TWSE: 2448

EPISTAR

Epistar Corporation

2016 Annual Report

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<u>Notice to readers</u>

This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

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Common Share Transfer Agent and Registrar

Company: The Transfer Agency Department of Horizon Securities Co., Ltd.
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Website: http://srd.honsec.com.tw
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Auditors

Auditors: Irene Wen, Cheng Ya-Huei
Company: PricewaterhouseCoopers, Taiwan
27F., No.333, Sec. 1, Keelung Rd., Songshan Dist., Taipei City 105, Taiwan, R.O.C.
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Overseas Securities Exchange

Bourse de Luxembourg Stock Exchange
Website: http://www.bourse.lu

Corporate Website

Website: http://www.epistar.com.tw

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Appendix 1.4

1. Letter to Shareholders

Dear Shareholders,

I. Introduction

In 2016, the company consolidated net operating income is about NTD $25.539 billion, only increased 0.1% compared with 2015, mainly due to LED industry is still in a state of overcapacity in 2016 which leads to our product prices continue to fall.

Although business cycle is in poor stage but with the contribution of all colleagues, operating margin was NTD $1.916 billion, increased NTD $1.793 billion over the same period of previous year and net operating loss is about NTD $1.256 billion also reduced 64% from last year.

Operating result is in uptrend by quarterly basis and the company major business has turned losses into profit in the second half of 2016. However, non-operating losses after-tax is about NTD $ 4.013 billion which is consequence from the integration of plant resources within the group and the necessity of reducing production costs in the form of centralized production equipment.

II. 2016 Business Report

A. Implementation results of the Group’s consolidated business plan

1. Net operating revenue
   The net operating revenue was NT$25,539,163 thousand in 2016, growing by 0.1% from that, NT$25,509,789 thousand, in 2015.
2. Net operating loss
   The net operating loss was NT$1,255,776 thousand in 2016, drastically decreasing by 64% from that, NT$ 3,510,547 thousand, in 2015. The Company has also showed a turn from loss to profit since the second half of 2016.
3. Loss-current period
   In 2016, integration of resources of the Group’s factory premises resulted in the non-operating loss, and the loss after tax was NT$4,012,752 thousand, increasing by NT$695 million from the loss after tax, NT$3,317,582 thousand, in 2015.

B. Capital Structure Analysis & Profitability Analysis

Item		2016	2015
Capital Structure Analysis	Debts Ratio (%)	26.21	33.06
	Long-term Fund to Property, Plant and Equipment (%)	215.80	177.73
Profitability Analysis	Return on Total Assets (%)	(4.79)	(3.25)
	Return on Equity attributable to Shareholders of the Parent (%)	(7.53)	(5.68)
	Net Margin (%)	(15.71)	(13.01)
	Basic Earnings Per Share (NT$)	(3.33)	(2.81)

C. Research and Development

The company continues to invest on Research and Development. In 2016, Research and Development costs is about NTD $1.533 billion which focusing on the development of new products and strengthening the value of existing products and so on, our above acts then achieved favorable results.

Except the “Outstanding manufacturers of innovative products Award in 2016 in Central Science and Technology Park”, the company has made a good progress in the patent acquirement such as the number of patent certificates increased by 1,392 (2016) and the total number of patent certificates has reached 3,186.

III. The company’s future development strategy, effect of external competition, legal environment, overall business environment, and a summary of 2016 business plan

In the outlook for 2017, the global economic situation is still in the doldrums and industry competition is fierce. However, because of the global issues on energy-saving and environmental protection are critical, along with the gradual improvement of luminous efficiency, more and more new applications have been brought to the LED. Yet, market still contains potential opportunities for more development. This includes the growth in applications of both the LED lighting and automotive sectors, which have also shown a continuously rising penetration rate continues. There is also the growth of applications in areas like LED plant lighting gradually being valued up and infrared (IR) LED been applied in the security control area or smart phone sensing ... etc. Therefore, the expected shipment of LED chips is 599,001 million pieces in 2017.

In light of the future demand tending towards intelligent and cost-effective end-use applications, there has been a vital and continuing investment in research and development to improve technical ability and to reduce costs.

In the third quarter of last year, the Company completed a simple merger with HUGA Optotech Inc. and Formosa Epitaxy Corporation who both were 100% owned subsidiaries of the company in order to consolidate the group’s resources and to reduce operating costs. The above actions have gradually produced synergies within the group. The company should be able to achieve the goal of turning losses into profits in this year through promoting organizational changes, intensifying the efficiency of resource utilization, improving the added value of products and optimizing product portfolio.

I wish everyone good health and prosperity.

Chairman Biing-Jye Lee

2. An Introduction to EPISTAR

2.1 Date of Incorporation: September 19, 1996.
2.2 Company History

August 1996	Admitted to the Park by Science Park Steering Commission of National Science Council.
September 1996	Incorporated the Company and acquire the company license, with registered capital, NT$320 million and paid-in capital, NT$220 million.
March 1997	Rented the standard factory premises, and stationed in the Park.
June 1997	Completed renovation of the factory premises and installation of new equipment and commissioning of the existing systems.
July 1997	Passed the pre-operational check and start the pilot production & trial marketing.
October 1997	Increased capital by NT$100 million to achieve the paid-in capital amounting to NT$320 million.
November 1997	Launched product and start mass production officially.
March 1998	Added two units of standard factory premises.
September 1998	Increased capital by NT$100 million to achieve the registered capital, NT$520 million, and paid-in capital, NT$420 million.
December 1998	Increased capital by NT$80 million to achieve the paid-in capital amounting to NT$500 million.
February 1999	Passed UL ISO 9002 certification.
May 1999	Awarded the accreditation certificate by Chinese Taipei Electronic Components Certification Board and identified as one of IEQC qualified plants.
July 1999	Acquired the land of Hsinchu Science Park Phase-3 Development Project. Recapitalized earnings and capital surplus to achieve paid-in capital, NT$615 million.
March 2000	Groundbreaking ceremony of the Phase-3 Development Project.
March 2000	Passed UL ISO 9001 certification.
June 2000	Increased capital by NT$150 million to achieve the registered capital, NT$1.2 billion, and paid-in capital, NT$765 million.
March 2001	Acquired occupation permit for the new factory built under Phase-3 Development Project.
May 2001	Officially trade stock on TWSE.
October 2001	Awarded the Distinction Award in Technology Development of 9th term.
October 2002	Increased capital in cash by NT$115 million to achieve the registered capital, NT$1.7 billion, and paid-in capital, NT$998.575 million.
December 2002	Awarded the Innovative Product Award: High Intensity InGaN LED by Hsinchu Science Park Bureau.
July 2003	Recapitalized earnings, NT$195.318 million Paid-in capital amounting to NT$1.193893 billion.
October 2003	Merged Inforcomm Semiconductor Corporation Paid-in capital amounting to NT$1.251366260 billion.

