IAS 12 and IAS 23 “Borrowing Costs”, were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The amendment shall be applied prospectively.

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 financial statements are authorized for issue; and
- c. Liabilities for which the Company 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 noncurrent.

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 28.

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.

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.

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 rates and interest rates, 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 remeasured, 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	
	2017	2016
Cash and deposits in banks	\$ 764,586	\$ 1,168,362
Repurchase agreements collateralized by corporate bonds	<u>23,600</u>	<u>40,800</u>
	<u>\$ 788,186</u>	<u>\$ 1,209,162</u>

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

	December 31	
	2017	2016
<u>Derivative financial assets</u>		
Forward exchange contracts	<u>\$ 11,372</u>	<u>\$ -</u>
<u>Derivative financial liabilities</u>		
Forward exchange contracts	<u>\$ 178</u>	<u>\$ 9,534</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, 2017</u>		
Sell US\$/Buy NT\$	January 2018-March 2018	US\$41,686/NT\$1,247,559
<u>December 31, 2016</u>		
Sell US\$/Buy NT\$	January 2017-March 2017	US\$19,263/NT\$610,715

8. DERIVATIVE FINANCIAL INSTRUMENT FOR HEDGING

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.

For the years ended December 31, 2017 and 2016, net loss arising from changes in fair value of the hedged items recognized in other comprehensive income and accumulated in other equity were NT\$0 and NT\$97 thousand, respectively. For the years ended December 31, 2017 and 2016, losses of hedging instruments reclassified from equity to loss recognized as financial costs in comprehensive income were NT\$0 and NT\$1,871 thousand, respectively.

9. ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Unrelated Parties</u>		
Accounts receivable	\$ 323,996	\$ 427,014
Allowance for doubtful receivables	<u>(328)</u>	<u>(443)</u>
Accounts receivable, net	<u>323,668</u>	<u>426,571</u>
<u>Related Parties</u>		
Accounts receivable	830,423	124,541
Allowance for doubtful receivables	<u>-</u>	<u>(2)</u>
Accounts receivable, net	<u>830,423</u>	<u>124,539</u>
	<u>\$ 1,154,091</u>	<u>\$ 551,110</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 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>2017</u>	<u>2016</u>
Neither past due nor impaired	\$ 1,153,199	\$ 531,624
Past due within 30 days	<u>892</u>	<u>19,486</u>
	<u>\$ 1,154,091</u>	<u>\$ 551,110</u>

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

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Past due within 30 days	\$ <u>892</u>	\$ <u>19,486</u>

Movements of the allowance for doubtful receivables

	Collectively Assessed for Impairment
Balance at January 1, 2017	\$ 445
Reversal	<u>(117)</u>
Balance at December 31, 2017	<u>\$ 328</u>
Balance at January 1, 2016	\$ 356
Provision	<u>89</u>
Balance at December 31, 2016	<u>\$ 445</u>

Aging analysis of accounts receivable that was impaired

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Not past due	\$ <u>328</u>	\$ <u>445</u>

10. INVENTORIES

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Finished goods	\$ 72,688	\$ 16,113
Work in process	186,146	37,901
Raw materials	<u>189,486</u>	<u>117,430</u>
	<u>\$ 448,320</u>	<u>\$ 171,444</u>

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

	<u>Years Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Reversal (recognition) of inventory losses	\$ <u>3,140</u>	\$ <u>(7,329)</u>
Revenue from sale of scraps	<u>\$ 6,497</u>	<u>\$ 9,605</u>

11. 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, 2017	\$ 772,029	\$ 1,897,336	\$ 9,763,998	\$ 189,043	\$ 659,217	\$ 851,490	\$ 138,818	\$14,271,931
Additions	-	84,659	229,856	10,111	78,430	75,198	(72,243)	406,011
Disposals or retirements	-	-	(307,078)	(170)	(255)	(918)	-	(308,421)
Balance at December 31, 2017	<u>\$ 772,029</u>	<u>\$ 1,981,995</u>	<u>\$ 9,686,776</u>	<u>\$ 198,984</u>	<u>\$ 737,392</u>	<u>\$ 925,770</u>	<u>\$ 66,575</u>	<u>\$14,369,521</u>
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2017	\$ -	\$ 568,319	\$ 6,597,847	\$ 112,155	\$ 509,338	\$ 355,659	\$ -	\$ 8,143,318
Depreciation	-	157,773	687,811	23,233	46,157	95,169	-	1,010,143
Impairment losses	-	-	21,846	-	17	-	-	21,863
Disposals or retirements	-	-	(262,094)	(170)	(255)	(918)	-	(263,437)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 726,092</u>	<u>\$ 7,045,410</u>	<u>\$ 135,218</u>	<u>\$ 555,257</u>	<u>\$ 449,910</u>	<u>\$ -</u>	<u>\$ 8,911,887</u>
Carrying amount at December 31, 2017	<u>\$ 772,029</u>	<u>\$ 1,255,903</u>	<u>\$ 2,641,366</u>	<u>\$ 63,766</u>	<u>\$ 182,135</u>	<u>\$ 475,860</u>	<u>\$ 66,575</u>	<u>\$ 5,457,634</u>
<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>

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, 2017 and 2016, the Company recognized impairment loss of NT\$21,863 thousand and NT\$2,884 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 buildings, machinery and equipment to VisEra Technology Company Ltd. (VisEra) and 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 were from November 2016 to November 2018 and from February 2017 to January 2018, respectively and the rental were received monthly. The related rental and depreciation of such leased assets were included in other operating income and expenses.

The carrying amount of leased assets were as follows:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Carrying amount of leased buildings, machinery and equipment	<u>\$ 52,331</u>	<u>\$ 29,145</u>

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

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Not later than 1 year	\$ 96,091	\$ 100,500
Later than 1 year and not later than 5 year	<u>-</u>	<u>94,500</u>
	<u>\$ 96,091</u>	<u>\$ 195,000</u>

Machinery and equipment pledged as collateral for bank borrowings were set out in Note 30.