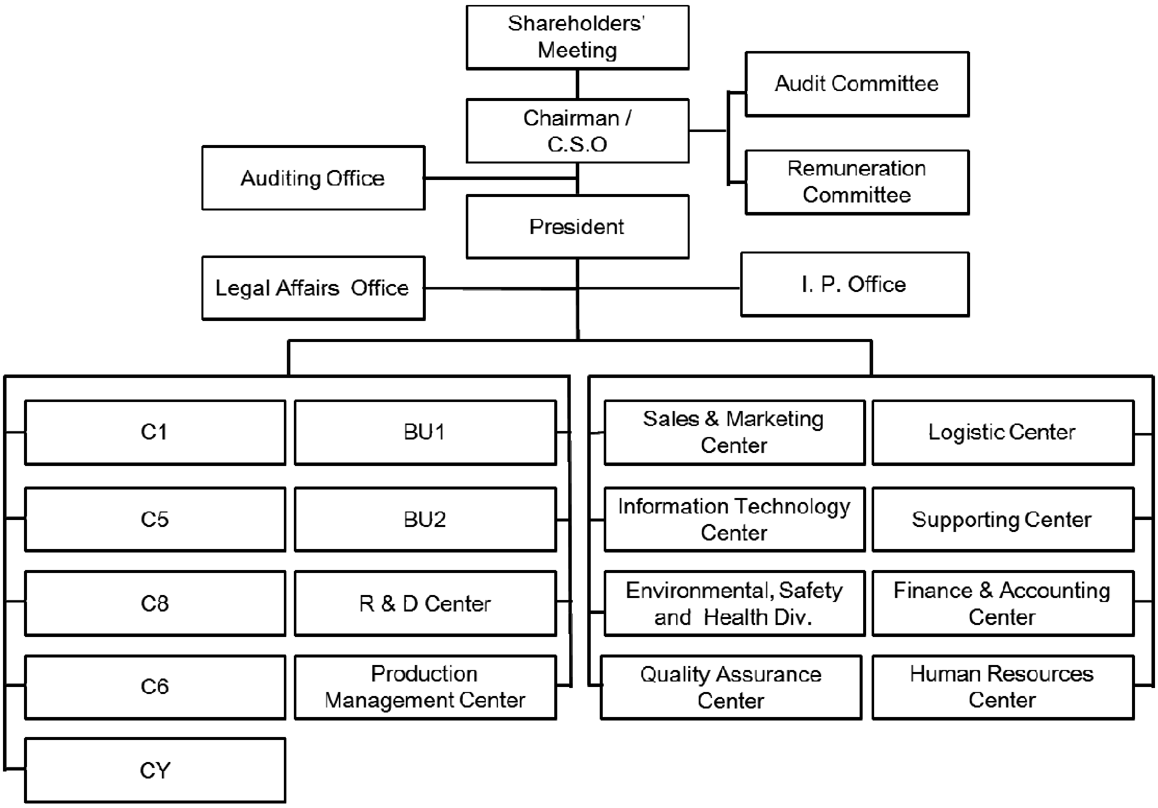
December 2003	Offered 1st overseas convertible corporate bonds amounting to US$300 million.
April 2004	Acquired the new Lixing 1st Rd. factory built under Phase-3 Development Project.
July 2003	Succeed to shares of Itcompound Semiconductor Corporation by offering new shares Paid-in capital amounting to NT$1.284962650 billion.
September 2004	Recapitalized earnings amounting to NT$152.115920 million Paid-in capital amounting to NT$1.437078570 billion.
August 2005	Recapitalized earnings amounting to NT$255.561780 million Paid-in capital amounting to NT$1.69264350 billion.
October 2005	Passed the motion for merger of the Company with United Epitaxy Company, Ltd. at the special shareholders' meeting.
December 2005	Merged United Epitaxy Company, Ltd. and set December 30, 2005 as the record date for merger.
January 2006	Increased capital upon the merger & conversion of overseas convertible bonds into common stock in Q4 of 2005, totaling NT$1.609167270 billion to achieve the paid-in capital amounting to NT$3.301807620 billion upon the capital increase.
July 2006	Conversion of overseas corporate bonds into common stock, conversion of employee stock warrants, and recapitalization of earnings Paid-in capital amounting to NT$3.607220630 billion.
October 2006	Offered 1st domestic unsecured convertible corporate bonds in the amount of NT$2 billion.
November 2006	Passed the motion for merger of the Company with Epitech Technology Corporation and Highlink Technology Corporation at the special shareholders' meeting.
March 2007	Merged Epitech Technology Corporation and Highlink Technology Corporation, and set March 1, 2007 as the record date for merger.
March 2007	Increased capital upon the merger by issuing new shares in the amount of NT$1.479727911 billion Increase capital to achieve the paid-in capital in the amount of NT$5.099411390 billion.
October 2007	Offered 3rd domestic unsecured convertible corporate bonds in the amount of NT$1.96560 billion.
November 2007	Increased capital by NT$600 million to achieve the paid-in capital in the amount of NT$6.139286320 billion.
September 2008	Recapitalized the earnings in the amount of NT$124.048780 million Paid-in capital amounting to NT$6.330614550 billion.
September 2009	Increased capital in cash by issuing the common stock totaling 135 million shares to participate in the offering of overseas depository receipt, and to achieve the paid-in capital in the amount of NT$7.681183150 billion.
November 2009	Awarded the Industrial Excellence Award 2009 by Industrial Development Bureau.
July 2010	Succeeded shares of HUGA Optotech Inc. by offering new shares Paid-in capital amounting to NT$8.474636260 billion.
January 2011	Offered 3rd overseas unsecured convertible corporate bonds amounting to US$280 million.
December 2012	Swap shares by issuing new shares to acquire 100% of shares of HUGA Optotech Inc. Paid-in capital amounting to NT$9.176495760 billion.

August 2013	Offer 4th overseas convertible corporate bonds amounting to US$250 million.
December 2014	Swap shares by issuing new shares to acquire 100% of shares of Formosa Epitaxy Incorporation Paid-in capital amounting to NT$11.31787340 billion
February 2015	Purchased 97.29% of shares of TSMC Solid State Lighting Ltd. in cash to acquire the factory premises, facilities and production lines which meet LED production requirements, and introduce diversified human resource and information management system
June 2015	Merged CHIP STAR Ltd. (formerly known as TSMC Solid State Lighting Ltd.), and set June 29, 2015 as the record date for merger.
May 2016	Sign the syndicated loan agreement effective for three years for NT$4 billion and US$20 million with 7 financial organizations including Land Bank of Taiwan.
September 2016	Merged HUGA Optotech Inc. and Formosa Epitaxy Incorporation, and set September 29, 2016 as the record date for merger.

3. Corporate Governance Report

3.1 Organization

3.1.1 Organization Chart



3.1.2 Major Corporate Functions

Department	Functions
Chairman's Office	In supervision of various business targets, development goals, and the relevant matters about holding board of directors.
President's Office	Responsible for setting up company business strategies to achieve the expected annual business goals received from the board of directors.
Audit Office	Responsible for the inspections and responses to the deficiency occurred from internal control system. Provides suggestions for corrections and issues follow-up reports on a regular basis.
Intellectual Property Div.	Responsible for the application and maintenance of patents and intellectual property rights internally. And the planning and implementation of management system.
Legal Affairs Div.	In charge of reviewing and formulating various contracts internally and externally, the implementation of legal actions, and providing legal services for all employees.
Sales & Marketing Center	Responsible for product sales, customer service, formulating specification book, product catalogue preparation, collection of competitor/associations' information of new product,

Department	Functions
	analysis and assessment about the possibility for further development with the information collected from the market.
Finance & Accounting Center	Responsible for accounting, taxation, fund procurement, credit control, budget control, preparation of financial statements, management of fixed assets and shareholders' service, and acts as the unit dedicated to corporate governance.
Information Technology Center	Responsible for the systemization of various operational processes, information security (IT) design and control, the establishment of network communication system, computer hardware management and maintenance.
Human Resources Center	Planning and execution of suggestions and various functions about HR strategies, organizational development and care for employees, and responsible for enactment of ethical management policy and prevention programs, supervise execution, help the operation of Workers Welfare Commission and boost corporate social responsibility.
Production Management Center	Responsible for the production planning, scheduling and tracing. Formulate and trace various production indicators. Assessment and analysis of upgrading production and operational efficiency.
Quality Assurance Center	Setting up quality goal in accordance with the company's quality policy to promote various quality system operations.
Supporting Center	Responsible for the construction and maintenance of water, electricity, air conditioning, gas supply system equipment for the operation and public area in our factory. Planning and supplying general administrations for the whole plant. Responsible for the procurement of machines, spare parts, and materials and relevant matters about import/export. Raw materials management and storage planning and implementation.
Research & Development Center	Research and planning of new product and technology.
Logistics Center	Responsible for the procurement of raw materials, spare parts, machinery and equipment; factory engineering; bidding work, payment preparation; procurement strategy planning, purchase requisition, and storage management; the planning and implementation of imported/exported raw material, spare parts, semi-finished product, and bonded business control.
Environmental Safety and Health Div.	Responsible for the operation and maintenance of environmental protection (ISO 14001), safety, and health system (OHSAS 18001) to enhance the performance of environmental safety and health of all employees.
BU1	Formulation of the structure development, improvement, production, mass production standard systemization of various nitride products; yield improvement; as well as the establishment, improvement and quality control of nitride chip's production, engineering, and process technology.

Department	Functions
BU2	Formulation of the engineering development, improvement, production, mass production standard process of quarternary chips. Yield improvement. And the improvement and quality control of quarternary chips' production, engineering, process technology.
C1	Responsible for the planning and implementation of chips mass production.
C5	Responsible for the planning and implementation of epitaxy wafer and chips mass production.
C6	Responsible for the planning and implementation of epitaxy wafer mass production.
C8	Responsible for the planning and implementation of epitaxy wafer mass production.
CY	Responsible for the planning and implementation of epitaxy wafer and chips mass production.

3.2 Directors and Management Team

3.2.1 Information Regarding Board Members

February 28, 2017

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term (Year)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Experience & Education	Current Positions at EPISTAR and Other Companies
							Shares	%	Shares	%	Shares	%		
Chairman	R.O.C.	Biing-Jye Lee	Male	2015.06.17	3	1996.09.09	1,704,495	0.15%	1,704,495	0.16%	372,596	0.03%	Research fellow/supervisor, Institute of Photonics Technologies in Industrial Technology Research Institute (ITRI) Ph. D., Institute of Chemical Engineering, National Tsing Hua University	Note 1
Director	R.O.C.	Fon Tain Belon Co., Ltd.	NA	2015.06.17	3	2006.03.02	4,455,569	0.41%	4,455,569	0.41%	0	0.00%	NA	NA
Representative	R.O.C.	Chih-Yuan Chen	Male	2015.06.17	3	2006.03.02	0	0.00%	0	0.00%	0	0.00%	The chairman of Yi-Far holding system MBA from New York University	Note 2
Director	R.O.C.	Everlight Electronics Co., Ltd.	NA	2015.06.17	3	1996.09.09	19,800,175	1.80%	19,800,175	1.81%	0	0.00%	NA	NA
Representative	R.O.C.	Yin-Fu Yeh	Male	2015.06.17	3	1996.09.09	0	0.00%	0	0.00%	34,311	0.00%	The chairman of Everlight Electronics Co., Ltd. Graduated Department of Electronic Engineering from National Taipei University of Technology.	Note 3
Director	R.O.C.	United Microelectronics Corp.	NA	2015.06.17	3	2007.06.13	10,714,991	0.97%	10,714,991	0.98%	0	0.00%	NA	NA
Representative	R.O.C.	Po-Wen Yen	Male	2015.06.21	3	2015.06.21	0	0.00%	0	0.00%	0	0.00%	The Director & CEO of United Microelectronics Corp. Master of Chemical Engineering of National Taiwan University	Note 4
Director	R.O.C.	Yi Te Optoelectronics Co., Ltd.	NA	2015.06.17	3	2006.03.02	3,134,741	0.29%	3,134,741	0.29%	0	0.00%	NA	NA
Representative	R.O.C.	Nan Yang Wu	Male	2015.06.17	3	2006.03.02	0	0.00%	0	0.00%	0	0.00%	The Senior Vice President of Yi-Far holding system The Master of Engineering Stanford University	Note 5
Director	R.O.C.	Ming-Jiunn Jou	Male	2015.06.17	3	2000.08.16	866,667	0.08%	866,667	0.08%	0	0.00%	Engineer, manager/Institute of Photonics Technology in Industrial Technology Research Institute (ITRI) Ph. D., Institute of Material Science and Engineering, University of Utah, USA	Note 6
Independent Director	R.O.C.	Wei-Min Sheng	Male	2015.06.17	3	2013.06.14	0	0.00%	0	0.00%	0	0.00%	PhD (Purdue U.) Accounting Purdue University Professor of Department of Public Finance in National Taichung University of Science and Technology.	Note 7
Independent Director	R.O.C.	Feng-Shang Wu	Male	2015.06.17	3	2013.06.14	0	0.00%	0	0.00%	0	0.00%	Dr. Business US Rensselaer Polytechnic University (RPI) Professor of Graduate Institute of Technology, Innovation and Intellectual Property Management, NCCU.	Note 8

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term (Year)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Experience & Education	Current Positions at EPISTAR and Other Companies
							Shares	%	Shares	%	Shares	%		
Independent Director	R.O.C.	Chi-Yen Liang	Male	2015.06.17	3	2014.06.19	0	0.00%	0	0.00%	0	0.00%	Executive vice president of China Development Venture Hewlett-Packard (HP) Business Marketing Manager Soochow University Department of Business Administration lecturer Master of Chengchi University Institute of Business Administration Bachelor of Chemical Engineering Department of Tsinghua University	Note 9

Remarks:
1. No member of the Board of Directors held EPISTAR shares by nominee arrangement.
2. No member of the Board of Directors had a spouse or relative within two degrees of consanguinity serving as a manager or director at EPISTAR.

Note:

1. Biing-Jye Lee:
   The Director of UEC Investment Ltd., the Chairman of Epistar JV Holding (BVI) Co., Ltd., the Director of LiteStar JV Holding (BVI) Co., Ltd., the Director of Epicrystal (Hong Kong) Co., Ltd., the Chairman of Country Lighting (BVI) Co.,Ltd., the Director of Epicrystal Corporation (ChangZhou) Ltd., the Director of Kaistar Lighting (Xiamen) Co., Ltd., and the Director of FormoLight Technologies, Inc, cooperation above are directly or indirectly invested by Epistar.
2. Chih-Yuan Chen:
   The Chairman of Yeong Yi Asia Corp., the Chairman of Yi-Yuan Enterprise Co., Ltd., the Chairman of Yi Te Optoelectronics Co., Ltd., the Chairman of Yi-Yang Technology Co., Ltd., the Vice Chairman of Taiwan Insurance Co., Ltd. (Public offering: 2863), the Vice Chairman of Taiwan Air Cargo Terminal Limited, the Director of Taiwan Air Cargo Terminal Limited (TWSE: 2610), the Director of Ichia Technologies, Inc (Public listed market: 2402), the Director of Shihlin Paper Corporation (TWSE: 1903), the Director of Nan Ya Photonics Inc., the Director of Yi-Chao Enterprise Co., Ltd., the Director of Yi-Xiang Enterprise Co., Ltd., the Director of Fortune Consulting Group, Inc., the Director of Ravenel Ltd., and the Director of Hanlin Incubation Co., Ltd.
3. Yin-Fu Yeh:
   The Chairman & General Manager of Everlight Electronics Co., Ltd.(TWSE: 2393), the Chairman & General Manager of Tekcore Co., Ltd. (TPEx: 3339), the Director of King Core Electronics Inc. (TWSE: 6155), the Director of Hua-Chuang Automobile Information Technical Center Co., Ltd., the Chairman & General Manager of Evervision Electronics Co., Ltd., the Director of Everlight Americas, Inc., the Director of VBest GmbH , the Director of Evervision Electronics (B.V.I.) Limited, the Director of Evervision Electronics (H.K.) Ltd., the Director of Blaze International Limited, the Director of Topbest Holding (Samoa) Limited;
   and hold adjunct position in the companies as following that are 100% directly or indirectly reinvested by Everlight Electronics Co., Ltd.:
   the Chairman & General Manager of Ever Power Investment Co., Ltd., the Chairman & General Manager of Forever Investment Co., Ltd., the Director & General Manager of Pai-yee Investment Co., Ltd., the Director of Everlight Lighting Co., Ltd., the Director of Zenaro Lighting Co., Ltd., the Director of Everlight SS Lighting (Hong Kong) Co., Ltd., the Chairman of Everlight Lighting Management (shanghai) Co., Ltd., the Executive Director of Everlight Ui-Yao Technology (Shanghai) Ltd., the Chairman of Everlight Lighting (China) Co., Ltd., the Director & General Manager of Everlight (B.V.I.) Co., Ltd., the Director of Everlight Optoelectronics Korea Co., Ltd., the Director of Evlite Electronics Co., Ltd., the Director of Lighting Competence Center, the Director of WOFI Leuchten GmbH, the Director of WOFI Wortmann & Fliz GmbH, the Director of Euro Technics Trade GmbH, the Director of WOFI Technics Trade Limited and the Director of Action GmbH.
4. Po-Wen Yen:
   The Director & CEO United Microelectronics Corp. (TWSE: 2303), the Director of Fortune Venture Capital Corp., the Director of Tlc Capital Co., Ltd. and the Director of UMC New Business Investment Corp..
5. Nan Yang Wu:
   The Independent Director of Nan Liu Enterprise Co., Ltd(TWSE: 6504), the Director of Edison Opto Corporation(TWSE: 3591), the Director of ProLight Opto Technology Corporation(Emerging stock: 5277), the Chairman of Fon Tain Belon Co., Ltd., the Director of Yeong Yi Asia Corp., the Director ofYi-Yang Technology Co., Ltd.and the Director ofYi-Xiang Enterprise Co., Ltd..

6. Ming-Jiunn Jou:
   The Director of Lighting Investment Ltd., the Director of LiteStar JV Holding (BVI) Co., Ltd., the Director of Epicrystal (Hong Kong) Co., Ltd., the Director of Luxlite (HK) Corporation Limited, the Chairman of Yen-Rich Opto (Hong Kong) Limited, the Director of Full Star Enterprises Limited, the Chairman of Can Yang Investments Limited, the Chairman of Ecoled Venture Co., Limited, the Director of GaN Ventures Co., Limited, the Chairman of Lighting Investment Corp., the Director of Luxlite (Shenzhen) Corporation Limited, the Chairman of Zheng-Yi Technology Corporation, the Chairman of EPI Crystal Investment Inc., the Director of Crystaluxx SARL, the Director of Jiangsu Canyang Optoelectronics Ltd., the Director of Nan Ya Photonics Inc. and the Director of TE OPTO Corporation, cooperation above are directly or indirectly invested by Epistar.
7. Wei-Min Sheng:
   The Independent Director & the member of Remuneration Committee of Siliconware Precision Industries Co., Ltd.(TWSE: 2325), the Supervisor of Elite Semiconductor Memory Technology Inc.(TWSE: 3006), the member of Tecom Co., Ltd.(TWSE: 2321), The Independent Director of Episil-Precision Inc. (TWSE: 3016), The Independent Director & the member of Remuneration Committee of Advanced Lithium Electrochemistry (KY) Co., Ltd.(TPEx: 5227).
8. Feng-Shang Wu:
   The Independent Director & the member of Remuneration Committee of ProLight Opto Technology Corporation.
9. Chi-Yen Liang:
   The Chairman of Tainet Communication System Corp. (TPEx: 4905), the Director of Flexium Interconnect Inc.(TWSE: 6269), the Supervisor of Asmedia Technology Inc. (TWSE: 5269), the Independent Director of Excellence MOS Corp. (Emerging stock: 5299), the Director of Brighton-Best International (Taiwan) Inc. (TPEx: 8415), the member of Remuneration Committee of Sesoda Corporation (TWSE: 1708), the member of Remuneration Committee of Shinkong Textile Co., Ltd (TWSE: 1419), the Director of Rui-Jin Technology & Consulting Limited, the Supervisor of Wah-Wo Cultural and Creative & Consulting and Management Limited and the Supervisor of CSR Community International Limited.