12. INTANGIBLE ASSETS

	Acquired Special Technology	Software	Patents and Others	Total
<u>Cost</u>				
Balance at January 1, 2017	\$ 113,340	\$ 68,094	\$ 113,433	\$ 294,867
Additions	<u>-</u>	<u>8,006</u>	<u>20,421</u>	<u>28,427</u>
Balance at December 31, 2017	<u>\$ 113,340</u>	<u>\$ 76,100</u>	<u>\$ 133,854</u>	<u>\$ 323,294</u>
<u>Accumulated amortization</u>				
Balance at January 1, 2017	\$ 86,422	\$ 51,576	\$ 87,508	\$ 225,506
Additions	<u>5,667</u>	<u>12,021</u>	<u>22,860</u>	<u>40,548</u>
Balance at December 31, 2017	<u>\$ 92,089</u>	<u>\$ 63,597</u>	<u>\$ 110,368</u>	<u>\$ 266,054</u>
Carrying amount at December 31, 2017	<u>\$ 21,251</u>	<u>\$ 12,503</u>	<u>\$ 23,486</u>	<u>\$ 57,240</u>

(Continued)

	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> (Concluded)

13. OTHER CURRENT ASSETS

	December 31	
	2017	2016
Prepaid expenses	\$ 56,492	\$ 59,891
Prepayments to suppliers	2,567	3,121
Tax receivable	403	22,575
Others	<u>9,373</u>	<u>5,828</u>
	<u>\$ 68,835</u>	<u>\$ 91,415</u>

14. PROVISIONS

	December 31	
	2017	2016
Sales returns and allowances	\$ 52,151	\$ 55,367
Decommissioning costs	<u>72,806</u>	<u>36,837</u>
	<u>\$ 124,957</u>	<u>\$ 92,204</u>
Current portion	\$ 52,151	\$ 55,367
Noncurrent portion	<u>72,806</u>	<u>36,837</u>
	<u>\$ 124,957</u>	<u>\$ 92,204</u>

	Sales Returns and Allowances	Decommissioning Costs	Total
<u>Year Ended December 31, 2017</u>			
Balance, beginning of year	\$ 55,367	\$ 36,837	\$ 92,204
Provision	22,017	35,969	57,986
Payment	<u>(25,233)</u>	<u>-</u>	<u>(25,233)</u>
Balance, end of year	<u>\$ 52,151</u>	<u>\$ 72,806</u>	<u>\$ 124,957</u>
<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>

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.

15. LONG-TERM BORROWINGS

	<u>December 31</u>	
	2017	2016
Unsecured borrowings:		
Repayable with annual interest rates at 0.96%-1.08% and 0.96%-0.99% in 2017 and 2016, respectively, and will redeem in April 2021; acquired bank borrowing in the amount of NT\$400,000 thousand and NT\$300,000 thousand in 2016 and 2017, respectively	\$ 700,000	\$ 400,000
Repayable quarterly from June 2020 in 9 installments; with annual interest rates at 1.20% and 1.19%-1.34% in 2017 and 2016, respectively; acquired bank borrowing in the amount of NT\$300,000 thousand in 2017	610,000	310,000
Repayable with annual interest rates at 1.09%-1.15% and 1.09%-1.18% in 2017 and 2016, respectively, and will redeem in May 2022; acquired bank borrowing in the amount of NT\$290,000 thousand in 2016 and NT\$90,000 thousand, which was redeemed in advance in 2017	300,000	390,000
		(Continued)

	December 31	
	2017	2016
Repayable with annual interest rates at 1.06%-1.18% and 1.06%-1.16% in 2017 and 2016, respectively, and will redeem in June 2022; acquired bank borrowing in the amount of NT\$300,000 thousand in 2016 and NT\$200,000 thousand, which was redeemed in advance in 2017	\$ 200,000	\$ 400,000
Repayable quarterly from February 2019 in 16 installments; with an annual interest rate at 1.70% in 2017	200,000	-
Repayable semiannually from September 2019 in 7 installments; with an annual interest rate at 1.24% in 2017	100,000	-
Repayable quarterly from December 2018 in 16 installments; with an annual interest rate at 1.60% in 2017	50,000	-
Repayable quarterly from July 2014 in 16 installments; with annual interest rates at 1.05% and 1.05%-1.18% in 2017 and 2016, respectively	37,500	112,500
Repayable quarterly from October 2014 in 16 installments; with annual interest rates at 1.05% and 1.05%-1.18% in 2017 and 2016, respectively	28,125	65,625
Repayable quarterly from September 2014 in 16 installments; with annual interest rates at 1.05% and 1.05%-1.11% in 2017 and 2016, respectively	12,500	37,500
Repayable quarterly from October 2013 in 16 installments; with annual interest rates at 1.05%-1.11% in 2016	-	9,375
Secured borrowings:		
Repayable quarterly from April 2018 in 11 installments; with an annual interest rate at 1.60% in 2017	250,000	-
Repayable with annual interest rates at 0.96%-1.11% in 2016; acquired bank borrowing in the amount of NT\$500,000 thousand, which was redeemed in advance in June 2017	<u>-</u>	<u>500,000</u>
	<u>\$ 2,488,125</u>	<u>\$ 2,225,000</u>
Current	\$ 126,250	\$ 146,875
Noncurrent	<u>2,361,875</u>	<u>2,078,125</u>
	<u>\$ 2,488,125</u>	<u>\$ 2,225,000</u>
		(Concluded)

Under certain bank loan agreements, the Company has to meet certain financial covenants and criteria per its semiannual reviewed financial statements and annual audited financial statements. Such inspection of certain financial covenants and criteria will start for the Company's 2017 annual audited financial statements. As of December 31, 2017, the Company was in compliance with all of the loan covenants.

Machinery and equipment pledged as collateral for bank borrowings are set out in Note 30.