Major Shareholder of the institutional shareholder:

Name of institutional shareholder	Major Shareholder of the institutional shareholder
Fon Tain Belon Co., Ltd.	Skyway Industrial Limited (52.36%) (Samoa) Smithson Crowford Murray Capital (21.92%) Yeong Yi Asia Corp. (5.01%) Yi-Yuan Enterprise Co., Ltd. (5.01%) Yi-Chao Enterprise Co., Ltd. (4.93%) Yi-Xiang Enterprise Co., Ltd. (4.93%) Chih-Yuan Chen (2.23%) Kang Tu Industrial Co., Ltd. (1.31%) Hsin Feng Corp. (1.31%) Zhi-Chao Chen (0.50%)
Everlight Electronics Co., Ltd. (Shareholders record date: April 19, 2016)	Cathay United Bank acting in its capacity as depository and representative to the Yi Ren investment account (4.75%) Yin-Fu Yeh (4.30%) Fubon Life Insurance Co., Ltd. (3.87%) Nan Shan Life Insurance Co., Ltd. (3.44%) Public service pension fund Management Committee (3.07%) Cathay Life Insurance Co., Ltd. (2.31%) Bo-Wen Zhou (2.20%) Chuan Investment Corp. (2.05%) J.P. Morgan Securities Co., Ltd. acting in its capacity as depository and representative to the global thematic investment account of Svenska Handelsbanken AB (1.92%) Shou-Man Jane (1.78%)
United Microelectronics Corp. (Shareholders record date: July 18, 2016)	JPMorgan Chase Bank, N.A. acting in its capacity as depositary and representative to the holders of ADRs, acting pursuant to a Depositary Agreement dated as of October 21, 2009 between JPMorgan Chase Bank, N.A. as depositary, United Microelectronics Corporation and all holders of ADRs (5.67%) Cathay Life Insurance Co., Ltd. (3.85%) Hsun Chieh Investment Co. (3.50%) Silchester International Investors International Value Equity Trust (3.22%) Silicon Integrated Systems Corp. (2.50%) Silchester International Investors International Value Equity Group Trust (1.89%) Yann Yuan Investment Co., Ltd. (1.27%) Silchester International Investors International Value Equity Taxable Trust (1.14%) Dimensional Emerging Markets Value Fund (1.10%) JPMorgan Chase Bank, N.A., Taipei Branch in Custody for Stichting Depositary APG Emerging Markets Equity Pool (0.88%)
Yi Te Optoelectronics Co., Ltd.	Chih-Yuan Chen (99.909%) Yeong Yi Asia Corp. (0.091%)

Major shareholders of the major shareholders that are juridical persons:

Name of juridical persons	Major shareholder of the juridical persons
Skyway Industrial Limited	CWS Co., Ltd. (100.00%)
(Samoa) Smithson Crowford Murray Capital	FTC Co., Ltd. (100.00%)
Yeong Yi Asia Corp.	(Samoa) Smithson Crowford Murray Capital (32.17%) Hsin Feng Corp. (27.98%) Fon Tain Belon Co., Ltd. (26.24%) Skyway Industrial Limited (4.92%) Chen-Yung Foundation (3.44%) Chih-Yuan Chen (1.95%) Zhi-Chao Chen (1.95%) Yi-Yuan Enterprise Co., Ltd. (0.55%) Kang Tu Industrial Co., Ltd. (0.46%) Zhi-Xiang Chen (0.23%)
Yi-Yuan Enterprise Co., Ltd.	Skyway Industrial Limited (22.616%) Yeong Yi Asia Corp. (18.847%) Fon Tain Belon Co., Ltd. (18.847%) Hsin Feng Corp. (18.847%) Chih-Yuan Chen (16.698%) Sui Shih Sung Crop. (1.998%) Meng-Li Zou (1.885%) Yu_An Chen (0.196%) Yun-Yun Chang (0.038%) Zha-Heng Chen (0.030%)
Yi-Chao Enterprise Co., Ltd.	Zhi-Chao Chen (49.89%) Skyway Industrial Limited (30.44%) Fon Tain Belon Co., Ltd. (11.59%) Hsin Feng Corp. (8.04%) Chih-Yuan Chen (0.01%) Zha-Heng Chen (0.01%) Yun-Yun Chang (0.01%) Shao-Ning Chang (0.01%)

Name of juridical persons	Major shareholder of the juridical persons
Yi-Xiang Enterprise Co., Ltd.	Skyway Industrial Limited (34.21%) Hsin Feng Corp. (18.42%) Yeong Yi Asia Corp. (18.42%) Fon Tain Belon Co., Ltd. (13.16%) Yi-Yuan Enterprise Co., Ltd. (9.21%) Yi-Chao Enterprise Co., Ltd. (3.95%) Zhi_Xiang Chen (2.50%) Yun-Yun Chang (0.03%) Zha-Heng Chen (0.03%) Zhi-Chao Chen (0.03%)
Kang Tu Industrial Co., Ltd.	Yeong Yi Asia Corp. (35.60%) Hsin Feng Corp. (18.63%) Zha-Heng Chen (9.50%) Zhi_Xiang Chen (9.23%) Yun-Yun Chang (8.48%) Fon Tain Belon Co., Ltd. (6.40%) Yi-Xiang Enterprise Co., Ltd. (6.10%) Zhi-Chao Chen (4.04%) Meng-Li Zou (0.89%) Chih-Yuan Chen (0.69%)
Hsin Feng Corp.	Skyway Industrial Limited (83.33%) Yi-Yuan Enterprise Co., Ltd. (3.73%) Yi-Chao Enterprise Co., Ltd. (3.53%) Yi-Xiang Enterprise Co., Ltd. (3.53%) Chih-Yuan Chen (2.60%) Zhi_Xiang Chen (1.26%) Zhi-Chao Chen (1.22%) Yun-Yun Chang (0.79%)
Fubon Life Insurance Co., Ltd.	Fubon Financial Holding Co., Ltd. (100.00%)

Name of juridical persons	Major shareholder of the juridical persons
Nan Shan Life Insurance Co., Ltd. (Shareholders record date: March, 2017)	First Commercial Bank Trustee Account For Representative of Ruen Chen Investment Holding Co., Ltd. (76.46%) Ruen Chen Investment Holding Co., Ltd. (14.16%) Y. T. Du (3.25%) Ruen Hua Dyeing & Weaving Co., Ltd. (0.28%) Ruentex Leasing Co., Ltd. (0.15%) Chi-Pin Investment Company (0.11%) Boon-Teik Koay (0.11%) Pou Chi Investments Co., Ltd. (0.05%) Pou Yih Investments Co., Ltd. (0.05%) Pou Huei Investments Co., Ltd. (0.05%) Pou Hwang Investments Co., Ltd. (0.05%)
Chuan Investment Corp.	Chuan Corp. (B.V.I.) (100.00%)
Cathay Life Insurance Co.,Ltd.	Cathay Financial Holding Co., Ltd. (100.00%)
Hsun Chieh Investment Co.	Hsieh Yong Capital Co., Ltd. (63.48%) United Microelectronics Corp. (36.49%)
Silicon Integrated Systems Corp. (Shareholders record date: April 27, 2015)	United Microelectronics Corp. (19.70%) Standard Chartered Bank acting in its capacity as depository and representative to CA Indosuez (Switzerland) SA investment account (1.65%) Jin-Cen Investment Co., Ltd. (1.40%) Xing-Sen Liu (1.36%) Qun-Li Investments Co., Ltd. (1.31%) Mu-Chuan Lin (0.97%) Jia-Qi Investment Limited (0.95%) JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Totl International Stock Index Fund, a series of Vanguard Star Funds (0.60%) Liang-Xun Investment Limited (0.60%) Jia-Rui Investment Limited (0.58%)
Yann Yuan Investment Co., Ltd.	Siliconware Investment Co., Ltd (33.33%) United Microelectronics Corp. (31.94%) Unimicron Technology Corp. (13.89%) King Yuan Electronics Co., Ltd. (13.89%) Sigurd Microelectronics Corp. (6.95%)

Board diversity policy (directive) and status of implementation thereof

The Company's board of directors of 9th term consists of 9 directors, including 3 independent directors. The board members are all nationals of the R.O.C. at the age of 55~70 years old. Mr. Biing-Jye Lee and Mr. Ming-Jiunn Jou serve as the CSO and General Manager of the Company. The directors who also hold the position as manager concurrently are less than one-third of all of the directors. All of the board members possess the following knowledge, skills, and literacy required to perform their jobs:

Title	condition / Name	male/female	1	2	3	4	5	6	7	8
Chairman	Biing-Jye Lee	male	✓	✓	✓	✓	✓	✓	✓	✓
Director	Chih-Yuan Chen	male	✓	✓	✓	✓	✓	✓	✓	✓
Director	Yin-Fu Yeh	male	✓	✓	✓	✓	✓	✓	✓	✓
Director	Po-Wen Yen	male	✓	✓	✓	✓	✓	✓	✓	✓
Director	Nan Yang Wu	male	✓	✓	✓	✓	✓	✓	✓	✓
Director	Ming-Jiunn Jou	male	✓	✓	✓	✓	✓	✓	✓	✓
Independent Director	Wei-Min Sheng	male	✓	✓	✓	✓	✓	✓	✓	✓
Independent Director	Feng-Shang Wu	male	✓	✓	✓	✓	✓	✓	✓	✓
Independent Director	Chi-Yen Liang	male	✓	✓	✓	✓	✓	✓	✓	✓

Note: meet any of the following situations, please tick the appropriate corresponding boxes:

1. Ability to make operational judgments.
2. Ability to perform accounting and financial analysis.
3. Ability to conduct management administration.
4. Ability to conduct crisis management.
5. Knowledge of the industry.
6. An international market perspective.
7. Ability to lead.
8. Ability to make policy decisions.