16. 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\$54,974 thousand and NT\$56,834 thousand in the statements of comprehensive income for the years ended December 31, 2017 and 2016, 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	
	2017	2016
Present value of defined benefit obligation	\$ 42,419	\$ 41,350
Fair value of plan assets	<u>(43,821)</u>	<u>(43,190)</u>
Net defined benefit assets	<u>\$ (1,402)</u>	<u>\$ (1,840)</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, 2017	<u>\$ 41,350</u>	<u>\$ (43,190)</u>	<u>\$ (1,840)</u>
Service cost	-	-	-
Net interest expense (income)	<u>620</u>	<u>(660)</u>	<u>(40)</u>
Recognized in profit or loss	<u>620</u>	<u>(660)</u>	<u>(40)</u>
Remeasurement			
Return on plan assets	-	238	238
Actuarial loss - changes in demographic assumptions	294	-	294

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Actuarial loss - changes in financial assumptions	\$ 1,468	\$ -	\$ 1,468
Actuarial gain - experience adjustments	<u>(746)</u>	<u>-</u>	<u>(746)</u>
Recognized in other comprehensive income	<u>1,016</u>	<u>238</u>	<u>1,254</u>
Contributions from the employer	<u>-</u>	<u>(776)</u>	<u>(776)</u>
Benefits paid	<u>(567)</u>	<u>567</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ 42,419</u>	<u>\$ (43,821)</u>	<u>\$ (1,402)</u>
Balance at January 1, 2016	<u>\$ 41,984</u>	<u>\$ (41,620)</u>	<u>\$ 364</u>
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>
Contributions from the employer	<u>-</u>	<u>(1,582)</u>	<u>(1,582)</u>
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> (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	
	<u>2017</u>	<u>2016</u>
General and administrative expenses	<u>\$ (40)</u>	<u>\$ (8)</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	
	2017	2016
Discount rate	1.25%	1.50%
Expected rate of salary increase	2.00%	2.00%
Turnover rate	0.30%	0.89%

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	
	2017	2016
Discount rate		
0.25% increase	<u>\$ (1,477)</u>	<u>\$ (1,526)</u>
0.25% decrease	<u>\$ 1,546</u>	<u>\$ 1,601</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 1,503</u>	<u>\$ 1,589</u>
0.25% decrease	<u>\$ (1,444)</u>	<u>\$ (1,522)</u>
Turnover rate		
10% increase	<u>\$ (92)</u>	<u>\$ (236)</u>
10% decrease	<u>\$ 92</u>	<u>\$ 238</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	
	2017	2016
The expected contributions to the plan for the next year	<u>\$ -</u>	<u>\$ 1,692</u>
The average duration of the defined benefit obligation	16 years	15 years

The maturity analysis of undiscounted pension benefits is as follows:

	December 31	
	2017	2016
Less than 1 year	\$ 1,687	\$ 110
Later than 1 year and not later than 5 years	8,770	3,043
Later than 5 years	<u>33,393</u>	<u>48,463</u>
	<u>\$ 43,850</u>	<u>\$ 51,616</u>

17. EQUITY

a. Capital stock

	December 31	
	2017	2016
Authorized stock (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 stock (in thousands)	<u>271,919</u>	<u>269,853</u>
Issued capital	<u>\$ 2,719,193</u>	<u>\$ 2,698,534</u>

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

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

b. Capital surplus

	December 31	
	2017	2016
Additional paid-in capital	\$ 1,604,758	\$ 1,585,470
Employee restricted stocks	26,210	-
Employee stock options	<u>-</u>	<u>7,310</u>
	<u>\$ 1,630,968</u>	<u>\$ 1,592,780</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 capital stock (limited to a certain percentage of the Company's capital surplus and once a year).

The capital surplus arising from employee restricted stocks and 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 stockholders and do not include employees. The amendments to the Company's Articles of Incorporation on the profit distribution and employees' compensation policy were approved by the Company's stockholders in their meeting held on June 14, 2016. For the policy about the profit sharing bonus for employees, refer to Note 26.

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 stockholders' 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 stockholders' 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 stockholders' 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 stockholders' 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 stockholders' equity, any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The appropriation of 2016 earnings was approved by the Company's stockholders in their meeting held on June 7, 2017. The Company reversed its special reserve in accordance with the relevant regulations in the amount of NT\$1,774 thousand and planned not to distribute dividends.

The appropriation of 2015 earnings was approved by the Company's stockholders in their meeting held on June 14, 2016. The appropriation and dividends per stock were as follows:

	For Fiscal Year 2015	
	Appropriation	Dividends Per Stock (NT\$)
Legal reserve	\$ 14,680	
Special reserve	951	
Cash dividends to stockholders	<u>134,438</u>	\$ 0.50
	<u>\$ 150,069</u>	

The Company's offset of deficits for 2017 was approved in the meeting of the Board of Directors held on February 6, 2018 and was as follows:

	Deficit Offset of For Fiscal Year 2017
Balance of unappropriated earnings, beginning of year	\$ 539,405
Remeasurement of defined benefit plans	(1,254)
Net loss in 2017	(733,280)
Legal reserve for offset with deficits	<u>195,129</u>
Balance of unappropriated earnings, end of year	<u>\$ -</u>

The offset of deficits for 2017 are to be resolved in the Company stockholders' meeting which is expected to be held on May 31, 2018.

Under the Integrated Income Tax System that became effective on January 1, 1998, the R.O.C. resident stockholders 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

1) Movement in cash flow hedges was as follows:

	Years Ended December 31	
	2017	2016
<u>Cash flow hedges</u>		
Balance, beginning of year	\$ -	\$ (1,774)
Loss arising on changes in the fair value of hedging instruments	-	(97)
Loss arising on changes in fair value of hedging instruments reclassified to profit or loss	<u>-</u>	<u>1,871</u>
Balance, end of year	<u>\$ -</u>	<u>\$ -</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.

2) Unearned stock-based employee compensation

On June 14, 2016, a restricted stock plan for employees was approved in the stockholder's meeting of the Company. Refer to Note 18.

	December 31	
	2017	2016
Balance, beginning of year	\$ -	\$ -
Issuance of stock	(50,040)	-
Forfeit of stock	12,610	-
Stock-based payment expenses recognized	<u>12,282</u>	<u>-</u>
Balance, end of year	<u>\$ (25,148)</u>	<u>\$ -</u>

18. STOCK-BASED PAYMENTS

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 stock-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 the “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 each plan, with each stock option providing its holder with the eligibility to subscribe for one common stock when the option is 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 Plan</u>		<u>2006 Employee Stock Option Plan</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, 2017</u>				
Balance, beginning of year	2	\$ 14.80	-	\$ -
Options exercised	<u>(2)</u>	14.80	<u>-</u>	-
Balance, end of year	<u>-</u>	-	<u>-</u>	-
Balance exercisable, end of year	<u>-</u>	-	<u>-</u>	-
<u>Year ended December 31, 2016</u>				
Balance, beginning of year	7	\$ 14.80	72	\$ 9.00
Options exercised	(5)	14.80	(62)	8.59
Options canceled	<u>-</u>	-	<u>(10)</u>	8.50
Balance, end of year	<u>2</u>	14.80	<u>-</u>	-
Balance exercisable, end of year	<u>2</u>	14.80	<u>-</u>	-

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, 2017</u>		<u>December 31, 2016</u>	
Weighted-average Exercise Price (NT\$)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)	Weighted-average Remaining Contractual Life (Years)
\$ -	-	\$ -	-
-	-	14.80	0.50

b. Adoption of IFRS 2

1) Equity-settled stock-based compensation

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

The Company's 2011 Employee Stock Option Plan was approved by the SFB on January 10, 2012 (the "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 providing its holder with the eligibility to subscribe for one common stock when the option is exercised. The stock options may be granted to qualified employees of the Company and its affiliated companies. The options of the 2011 Plan are valid for five years and exercisable at certain percentages subsequent to the second anniversary of the grant date of June 14, 2012.

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

	2011 Employee Stock Option Plan	
	Number of Stock Options (In Thousands)	Weighted- average Exercise Price (NT\$)
<u>Year ended December 31, 2017</u>		
Balance, beginning of year	1,034	\$ 22.70
Options exercised	(942)	22.70
Options canceled	<u>(92)</u>	22.70
Balance, end of year	<u> -</u>	-
Balance exercisable, end of year	<u> -</u>	-
<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

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, 2017		December 31, 2016	
Weighted-average Exercise Price (NT\$)	Weighted-average Remaining Contractual Life(Years)	Weighted-average Exercise Price (NT\$)	Weighted-average Remaining Contractual Life(Years)
\$ -	-	\$ 22.70	0.46

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

The stock price on the 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 costs of the above stock options recognized were NT\$0 and NT\$515 thousand for the years ended December 31, 2017 and 2016, respectively.

2) Cash-settled stock-based compensation

The Company's 2012 cash-settled stock-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 may 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 2012 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\$/stock)	\$ 49.4

Information about the Company's 2012 SARs plan was as follows:

	Number of SARs (In Thousands)	Weighted- average Exercise Price (NT\$)
<u>Year ended December 31, 2017</u>		
Balance, beginning of year	1,000	\$ 47.20
Option exercised	<u>(1,000)</u>	47.20
Balance, end of year	<u> -</u>	-
Balance exercisable, end of year	<u> -</u>	-
<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

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>	
	2017	2016
Stock price on measurement date (NT\$/stock)	\$ -	\$ 32.55
Exercise price (NT\$/stock)	\$ -	\$ 47.20
Expected volatility	-	47.12%-48.06%
Expected life	-	0.45-2.45 years
Expected dividend yield	-	-
Risk-free interest rate	-	0.56%-0.73%

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

The Company reversed total expenses of NT\$1,843 thousand and NT\$1,157 thousand in respect of the SARs for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the Company recognized compensation liabilities of NT\$0 and NT\$4,843 thousand, respectively; the total intrinsic value of the vested SARs for both years amounted to NT\$0; and the weighted-average remaining contractual life of the SARs was 0 years and 5.45 years, respectively.

3) Employee Restricted Stock Plans

On June 14, 2016, the stockholder's of the Company, in their stockholders meeting, approved a restricted stock plan for employees with a total amount of NT\$15,000 thousand, consisting of 1,500 thousand units with a par value of NT\$10, for a 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 approved to grant the restricted stocks to employees with a total amount of NT\$15,000 thousand, consisting of 1,500 thousand units with a par value of NT\$10, for a consideration of NT\$0 (issued for no consideration) on February 17, 2017. The restricted stocks were granted on February 17, 2017 and 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 that an employee should reach the Company's performance and the individual's performance criteria at the same time. Vesting stocks are to be calculated as one full stock. Fractional stock (less than one stock) shall be rounded-down.

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

The Company's Performance EPS (see Remark 1 below) is positive, and is such that, it has increased by 10% or more from the previous year. An employee who remains employed at the Company after one year has elapsed from the time of vesting, whose labor contract was never violated, and also who achieved a performance rating equal to or higher than S (see Remark 2 below) in the current year will be eligible for vesting an installment of 20% of the stock.

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

The Company's Performance EPS is positive, and is such that, it has increased by 10% or more from the previous year. An employee who remains employed at the Company after two years has elapsed from the time of vesting, whose labor contract was never violated, and also who achieved a performance rating equal to or higher than S (see Remark 2 below) in the current year will be eligible for vesting an installment of 20% of the stock.

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

- i. The Company's Performance EPS is positive, and is such that, it has increased by 10% or more from the previous year. An employee who remains employed at the Company after three years has elapsed from the time of vesting, whose labor contract was never violated, and also who achieved a performance rating equal to or higher than S (see Remark 2 below) in the current year will be eligible for vesting an installment of 26.7% of the stock.
- ii. The Company's Performance EPS has achieved an amount of NT\$2 or more. An employee who remains employed at the Company after three years has elapsed from the time of vesting, whose labor contract was never violated, and also who achieved a performance rating equal to or higher than S in the current year will be eligible for vesting an installment of 33.3% of the stock.

Remark 1: The Company's Performance EPS: That refers to the Company's earnings per share as shown in financial statements audited by the Company's CPA of the year prior to the vesting date.

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

Restrictions on the rights associated with stocks 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 stocks.
- ii. The stockholder's right due to the new restricted employee stocks is executed based on a Trust contract signed by the employees.
- iii. During the vesting period, the employees holding new restricted employee stocks can still participate in stock and cash dividends and subscriptions to cash rights issues, and such cash dividends and subscriptions are not required to be deposited in a trust and will not be subject to restrictions.

Compensation costs of employee restricted stocks recognized was NT\$12,282 thousand for the year ended December 31, 2017.

Movement in employee restricted stocks for the year ended December 31, 2017 was as follows:

	Number of Stocks (In Thousand)
Balance, beginning of year	-
Issuance of stocks	1,500
Forfeit of stocks	<u>(378)</u>
Balance, end of year	<u><u>1,122</u></u>

On February 6, 2018, the Company's Board of Directors approved a restricted stock plan for employees with a total amount of NT\$5,000 thousand (expected), consisting of 500 thousand units with a par value of NT\$10, for a consideration of NT\$20 per stock. The employee restricted stock plan is subject to resolution in the stockholders' meeting to be held on May 31, 2018.