Directors' Professional Qualifications and Independent Analysis:

Criteria/Name	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note 1)										Number of Other Taiwanese Public Companies Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Biing-Jye Lee			✓			✓	✓	✓	✓	✓	✓	✓	✓	-
Chih-Yuan Chen			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		-
Yin-Fu Yeh			✓	✓	✓	✓	✓	✓		✓	✓	✓		-
Po-Wen Yen			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		-
Nan Yang Wu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		1
Ming-Jiunn Jou			✓			✓	✓	✓	✓	✓	✓	✓	✓	-
Wei-Min Sheng	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Feng-Shang Wu	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Chi-Yen Liang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

Note: Directors, during the two years before being elected and during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:

1. Not an employee of the company or any of its affiliates;
2. Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the laws of Taiwan or with the laws of the country of the parent company or subsidiary;
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 issued shares of the company or ranks as one of its top ten shareholders;
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as of its top five shareholders;
6. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business 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, provided that this restriction does not apply to any member of the Remuneration Committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the GTSM";
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company;
9. Not been a person of any conditions defined in Article 30 of the Company Law;
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3.2.2 Information Regarding Management Team

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		EPISTAR Shareholding by Nominee Arrangement		Experience & Education	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Strategy officer	R.O.C.	Biing-Jye Lee	Male	2009.01.01	1,704,495	0.16%	372,596	0.03%	0	0.00%	Research fellow/supervisor, Institute of Photonics Technologies in Industrial Technology Research Institute (ITRI) Ph. D., Institute of Chemical Engineering, National Tsing Hua University	Note 1	None	None	None
General Manager	R.O.C.	Ming-Jiunn Jou	Male	2009.01.01	866,667	0.08%	0	0.00%	0	0.00%	Engineer, manager/Institute of Photonics Technology in Industrial Technology Research Institute (ITRI) Ph. D., Institute of Material Science and Engineering, University of Utah, USA	Note 2	None	None	None
Vice President	R.O.C.	Jen-Chau Wu	Male	2005.12.30	266,155	0.02%	0	0.00%	0	0.00%	Vice President, United Epitaxy Company, Ltd. M.A., Institute of Electrical Engineering, National Tsing Hua University	Note 3	None	None	None
Vice President	R.O.C.	Rong-Yih Hwang	Male	2007.03.01	238,918	0.02%	0	0.00%	0	0.00%	Associate Vice President, United Epitaxy Company, Ltd. M.A. Institute of Photonics Technologies, National Chiao Tung University	Note 4	None	None	None
Vice President	R.O.C.	Min-Hsun Hsieh	Male	2007.03.01	91,674	0.01%	0	0.00%	0	0.00%	Supervisor, Highlight Optoelectronics Inc. Ph. D., Institute of Power Mechanical Engineering, National Tsing Hua University	Note 5	None	None	None
Vice President	R.O.C.	Shih-Shieh Chang	Male	2007.03.01	492,265	0.05%	0	0.00%	0	0.00%	Manager, Finance Department, Wei Chuan Foods Corporation B.A., Department of Business Administration, National Cheng Kung University	Note 6	None	None	None
Vice President	R.O.C.	Chin-Yung Fan	Male	2015.03.02	186,012	0.02%	222,337	0.02%	0	0.00%	Special assistant, Vice President , Epistar Corporation M.A., Institute of Physics, National Central University	Note 7	None	None	None
Vice President	R.O.C.	Chen Ou	Male	2007.03.01 (Note 20)	42,484	0.00%	98	0.00%	0	0.00%	Director, Epistar Corporation Ph. D., National Chiao Tung University	None	None	None	None
Vice President	R.O.C.	Ming-Da Jin	Male	2007.03.01 (Note 20)	170,947	0.02%	0	0.00%	0	0.00%	Director, Epistar Corporation M.A., Institute of Electrophysics, National Chiao Tung University	None	None	None	None
Vice President	R.O.C.	Lin-Tien Yang	Male	2007.03.01 (Note 20)	797	0.00%	0	0.00%	0	0.00%	Associate Vice President, Epitech Technology Corporation M.A., Institute of Management, National Chiao Tung University	Note 8	None	None	None

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		EPISTAR Shareholding by Nominee Arrangement		Experience & Education	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Associate Vice President	R.O.C.	Tao-jung Lin	Female	2007.03.01	221,160	0.02%	0	0.00%	0	0.00%	Associate Vice President, Epitech Technology Corporation B.A., Department of Economics, Feng Chia University	Note 9	None	None	None
Associate Vice President	R.O.C.	Hsiu-Jen Liu	Male	2007.03.01	144,829	0.01%	0	0.00%	0	0.00%	Associate Vice President, Epitech Technology Corporation B.A., Department of Information Management, National Chengchi University	Note 10	None	None	None
Associate Vice President	R.O.C.	Han-brown Lai	Male	2008.11.11	123,006	0.01%	0	0.00%	0	0.00%	Director, Epistar Corporation M.A., National Taiwan University of Science and Technology	None	None	None	None
Associate Vice President	R.O.C.	Shu-Li Tuan	Male	2008.11.11	4	0.00%	0	0.00%	0	0.00%	Production supervisor, Epitech Technology Corporation M.A., University of South Australia, Australia	None	None	None	None
Associate Vice President	R.O.C.	Zhi-Jiang Lu	Male	2010.01.20	43,105	0.00%	31,850	0.00%	0	0.00%	Director, Epistar Corporation M.A., Institute of Applied Chemistry, National Chiao Tung University	None	None	None	None
Associate Vice President	R.O.C.	Li-Cheng Hung	Female	2012.01.01	69,054	0.01%	0	0.00%	0	0.00%	Director, Production Management Center, Epistar Corporation B.A., Department of Electrical and Electronics Engineering, Kun Shan College	Note 11	None	None	None
Associate Vice President	R.O.C.	Wen-Chieh Kuo	Male	2012.02.15	0	0.00%	0	0.00%	0	0.00%	Special assistant to the President office, Epistar Corporation M.A., Institute of Industrial Management, National Cheng Kung University	Note 12	None	None	None
Associate Vice President	R.O.C.	Wei-Shih	Male	2012.10.02	42,701	0.00%	0	0.00%	0	0.00%	Director, Information Technology Center, Epistar Corporation M.A. Institute of Electrical Engineering, University of Southern California (USC), USA	None	None	None	None
Associate Vice President	R.O.C.	Biau-Dar Chen	Male	2012.10.02	195,650	0.02%	40,000	0.00%	0	0.00%	Special assistant to the President office, Epistar Corporation M.A., Institute of Food Engineering, Da Yeh University	None	None	None	None
Associate Vice President	R.O.C.	Ben-Yu Liao	Male	2012.10.02	64,650	0.01%	12,000	0.00%	0	0.00%	Special assistant to the President office, Epistar Corporation Ph. D., University of Missouri	Note 13	None	None	None
Associate Vice President	R.O.C.	Shaoyou Deng	Male	2012.10.02	64,308	0.01%	0	0.00%	0	0.00%	Special assistant to the President office, Epistar Corporation Ph. D, Institute of Electronics Engineering, National Tsing Hua University	Note 14	None	None	None