19. OPERATING REVENUE

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

	Years Ended December 31	
	2017	2016
Wafer level CSP	\$ 2,825,299	\$ 2,353,976
Wafer level PPI	1,232,794	1,543,795
Others	<u>20,391</u>	<u>22,927</u>
	<u><u>\$ 4,078,484</u></u>	<u><u>\$ 3,920,698</u></u>

20. OTHER OPERATING INCOME AND EXPENSES, NET

	Years Ended December 31	
	2017	2016
Income (expenses) of leased assets		
Rental income	\$ 115,498	\$ 11,501
Depreciation of leased assets	(12,225)	(465)
Relocation of machinery and equipment	-	(2,310)
Others	<u>(14,871)</u>	<u>(1,883)</u>
	88,402	6,843
Impairment loss on property, plant and equipment	(21,863)	(2,884)
Gain on disposal of property, plant and equipment, net	<u>3,907</u>	<u>53,302</u>
	<u>\$ 70,446</u>	<u>\$ 57,261</u>

21. INTEREST INCOME

	Years Ended December 31	
	2017	2016
Interest income - bank deposits	<u>\$ 5,866</u>	<u>\$ 2,882</u>

22. FINANCE COSTS

	Years Ended December 31	
	2017	2016
Interest expense		
Bank loans	\$ 30,843	\$ 17,591
Others	<u>8,858</u>	<u>4,472</u>
	39,701	22,063
Loss arising on cash flow hedge reclassified from equity to profit or loss	<u>-</u>	<u>1,871</u>
	<u>\$ 39,701</u>	<u>\$ 23,934</u>

23. OTHER GAINS AND LOSSES

	Years Ended December 31	
	2017	2016
Net gain arising on financial instruments designated as at FVTPL	\$ 39,457	\$ 11,749
Foreign exchange loss, net	(54,819)	(20,581)
Others	<u>7,733</u>	<u>1,635</u>
	<u>\$ (7,629)</u>	<u>\$ (7,197)</u>

24. INCOME TAX

a. Income tax expense recognized in profit or loss

Income tax expense consisted of the following:

	Years Ended December 31	
	2017	2016
Current income tax benefit		
Income tax adjustments on prior years	\$ 22,840	\$ -
Deferred income tax benefit (expense)		
Loss carryforwards	9,979	141,653
The origination and reversal of temporary differences	<u>(5,245)</u>	<u>(36,841)</u>
	<u>4,734</u>	<u>104,812</u>
Income tax benefit recognized in profit or loss	<u>\$ 27,574</u>	<u>\$ 104,812</u>

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

	Years Ended December 31	
	2017	2016
Loss before tax	\$ (760,854)	\$ (741,631)
Income tax benefit at the statutory rate (17%)	\$ 129,345	\$ 126,077
Tax effect of adjusting items:		
Deductible items in determining taxable income	28,238	12,244
Unrecognized loss carryforwards	(144,719)	-
The origination and reversal of temporary differences	(5,245)	(36,841)
Remeasurement of investment tax credits	(2,885)	3,332
Income tax adjustments on prior years	<u>22,840</u>	<u>-</u>
Income tax benefit recognized in profit or loss	<u>\$ 27,574</u>	<u>\$ 104,812</u>

In January 2018, it was announced that the Income Tax Law in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the tax rate applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets recognized as at December 31, 2017 is expected to be adjusted and would increase by NT\$36,071 thousand.

b. Deferred income tax balance

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

	December 31	
	2017	2016
Loss carryforwards	\$ 151,632	\$ 141,653
Temporary differences		
Depreciation	32,886	38,863
Provision for sales returns and allowance	8,866	9,412
Unrealized loss on inventories	4,359	4,893
Others	<u>6,660</u>	<u>4,848</u>
	<u>\$ 204,403</u>	<u>\$ 199,669</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, 2017</u>			
Loss carryforwards	\$ 141,653	\$ 9,979	\$ 151,632
Temporary differences			
Depreciation	38,863	(5,977)	32,886
Provisions for sales returns and allowances	9,412	(546)	8,866
Unrealized loss on inventories	4,893	(534)	4,359
Others	<u>4,848</u>	<u>1,812</u>	<u>6,660</u>
	<u>\$ 199,669</u>	<u>\$ 4,734</u>	<u>\$ 204,403</u>
<u>Year ended December 31, 2016</u>			
Loss carryforwards	\$ -	\$ 141,653	\$ 141,653
Temporary differences			
Depreciation	72,102	(33,239)	38,863
Provisions for sales returns and allowances	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>

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

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Loss carryforwards		
Expire in 2027	<u>\$ 851,289</u>	<u>\$ -</u>
Deductible temporary differences		
Depreciation	<u>\$ -</u>	<u>\$ 137,120</u>

- d. Information about unused loss carryforwards and tax exemptions

Loss carryforwards as December 31, 2017 comprised of:

Expiry Year	Unused Amount
2022	\$ 1,210
2026	815,072
2027	<u>926,958</u>
	<u>\$ 1,743,240</u>

As of December 31, 2017, 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

	December 31	
	2017	2016
Balance of the Imputation Credit Account	<u>\$ 153,644</u>	<u>\$ 151,831</u>

Due to the net loss for the year ended December 31, 2017 and 2016, the Company planned not to distribute accumulated unappropriated retained earnings. Thus, tax creditable ratio was not calculated.

Effective from January 1, 2018, integrated income tax system were abrogated and imputation credit account is no longer applicable based on amended R.O.C. Income Tax Law in January 2018.

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 2015. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

25. LOSS PER SHARE

	Years Ended December 31	
	2017	2016
Basic and diluted loss per share	<u>\$ (2.71)</u>	<u>\$ (2.36)</u>

Loss per share is computed as follows:

	Amounts (Numerator)	Number of Stocks (Denominator) (In Thousands)	Loss Per Share (NT\$)
<u>Year ended December 31, 2017</u>			
Basic and diluted loss per share			
Net loss available to common stockholders	<u>\$ (733,280)</u>	<u>270,649</u>	<u>\$ (2.71)</u>
<u>Year ended December 31, 2016</u>			
Basic and diluted loss per share			
Net loss available to common stockholders	<u>\$ (636,819)</u>	<u>269,339</u>	<u>\$ (2.36)</u>

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

26. ADDITIONAL INFORMATION OF EXPENSES BY NATURE

Net loss included the following items:

	Years Ended December 31	
	2017	2016
a. Depreciation of property, plant and equipment		
Recognized in operating costs	\$ 987,717	\$ 1,166,600
Recognized in operating expenses	10,201	12,033
Recognized in other operating income and expenses	<u>12,225</u>	<u>465</u>
	<u>\$ 1,010,143</u>	<u>\$ 1,179,098</u>
b. Amortization of intangible assets		
Recognized in operating costs	\$ 14,653	\$ 15,894
Recognized in operating expenses	<u>25,895</u>	<u>25,580</u>
	<u>\$ 40,548</u>	<u>\$ 41,474</u>
c. Research and development costs		
Research and development costs expensed as incurred	<u>\$ 285,150</u>	<u>\$ 316,282</u>
d. Employee benefits expenses		
Post-employment benefits (Note 16)		
Defined contribution plans	\$ 54,974	\$ 56,834
Defined benefit plans	<u>(40)</u>	<u>(8)</u>
	<u>54,934</u>	<u>56,826</u>
Stock-based payments (Note 18)		
Equity-settled	12,282	515
Cash-settled	<u>(1,843)</u>	<u>(1,157)</u>
	<u>10,439</u>	<u>(642)</u>
Other employee benefits	<u>1,415,154</u>	<u>1,406,418</u>
	<u>\$ 1,480,527</u>	<u>\$ 1,462,602</u>
Employee benefits expense summarized by function		
Recognized in operating costs	\$ 1,180,829	\$ 1,144,797
Recognized in operating expenses	<u>299,698</u>	<u>317,805</u>
	<u>\$ 1,480,527</u>	<u>\$ 1,462,602</u>

If the Company has annual profits, the Company shall allocate a profit sharing bonus for employees and compensation for directors at rates of 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 for directors. The Company's profit sharing bonus for employees and compensation for 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 in the stockholders' meeting. However, the Company shall reserve a sufficient profit to offset its accumulated deficits, and then set aside a profit sharing bonus for employees and compensation for directors in accordance with the predetermined ratio. The Company also can allocate a profit sharing bonus for the employees of affiliated companies upon meeting the conditions set by the Board of directors.

The Company accrued a profit sharing bonus for employees and compensation for directors based on a percentage of income before income tax (before a profit sharing bonus for employees and compensation for directors during the period under the amended Company Act), which both amounted to NT\$1,800 thousand (both including NT\$1,800 thousand of compensation for independent directors) for both years ended December 31, 2017 and 2016.

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 the accounting estimate.

The Board of Directors of the Company held a meeting on February 17, 2017 and decided not to grant a profit sharing bonus for employees and compensation for directors but approved a NT\$1,800 thousand compensation for independent directors for the year ended December 31, 2016. The aforementioned approved amount has no difference with the one recognized in the financial statements for the year ended December 31, 2016.

The Board of Directors of the Company held a meeting on February 3, 2016 and approved the profit sharing bonus for employees and compensation for directors in the amount of NT\$23,765 thousand (including NT\$1,800 thousand of compensation for independent directors) in cash for payment in the year ended December 31, 2015. The aforementioned approved amount has no difference from the one recognized in the financial statements for the year ended December 31, 2015.

The Board of Directors of the Company held a meeting on February 6, 2018 and decided not to grant a profit sharing bonus for employees and compensation for directors but approved a NT\$1,800 thousand of compensation for independent directors for the year ended December 31, 2017.

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

27. 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.

28. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Financial assets</u>		
FVTPL		
Held-for-trading derivatives	\$ 11,372	\$ -
Loans and receivables		
Cash and cash equivalents	788,186	1,209,162
Accounts receivable, net (including related parties)	1,154,091	551,110
Other financial assets	129	647
Refundable deposits	<u>11,040</u>	<u>11,015</u>
	<u>\$ 1,964,818</u>	<u>\$ 1,771,934</u>
<u>Financial liabilities</u>		
FVTPL		
Held-for-trading derivatives	\$ 178	\$ 9,534
Measured at amortized cost		
Accounts payable	357,936	216,171
Payables to contractors and equipment suppliers	175,252	324,456
Accrued expenses and other current liabilities	459,012	271,191
Long-term borrowings	<u>2,488,125</u>	<u>2,225,000</u>
	<u>\$ 3,480,503</u>	<u>\$ 3,046,352</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 forward exchange 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 exchange rates against the New Taiwan dollar, the net loss for the years ended December 31, 2017 and 2016 would have increased by NT\$802 thousand and NT\$356 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, 2017 and 2016 would increase by NT\$20,651 thousand and NT\$18,468 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 89% and 68% in total accounts receivables as of December 31, 2017 and 2016, 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, 2017 and 2016, the unused financing facilities of the Company amounted to NT\$3,747,374 thousand and NT\$2,377,343 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	Total
<u>December 31, 2017</u>				
<u>Non-derivative financial liabilities</u>				
Accounts payable	\$ 357,936	\$ -	\$ -	\$ 357,936
Payables to contractors and equipment suppliers	175,252	-	-	175,252
Accrued expenses and other current liabilities	459,012	-	-	459,012
Long-term borrowings	<u>156,181</u>	<u>601,447</u>	<u>1,830,571</u>	<u>2,588,199</u>
	<u>1,148,381</u>	<u>601,447</u>	<u>1,830,571</u>	<u>3,580,399</u>
<u>Derivative financial liabilities (assets)</u>				
Forward exchange contracts				
Outflows	1,236,365	-	-	1,236,365
Inflows	<u>(1,247,559)</u>	<u>-</u>	<u>-</u>	<u>(1,247,559)</u>
	<u>(11,194)</u>	<u>-</u>	<u>-</u>	<u>(11,194)</u>
	<u>\$ 1,137,187</u>	<u>\$ 601,447</u>	<u>\$ 1,830,571</u>	<u>\$ 3,569,205</u>
<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>2,276,204</u>
	<u>981,041</u>	<u>1,702,187</u>	<u>404,794</u>	<u>3,088,022</u>
<u>Derivative financial liabilities(assets)</u>				
Forward exchange contracts				
Outflows	620,249	-	-	620,249
Inflows	<u>(610,715)</u>	<u>-</u>	<u>-</u>	<u>(610,715)</u>
	<u>9,534</u>	<u>-</u>	<u>-</u>	<u>9,534</u>
	<u>\$ 990,575</u>	<u>\$ 1,702,187</u>	<u>\$ 404,794</u>	<u>\$ 3,097,556</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, 2017			Total
	Level 1	Level 2	Level 3	
<u>Financial assets at FVTPL</u>				
Derivative financial instruments	\$ <u>-</u>	\$ <u>11,372</u>	\$ <u>-</u>	\$ <u>11,372</u>
<u>Financial liabilities at FVTPL</u>				
Derivative financial instruments	\$ <u>-</u>	\$ <u>178</u>	\$ <u>-</u>	\$ <u>178</u>

	December 31, 2016			Total
	Level 1	Level 2	Level 3	
<u>Financial liabilities at FVTPL</u>				
Derivative financial instruments	\$ <u>-</u>	\$ <u>9,534</u>	\$ <u>-</u>	\$ <u>9,534</u>

There were no transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended December 31, 2017 and 2016, respectively.