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		EPISTAR Shareholding by Nominee Arrangement		Experience & Education	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Associate Vice President	R.O.C.	Hsien-Chun Weng	Male	2012.10.02	88,845	0.01%	14,000	0.00%	0	0.00%	Special assistant to the President office, Epistar Corporation M.A., Institute of Business Management, National University of Kaohsiung	Note 15	None	None	None
Associate Vice President	R.O.C.	Chia-Chen Chang	Male	2013.05.01	108,185	0.01%	4,245	0.00%	0	0.00%	Director, Sales center and technical support Div., Epistar Corporation Ph. D., Institute of Physics, The University Of Birmingham	Note 16	None	None	None
Associate Vice President	R.O.C.	Jia-Liang Xu	Male	2014.02.07	0	0.00%	0	0.00%	0	0.00%	Director, Research & development (R & D) center, Epistar Corporation M.A., Institute of NanoEngineering and Microsystems, NTHU	None	None	None	None
Associate Vice President	R.O.C.	Tzu-Hsiang Tai	Male	2014.05.01	80,284	0.01%	0	0.00%	0	0.00%	Associate Vice President, Finance & accounting center, Huga Optotech Inc. Associate Vice President, Auditing office, Epistar Corporation B.A., Department of Business management, Soochow University	Note 17	None	None	None
Associate Vice President	R.O.C.	Guo-Xin Hong	Male	2014.06.01	111,030	0.01%	0	0.00%	0	0.00%	Associate Vice President, BU1 Manufacture Integration Group, Epistar Corporation Associate Vice President, Manufacture Integration Group, Huga Optotech Inc. M.A., Institute of Electrical Engineering and Computer Science, National Tsing Hua University	None	None	None	None
Associate Vice President	R.O.C.	Feng-Sheng Qiu	Male	2014.09.01	5,000	0.00%	213	0.00%	0	0.00%	Special assistant to the President office, Epistar Corporation Associate Vice President, Logistic center, Huga Optotech Inc./Formosa Epitaxy Incorporation Associate degree, Department of business management, China University of Technology	None	None	None	None
Associate Vice President	R.O.C.	Cheng-Chi Chiang	Male	2015.01.05	206	0.00%	30	0.00%	0	0.00%	Associate Vice President, Jiangsu Canyang Optoelectronics Ltd. M.A., Institute of Industrial Management and Information, Southern Taiwan University of Science and Technology	Note 18	None	None	None
Associate Vice President	R.O.C.	Yu-Pin Hsu	Male	2015.01.05	1,942	0.00%	6	0.00%	0	0.00%	Associate Vice President, Jiangsu Canyang Optoelectronics Ltd. Ph. D., Institute of microelectronics, National Cheng Kung University	None	None	None	None

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		EPISTAR Shareholding by Nominee Arrangement		Experience & Education	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Associate Vice President	R.O.C.	Yi-Chang Hong	Male	2016.11.24	44,459	0.00%	0	0.00%	0	0.00%	Manager, Department of management, Hui Sheng Industrial Corporation BA, Department of Engineering Science, National Cheng Kung University	None	None	None	None
Associate Vice President	R.O.C.	Jian-Feng Chen	Male	2016.11.24	40,166	0.00%	0	0.00%	0	0.00%	Associate Vice President, Supporting center, Epistar Corporation B.A., Department of Chemical Engineering, Ta Hwa college	None	None	None	None
Associate Vice President	R.O.C.	Wei-Kuo Su	Male	2016.11.24	10,206	0.00%	12,000	0.00%	0	0.00%	Associate Vice President, Sales Center and China Sales Group, Epistar Corporation B.A., Department of Information Management, Ta Hwa College	Note 19	None	None	None
Associate Vice President	R.O.C.	Sun-Jie Wang	Male	2016.11.24	31	0.00%	0	0.00%	0	0.00%	Associate Vice President, BU2 N-site, Epistar Corporation M.A., Institute of Physics, National Central University	None	None	None	None
Associate Vice President	R.O.C.	Shen-Gjie Xu	Male	2016.11.24	0	0.00%	0	0.00%	0	0.00%	Associate Vice President, BU1 H-site, Epistar Corporation M.A., Institute of Physics, National Central University	None	None	None	None
Associate Vice President	R.O.C.	Jun-Long Zeng	Male	2017.03.16	18,985	0.00%	0	0.00%	0	0.00%	Associate Vice President, BU1 S-site, Epistar Corporation Ph. D., Institute of Physics, University of Bath, England	None	None	None	None
Associate Vice President	R.O.C.	Zheng-Da Cai	Male	2017.03.16	63,100	0.01%	15,000	0.00%	0	0.00%	Manager, Industrial Technology Research Institute (ITRI) Ph. D, Institute of Materials Science and Engineering, National Cheng Kung University	None	None	None	None

Quantity of shares held is based on the quantity of shares held actually on February 28, 2017. Notwithstanding, the quantity of shares held by Associate Vice President Jun-Long Zeng and Associate Vice President Zheng-Da Caishall be expressed based on the quantity of shares held by them on the date of inauguration.

Note:

1. Biing-Jye Lee:
   The Director of UEC Investment Ltd., the Chairman of Epistar JV Holding (BVI) Co., Ltd., the Director of LiteStar JV Holding (BVI) Co., Ltd., the Director of Epicrystal (Hong Kong) Co., Ltd., the Chairman of Country Lighting (BVI) Co.,Ltd., the Director of Epicrystal Corporation (ChangZhou) Ltd., the Director of Kaistar Lighting (Xiamen) Co., Ltd., and the Director of FormoLight Technologies, Inc ,cooperation above are directly or indirectly invested by Epistar.

2. Ming-Jiunn Jou:
   The Director of Lighting Investment Ltd., the Director of LiteStar JV Holding (BVI) Co., Ltd., the Director of Epicrystal (Hong Kong) Co., Ltd., the Director of Luxlite (HK) Corporation Limited, the Chairman of Yen-Rich Opto (Hong Kong) Limited, the Director of Full Star Enterprises Limited, the Chairman of Can Yang Investments Limited, the Chairman of Ecoled Venture Co., Limited, the Director of GaN Ventures Co., Limited, the Chairman of Lighting Investment Corp., the Director of Luxlite (Shenzhen) Corporation Limited, the Chairman of Zheng-Yi Technology Corporation, the Chairman of EPI Crystal Investment Inc., the Director of Crystaluxx SARL, the Director of Jiangsu Canyang Optoelectronics Ltd., the Director of Nan Ya Photonics Inc. and the Director of TE OPTO Corporation, cooperation above are directly or indirectly invested by Epistar.
3. Jen-Chau Wu:
   The Chairman of Episky Corporation (Xiamen) Ltd., the Chairman of Epicrystal Corporation (ChangZhou) Ltd., the Executive Director of United LED Shan Dong Corporation, the Director of EPISKY Corporation (Changzhou) Ltd., the Chairman of Ningbo Formosa Epitaxy Incorporation, the Chairman of Jiangsu Canyang Optoelectronics Ltd., the Director of Epicrystal (Hong Kong) Co., Ltd., the Chairman of United LED Corporation Hong Kong Limited and the Chairman of Can Yang Investments Limited.
4. Rong-Yih Hwang:
   The Director of Episky Corporation (Xiamen) Ltd., the Director of Luxlite (Shenzhen) Corporation Limited, the Director of Luxlite (HK) Corporation Limited.
5. Min-Hsun Hsieh:
   The Director of Lighting Investment Corp., the Director of Zheng-Yi Technology Corporation, the Director of Interlight Optotech Corporation, the Director of Tops Electrical Technology Co., Ltd. and the Director of Nan Ya Photonics Inc..
6. Shih-Shieh Chang:
   The Director of Episky Corporation (Xiamen) Ltd., the Director of Luxlite (Shenzhen) Corporation Limited, the Director of LEDOLUX Sp. Zo. O., the Director of Play Nitride Inc., the Director of Chi Lin Optpelectronics Co., Ltd, the General Manager of Lighting Investment Corp. and the Director of Luxlite (HK) Corporation Limited.
7. Chin-Yung Fan:
   The Director of Luxlite (Shenzhen) Corporation Limited, the Director of HUGA Holding (Samoa) Limited, the Director of Crystaluxx SARL, the Director of LEDOLUX Sp. Zo. O., the Director of Jiangsu Canyang Optoelectronics Ltd., the Chairman of EPIRICH (Guangzhou) Co.,Ltd., the Director of Tops Electrical Technology Co., Ltd., the Director of TE OPTO Corporation, the Director of Evertop (Fujian) optoelectronics Co., Ltd, the Director of Episky (Hong Kong) Ltd., the Director of Luxlite (HK) Corporation Limited, the Director of HUGA Holding (BVI) Limited, the Director of Epistar (Hong Kong) Limited and the Director of Can Yang Investments Limited.
8. Lin-Tien Yang:
   The Director of Epicrystal Corporation (ChangZhou) Ltd., the Director & General Manager of SH Optotech Co., Ltd., the Director & General Manager of Zheng-Yi Technology Corporation, the Director of EPI Crystal Investment Inc., the Director of Kaistar Lighting (Xiamen) Co., Ltd., the Director of Epicrystal (Hong Kong) Co., Ltd., the General Manager of Luxlite (Shenzhen) Corporation Limited and the Director of United LED Corporation Hong Kong Limited.
9. Tao-jung Lin:
   The Supervisor of Lighting Investment Corp., the Supervisor of Luxlite (Shenzhen) Corporation Limited, the Supervisor of Epicrystal Corporation (ChangZhou) Ltd., the Supervisor of EPI Crystal Investment Inc., the Supervisor of Interlight Optotech Corporation, the Supervisor of Cosmoled Lighting Limited, the Supervisor of SH Optotech Co., Ltd., the Supervisor of SF Light Co., Ltd. and the Director of Interlight Optotech (HK) Co., Limited.
10. Hsiu-Jen Liu:
    The Chairman of Interlight Optotech Corporation, the Director & General Manager of Kaistar Lighting (Xiamen) Co., Ltd., The Chairman of Interlight Optotech (HK) Co., Limited. and the Director of Country Lighting (BVI) Co., Ltd..
11. Li-Cheng Hung:
    The Chairman of EPISKY Corporation (Changzhou) Ltd..
12. Wen-Chieh Kuo:
    The Director & General Manager of Episky Corporation (Xiamen) Ltd..
13. Ben-Yu Liao:
    The Director of EPIRICH (Guangzhou) Co.,Ltd..
14. Shaoyou Deng:
    The Director of Interlight Optotech Corporation.

15. Hsien-Chun Weng:
    The Director of EPISKY Corporation (Changzhou) Ltd..
16. Chia-Chen Chang:
    The Director of EPISKY Corporation (Changzhou) Ltd., the Director of Jiangsu Canyang Optoelectronics Ltd. and the Director of Can Yang Investments Limited.
17. Tzu-Hsiang Tai:
    The Director of Lighting Investment Corp., the Director of Luxlite (Shenzhen) Corporation Limited, the Director of Crystaluxx SARL, the Director of LEDOLUX Sp. Zo. O., the Supervisor of EPISKY Corporation (Changzhou) Ltd., the Director of Very Optoelectronics (Hui Zhou) Co., Ltd., the Director of ProLight Opto Technology Corporation, the Director of Cosmoled Lighting Limited, the Director of UFECO Technology Inc., the General Manager of EPI Crystal Investment Inc. and the Director of Bliss High Technology Inc..
18. Cheng-Chi Chiang:
    The General Manager of Epicrystal Corporation (ChangZhou) Ltd. and the General Manager of Jiangsu Canyang Optoelectronics Ltd..
19. Wei-Kuo Su:
    The Director of Luxlite (HK) Corporation Limited.
20. Chen Ou, Ming-Da Jin and Lin-Tien Yang held the position on March 1, 2007 initially, and were promoted from Associate Vice President to Vice President on September 1, 2014.

3.2.3 Remuneration Paid to Directors, General Manager and Vice President in 2016

3.2.3.1 Remuneration Paid to Directors

Dec. 31, 2016 NT$ thousands ; Share K

Title	Name	Director Remuneration								Total Remuneration (A+B+C+D) as a% of 2016 Net Loss		Compensation Earned by a Director Who is an Employee of Epistar or of Epistar's Consolidated Entities								Total Compensation (A+B+C+D+E+F+G) as a % of 2016 Net Loss		Compensation Paid to Directors from Non-consolidated Affiliates
		Base Compensation (A)		Severance Pay and Pensions (B)		Compensation to Directors (C)		Allowances (D)				Base Compensation, Bonuses, and Allowances (E)		Severance Pay and Pensions (F)		Employees' Profits Sharing Bonus (G)						
																From Epistar		From All Consolidated Entities				
		From Epistar	From All Consolidated Entities	From Epistar	From All Consolidated Entities	From Epistar	From All Consolidated Entities	From Epistar	From All Consolidated Entities	From Epistar	From All Consolidated Entities	From Epistar	From All Consolidated Entities	From Epistar	From All Consolidated Entities	Cash	Stock (Fair Market Value)	Cash	Stock (Fair Market Value)	From Epistar	From All Consolidated Entities	
Chairman	Biing-Jye Lee	0	0	0	0	0	0	60	60	0.00	0.00	11,891	11,891	115	115	0	0	0	0	0.34	0.34	0
Director	Fon Tain Belon Co., Ltd.	0	0	0	0	0	0	0	0	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	0
	Rep: Chih-Yuan Chen	0	0	0	0	0	0	60	60	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	4
Director	Everlight Electronics Co., Ltd.	0	0	0	0	0	0	58	0	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	0
	Rep: Yin-Fu Yeh	0	0	0	0	0	0	15	60	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	20
	Rep: Huei-Chen Fu	0	0	0	0	0	0	15	60	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	0
Director	United Microelectronics Corp.	0	0	0	0	0	0	0	0	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	0
	Rep: Stan Hung (Note 1)	0	0	0	0	0	0	28	28	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	0
	Rep: Po-Wen Yen (Note 1)	0	0	0	0	0	0	32	32	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	0
Director	Yi Te Optoelectronics Co., Ltd.	0	0	0	0	0	0	0	0	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	0
	Rep: Nan Yang Wu	0	0	0	0	0	0	60	60	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	48
Director	Ming-Jiunn Jou	0	0	0	0	0	0	60	60	0.00	0.00	10,282	10,282	213	213	0	0	0	0	0.30	0.30	6
Director	Lite-On Technology Corp. (Note 2)	0	0	0	0	0	0	0	0	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	0
	Rep: Kuang Chung Chen (Note 2)	0	0	0	0	0	0	28	28	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	0
Independent Director	Wei-Min Sheng	752	752	0	0	0	0	60	60	0.02	0.02	0	0	0	0	0	0	0	0	0.02	0.02	0
Independent Director	Feng-Shang Wu	752	752	0	0	0	0	60	60	0.02	0.02	0	0	0	0	0	0	0	0	0.02	0.02	457
Independent Director	Chi-Yen Liang	752	752	0	0	0	0	60	60	0.02	0.02	0	0	0	0	0	0	0	0	0.02	0.02	0

Note 1: The representative was changed from Mr. Stan Hung to Mr. Po-Wen Yen on June 21, 2016.
Note 2: All reelected at the shareholders' meeting on June 17, 2016.
Note 3: The Company's directors did not hold any position other than director or employee of the companies consolidated into the financial statements (namely, the Company or subsidiaries) and, therefore, no compensation paid to directors from non-consolidated companies was available.

A: Remuneration to directors in 2016 (including director's salary, duty allowance, severance pay, bonus and reward, et al.)
B: The contributed amount.
C: Allocation of remuneration to directors approved by the board in 2016.
D: Professional practice expenses related to directors in 2016 (including transportation allowance, special allowance, various allowances and provision of dormitory and car).
E: Received by directors who were also employees in 2016 (including those concurrently holding the position as president, vice president, manager and employee), including salary, duty allowance, severance pay, bonus, reward, transportation allowance, special allowance, various allowances, and provision of dormitory and car, and salary stated according to IFRS 2 "Share-Based Payment".
F: The contributed amount.
G: Allocation of remuneration to employees approved by the board in 2016, and calculation of the remuneration to be allocated this year based on the actual allocation of remuneration last year.
Net operating loss after tax: The net operating loss after tax, NT$3,546,045 thousand, identified in the individual financial statement 2016.

Remuneration Paid to Directors

<table>
<tr><th rowspan="3">Range of Remuneration</th><th colspan="4">Name of Directors</th></tr>
<tr><th colspan="2">Total of (A+B+C+D)</th><th colspan="2">Total of (A+B+C+D+E+F+G)</th></tr>
<tr><th>From EPISTAR</th><th>From All Consolidated Entities</th><th>From EPISTAR</th><th>From All Consolidated Entities and Non-Consolidated Affiliates</th></tr>
<tr><td>NT$0~ NT$ 2,000,000</td><td>Biing-Jye Lee
Fon Tain Belon Co., Ltd.
Chih-Yuan Chen
Everlight Electronics Co., Ltd.
Yin-Fu Yeh
Huei-Chen Fu
United Microelectronics Corp.
Stan Hung
Po-Wen Yen
Yi Te Optoelectronics Co., Ltd.
Nan Yang Wu
Ming-Jiunn Jou
Lite-On Technology Corp.
Kuang Chung Chen
Wei-Min Sheng
Feng-Shang Wu
Chi-Yen Liang</td><td>Biing-Jye Lee
Fon Tain Belon Co., Ltd.
Chih-Yuan Chen
Everlight Electronics Co., Ltd.
Yin-Fu Yeh
Huei-Chen Fu
United Microelectronics Corp.
Stan Hung
Po-Wen Yen
Yi Te Optoelectronics Co., Ltd.
Nan Yang Wu
Ming-Jiunn Jou
Lite-On Technology Corp.
Kuang Chung Chen
Wei-Min Sheng
Feng-Shang Wu
Chi-Yen Liang</td><td>Fon Tain Belon Co., Ltd.
Chih-Yuan Chen
Everlight Electronics Co., Ltd.
Yin-Fu Yeh
Huei-Chen Fu
United Microelectronics Corp.
Stan Hung
Po-Wen Yen
Yi Te Optoelectronics Co., Ltd.
Nan Yang Wu
Lite-On Technology Corp.
Kuang Chung Chen
Wei-Min Sheng
Feng-Shang Wu
Chi-Yen Liang</td><td>Fon Tain Belon Co., Ltd.
Chih-Yuan Chen
Everlight Electronics Co., Ltd.
Yin-Fu Yeh
Huei-Chen Fu
United Microelectronics Corp.
Stan Hung
Po-Wen Yen
Yi Te Optoelectronics Co., Ltd.
Nan Yang Wu
Lite-On Technology Corp.
Kuang Chung Chen
Wei-Min Sheng
Feng-Shang Wu
Chi-Yen Liang</td></tr>
<tr><td>NT$2,000,001 ~ NT$5,000,000</td><td>None</td><td>None</td><td>None</td><td>None</td></tr>
<tr><td>NT$5,000,001 ~ NT$10,000,000</td><td>None</td><td>None</td><td>None</td><td>Biing-Jye Lee
Ming-Jiunn Jou</td></tr>
<tr><td>NT$10,000,001 ~ NT$15,000,000</td><td>None</td><td>None</td><td>Biing-Jye Lee
Ming-Jiunn Jou</td><td>None</td></tr>
<tr><td>NT$15,000,001 ~ NT$30,000,000</td><td>None</td><td>None</td><td>None</td><td>None</td></tr>
<tr><td>NT$30,000,001~ NT$50,000,000</td><td>None</td><td>None</td><td>None</td><td>None</td></tr>
<tr><td>NT$50,000,001 ~ NT$100,000,000</td><td>None</td><td>None</td><td>None</td><td>None</td></tr>
<tr><td>Over NT$100,000,000</td><td>None</td><td>None</td><td>None</td><td>None</td></tr>
<tr><td>Total</td><td>17</td><td>17</td><td>17</td><td>17</td></tr>
</table>