There were no purchases and disposals for financial assets on Level 3 for the years ended December 31, 2017 and 2016, 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.

29. 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. Related party name and categories

<u>Related Party Name</u>	<u>Related Party Category</u>
Taiwan Semiconductor Manufacturing Company Limited (TSMC)	Investors that have significant influence over the Company
VisEra Technologies Company Ltd. (VisEra)	Other related parties

b. Operating transactions

		Operating Revenue, Net	
		Years Ended December 31	
		2017	2016
TSMC		\$ 2,074,265	\$ 1,376,437
VisEra		<u>-</u>	<u>967</u>
		<u>\$ 2,074,265</u>	<u>\$ 1,377,404</u>
		Manufacturing Overhead	
		Years Ended December 31	
		2017	2016
VisEra		<u>\$ 403,106</u>	<u>\$ 118</u>
		Operating Expenses	
		Years Ended December 31	
		2017	2016
VisEra		\$ 957	\$ 1,973
TSMC		<u>-</u>	<u>1,352</u>
		<u>\$ 957</u>	<u>\$ 3,325</u>
		Other Operating Expenses	
		Years Ended December 31	
		2017	2016
TSMC		<u>\$ -</u>	<u>\$ 2,339</u>
		Rental Income	
		Years Ended December 31	
		2017	2016
VisEra		\$ 98,000	\$ 11,501
TSMC		<u>17,498</u>	<u>-</u>
		<u>\$ 115,498</u>	<u>\$ 11,501</u>

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

		Receivables from Related Parties	
		December 31	
		2017	2016
TSMC		\$ 830,423	\$ 123,586
VisEra		<u>-</u>	<u>953</u>
		<u>\$ 830,423</u>	<u>\$ 124,539</u>

	Other Current Assets	
	December 31	
	2017	2016
VisEra	<u>\$ 54</u>	<u>\$ -</u>
	Accrued Expenses and Other Current Liabilities	
	December 31	
	2017	2016
VisEra	\$ 155,232	\$ 532
TSMC	<u>3,182</u>	<u>-</u>
	<u>\$ 158,414</u>	<u>\$ 532</u>

The prices and terms of sales to 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 monthly; the related rental income of leased assets was recognized under other operating income and expenses.

c. Compensation of key management personnel

The compensation of directors and other key management personnel for the years ended December 31, 2017 and 2016 were as follows:

	Years Ended December 31	
	2017	2016
Short-term employee benefits	\$ 19,163	\$ 20,851
Post-employment benefits	468	585
Stock-based payments	<u>(299)</u>	<u>(1,027)</u>
	<u>\$ 19,332</u>	<u>\$ 20,409</u>

The compensation of 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.

30. PLEDGED ASSETS

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

	Years Ended December 31	
	2017	2016
Pledged machinery and equipment	<u>\$ 274,164</u>	<u>\$ 456,261</u>

31. OPERATING LEASE ARRANGEMENTS

The Company leases several parcels of plants and offices from the Jhongli Industrial Park. These operating leases expire between June 2018 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:

	Years Ended December 31	
	2017	2016
Minimum lease payments	<u>\$ 87,531</u>	<u>\$ 78,842</u>

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

	December 31	
	2017	2016
Not later than 1 year	\$ 70,991	\$ 65,036
Later than 1 year and not later than 5 years	148,597	174,006
Later than 5 years	<u>116,952</u>	<u>121,233</u>
	<u>\$ 336,540</u>	<u>\$ 360,275</u>

32. 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:

- As of December 31, 2017 and 2016, unused letters of credit for purchases of machinery and equipment amounted to NT\$366 thousand and NT\$397 thousand, respectively.
- The amount that the Company has committed to purchase property, plant and equipment was NT\$158,031 thousand as of December 31, 2017.

33. 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, 2017</u>			
<u>Financial assets</u>			
Monetary items			
USD	\$ 49,880	29.659	\$ 1,479,392
JPY	75,413	0.2642	19,924
CHF	202	30.46	6,164
EUR	137	35.57	4,876

(Continued)

	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Carrying Amount (In Thousands)
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 8,461	29.659	\$ 250,948
JPY	81,496	0.2642	21,531
CHF	202	30.46	6,164
EUR	141	35.57	5,011

December 31, 2016

Financial assets

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

Financial liabilities

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
			(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:

	Years Ended December 31			
	2017		2016	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
USD	29.659	\$ (54,837)	32.199	\$ (19,907)
JPY	0.2642	(82)	0.2756	(500)
EUR	35.57	78	33.90	(185)
CHF	30.46	<u>22</u>	31.53	<u>11</u>
		<u>\$ (54,819)</u>		<u>\$ (20,581)</u>

34. 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

	Years Ended December 31	
	2017	2016
<u>Region</u>		
Taiwan	\$ 2,405,599	\$ 1,681,085
United States	1,264,164	1,462,703
Europe	357,871	582,679
Asia	<u>50,850</u>	<u>194,231</u>
	<u>\$ 4,078,484</u>	<u>\$ 3,920,698</u>

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

c. Production information

Production	Years Ended December 31	
	2017	2016
Wafer level CSP	\$ 2,825,299	\$ 2,353,976
Wafer level PPI	1,232,794	1,543,795
Others	<u>20,391</u>	<u>22,927</u>
	<u>\$ 4,078,484</u>	<u>\$ 3,920,698</u>

d. Major customers contributing at least 10% to the Company's operating revenue

	Years Ended December 31			
	2017		2016	
	Amount	%	Amount	%
Customer A	\$ 2,074,265	51	\$ 1,376,437	35
Customer B	1,078,319	26	1,294,256	33
Customer C	292,872	7	533,869	14

35. 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): None;
- 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: See Table 1 attached;
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: See Table 2 attached;
- 9) Information about the derivative instruments transaction: 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	2017	2016	Difference	
			Amount	%
Current assets	2,470,933	2,023,778	447,155	22.10
Property, plant and equipment	5,457,634	6,128,613	(670,979)	(10.95)
Intangible assets	57,240	69,361	(12,121)	(17.48)
Other assets	216,845	212,524	4,321	2.03
Total assets	8,202,652	8,434,276	(231,624)	(2.75)
Current liabilities	1,363,854	1,214,362	149,492	12.31
Non current liabilities	2,434,681	2,114,962	319,719	15.12
Total liabilities	3,798,535	3,329,324	469,211	14.09
Capital stock	2,719,193	2,698,534	20,659	0.77
Capital Surplus	1,630,968	1,592,780	38,188	2.40
Retained earnings	79,104	813,638	(734,534)	(90.28)
Other equity	(25,148)	-	(25,148)	(100.00)
Total equity	4,404,117	5,104,952	(700,835)	(13.73)

Items will be analyzed and explained if ratio changed more than $\pm 20\%$:

1. Current assets increased were mainly due to receivables from related parties and inventory increased.
2. Retained earnings decreased were mainly due to net loss of 2017.
3. Other equity decreased was mainly due to recognize Compensation cost of employee restricted stock.

B. Financial Performance

1. Financial Performance in Most Recent 2 Years:

Unit: NT\$, in Thousands

Item \ Year	2017	2016	Difference	%
Operating revenues	4,078,484	3,920,698	157,786	4.02
Operating costs	4,428,092	4,219,531	208,561	4.94
Gross loss	(349,608)	(298,833)	(50,775)	(16.99)
Operating expense	440,228	471,810	(31,582)	(6.69)
Other revenue and expense	70,446	57,261	13,185	23.03
Loss from operation	(719,390)	(713,382)	(6,008)	(0.84)
Non-operating income and expense	(41,464)	(28,249)	(13,215)	(46.78)
Loss before income tax	(760,854)	(741,631)	(19,223)	(2.59)
Income tax	27,574	104,812	(77,238)	(73.69)
Net loss	(733,280)	(636,819)	(96,461)	(15.15)
<p>Items will be analyzed and explained if ratio changed more than $\pm 20\%$:</p> <ol style="list-style-type: none"> 1. Other revenue and expense increased was mainly due to income of leased assets increased by 81,559 thousands, gain on disposal of property, plant and equipment decreased by 49,395 thousands and impairment loss increased by 18,979 thousands. 2. Non-operating income and expense decreased was due to finance costs increased. 3. Income tax benefit decreased was due to recognized deferred income tax assets decreased. 				

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

Since 2016, the company has been devoting itself to the development of new project sensors. It has successfully introduced the smart mobile device brand market in the second half of 2017 and started to generate revenue and profit. The new project sensor is expected to expand its market application in 2018, bringing significant revenue and profit growth to the company. In the future, we will actively collaborate with customer strategies to jointly develop innovative technologies, and continue to develop new sensor packages and capacity expansion to expand the application of biometric identification markets. 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. In the future, we will actively develop new customers and accelerate customer certification and mass production of 12-inch sensors to increase the utilization rate and improve the cost structure to reduce losses.

C. Cash Flow

1. Analysis of Cash Flow

Unit: NT\$, in Thousands

Item \ Year	2017	2016	Difference	%
Operating activities	(169,521)	467,381	(636,902)	(136.27)
Investing activities	(487,741)	(785,037)	297,296	(37.87)
Financial activities	236,286	702,432	(466,146)	(66.36)
Total	(420,976)	384,776	(805,752)	(209.41)
<p>1. Cash flow from operating activities decreased was mainly due to receivables from related parties and inventory increased.</p> <p>2. Cash flow from investing activities decreased was mainly due to decrease in capital expenditures.</p> <p>3. Cash flow from financial activities decreased was mainly due to decreased in long-term bank loans.</p>				

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 2018/1/1	Net cash provided by operating activities in 2018	Net cash used in investing and financing activities in 2018	Cash Balance 2018/12/31	Remedy for Liquidity Shortfall	
				Investment Plan	Financing Plan
788,186	918,559	(828,919)	877,826	—	Bank loans
<p>1. Analysis of cash flow for 2018:</p> <p>(1) Cash provided by operating activities was mainly from cash receipted from customers.</p> <p>(2) Cash used in investing and financing activities was mainly due to repayment of bank loans and capital expenditures.</p> <p>2. Remedial actions for cash shortfall and liquidity analysis: increase bank loans ◦</p>					

D. Major Capital Expenditure

Capital expenditure was to expand production equipment and capacity transfer in 2017, 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 2017 would have been higher by NT\$20,651 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 137 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 response to the needs of market and customers for sensors, we continue to provide wafer-level packaging technology such as TSV CSP and 3D IC package for applications in various sensor components. Extend the product line and services to micro-electromechanical (MEMS), power field effect transistors, power control and analog components and other products by innovative wafer-level packaging technology. The budget for R&D expense will be NT\$ 266,122 thousands on 2018.

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 2017 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 150 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 51% of the company's sales of 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. 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: None.

The Company was not involved in any other material litigation in 2017 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 May 2017, Mr. Uri Cohen filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America and other companies infringe four U.S. patents. In response, TSMC and TSMC North America filed a declaratory judgment complaint against Cohen in the U.S. District Court for the Northern District of California seeking a judgment declaring that there is no infringement of the same four patents. TSMC also filed a motion to transfer Cohen's lawsuit in the U.S. District Court for the Eastern District of Texas to the U.S. District Court for the Northern District of California. Cohen agreed to the transfer, and as of December 2017, the cases are consolidated and pending in the U.S. District Court for the Northern District of California. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.
- b. On September 28, 2017, TSMC was contacted by the European Commission ("Commission") for information and documents concerning alleged anti-competitive practices of TSMC in relation to semiconductor sales. This proceeding is still in its preliminary stage, and it is premature to predict how the case will proceed, the outcome of the proceeding or its impact. TSMC will continue to cooperate fully with the Commission.

Other than the matters described above, TSMC was not involved in any other material litigation in 2017 and is not currently involved in any other material litigation.

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 Important 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 : CH Chen