3.2.3.2 Remuneration Paid to Supervisor: None.

3.2.3.3 Remuneration of General Manager and Vice President

Dec. 31, 2016 Unit: NT$ thousands

Title	Name	Salary (A)		Severance Pay and Pensions (B)		Bonuses and Allowances (C)		Employees' Profit Sharing Bonus (D)				Total Compensation as a % of 2016 Net Loss (A+B+C+D)		Compensation Received from Non-consolidated From EPISTAR Affiliates
		From EPISTAR	From All Consolidated Entities	From EPISTAR	From All Consolidated Entities	From EPISTAR	From All Consolidated Entities	From EPISTAR		From All Consolidated Entities		From EPISTAR	From All Consolidated Entities	
								Cash	Stock (Fair Market Value)	Cash	Stock (Fair Market Value)			
Strategy officer	Biing-Jye Lee													
General Manager	Ming-Jiunn Jou													
Vice President	Jen-Chau Wu													
Vice President	Rong-Yih Hwang													
Vice President	Min-Hsun Hsieh	31,836	33,633	1,642	1,642	27,481	27,481	0	0	0	0	1.72	1.77	19
Vice President	Shih-Shieh Chang													
Vice President	Chin-Yung Fan													
Vice President	Chen Ou													
Vice President	Ming-Da Jin													
Vice President	Lin-Tien Yang													

A: Salary, duty allowance and severance pay paid to presidents and vice presidents in 2016.
B: The contributed amount.
C: Received by in 2016 (including those concurrently holding the position as president, vice president), including bonus, reward, transportation allowance, special allowance, various allowances and provision of dormitory and car, and salary stated according to IFRS 2 "Share-Based Payment".
D: Allocation of remuneration to employees approved by the board in 2016, and calculation of the remuneration to be allocated this year based on the actual allocation of remuneration last year.
Net operating loss after tax: The net operating loss after tax, NT$3,546,045 thousand, identified in the individual financial statement 2016.

Remuneration Paid to General Manager and Vice President

Range of Remuneration	Name of General Manager and Vice President	
	From EPISTAR	From All Consolidated Entities and Non-Consolidated Affiliates
NT$0~ NT$ 2,000,000	None	None
NT$2,000,001 ~ NT$5,000,000	Chin-Yung Fan, Rong-Yih Hwang, Chen Ou, Lin-Tien Yang	Chin-Yung Fan, Rong-Yih Hwang, Chen Ou, Lin-Tien Yang
NT$5,000,001 ~ NT$10,000,000	Jen-Chau Wu, Min-Hsun Hsieh, Shih-Shieh Chang, Ming-Da Jin	Jen-Chau Wu, Min-Hsun Hsieh, Shih-Shieh Chang, Ming-Da Jin
NT$10,000,001 ~ NT$15,000,000	Biing-Jye Lee, Ming-Jiunn Jou	Biing-Jye Lee, Ming-Jiunn Jou
NT$15,000,001 ~ NT$30,000,000	None	None
NT$30,000,001~ NT$50,000,000	None	None
NT$50,000,001 ~ NT$100,000,000	None	None
Over NT$100,000,000	None	None
Total	10	10

3.2.3.4 Employees' Profit Sharing Bonus Paid to Management Team

Dec. 31, 2016 Unit: NT$ thousands; Shares k

Title and Name						Stock (Fair Market Value)	Cash	Total Employees' Profit Sharing Bonus	Total Employees' Profit Sharing Bonus Paid to Management Team as a % of 2016 Net Loss
Title	Name	Title	Name	Title	Name				
Strategy officer	Biing-Jye Lee	Associate Vice President	Han-brown Lai	Associate Vice President	Tzu-Hsiang Tai	0	0	0	0.00%
General Manager	Ming-Jiunn Jou	Associate Vice President	Shu-Li Tuan	Associate Vice President	Guo-Xin Hong				
Vice President	Jen-Chau Wu	Associate Vice President	Zhi-Jiang Lu	Associate Vice President	Feng-Sheng Qiu				
Vice President	Rong-Yih Hwang	Associate Vice President	Li-Cheng Hung	Associate Vice President	Cheng-Chi Chiang				
Vice President	Min-Hsun Hsieh	Associate Vice President	Wen-Chieh Kuo	Associate Vice President	Yu-Pin Hsu				
Vice President	Shih-Shieh Chang	Associate Vice President	Wei-Shih	Associate Vice President	Yi-Chang Hong				
Vice President	Chin-Yung Fan	Associate Vice President	Biau-Dar Chen	Associate Vice President	Jian-Feng Chen				
Vice President	Chen Ou	Associate Vice President	Ben-Yu Liao	Associate Vice President	Wei-Kuo Su				
Vice President	Ming-Da Jin	Associate Vice President	Shaoyou Deng	Associate Vice President	Sun-Jie Wang				
Vice President	Lin-Tien Yang	Associate Vice President	Hsien-Chun Weng	Associate Vice President	Shen-Gjie Xu				
Associate Vice President	Tao-jung Lin	Associate Vice President	Chia-Chen Chang	Associate Vice President	Jun-Long Zeng (Note2)				
Associate Vice President	Hsiu-Jen Liu	Associate Vice President	Jia-Liang Xu	Associate Vice President	Zheng-Da Cai (Note2)				

Note 1: Given the net operating loss after tax, NT$3,546,045 thousand, no remuneration was allocated to employees in 2016.
Note 2: Promoted on March 16, 2017.

3.2.4 Comparison of Remuneration for Directors, Supervisors, General Manager and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, General Manager and Vice Presidents

1. Remuneration Paid to Directors
   The motion for remuneration to directors was proposed by Remuneration Commission and submitted to the board of directors for resolution. The remuneration to directors was allocated by the board of directors based on the percentage defined in the Articles of Incorporation (i.e. 2% of the earnings of the given year), and subject to approval by a majority of the directors present at a board of directors meeting attended by two-thirds of the whole directors, and was reported to the shareholders' meeting. The remuneration to the other directors is fixed mostly.
2. Remuneration Paid to General Manager and Vice President
   The motion for remuneration to presidents and vice presidents, including salary, bonus and employee remuneration, et al., was handled in accordance with the Company's personnel regulations and proposed by Remuneration Committee and submitted to the board of directors for resolution. The remuneration to employees was allocated by the board of directors based on the percentage defined in the Articles of Incorporation (i.e. 10%~20% of the earnings of the given year, based on 15% for the time being.), and subject to approval by a majority of the directors present at a board of directors meeting attended by two-thirds of the whole directors, and was reported to the shareholders' meeting.

The "annual profit" means the current year pre-tax profit (excluding other benefits or losses, such as the put option right, the call option rights, the conversion rights and the redeem of overseas convertible bonds) before the deduction of the staff remuneration and director remuneration.

Title	The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, general manager and vice presidents of the Company, to the net loss.			
	2015		2016	
	From EPISTAR	From All Consolidated Entities	From EPISTAR	From All Consolidated Entities
Directors	0.09	0.09	0.08	0.08
General Manager and Vice President	1.36	1.51	1.72	1.77

Note: The net operating loss after tax identified in the individual financial statements 2015 and 2016 was NT$3,018,757 thousand and NT$3,546,045 thousand respectively.

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors Meeting Status

A total of 6 (A) meetings of the Board of Directors were held in 2016. The directors' attendance status is as follows.

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%)【B/A】	Remarks
Chairman	Biing-Jye Lee	6	0	100.0%	
Director	Fon Tain Belon Co., Ltd. Rep: Chih-Yuan Chen	6	0	100.0%	
Director	Everlight Electronics Co., Ltd. Rep: Yin-Fu Yeh	5	1	83.3%	

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%)【B/A】	Remarks
Director	Everlight Electronics Co., Ltd. Rep: Huei-Chen Fu	2	0	100.0%	Discharged on 2016.06.16
Director	United Microelectronics Corp. Rep: Stan Hung	0	2	0.0%	Discharged on 2016.06.21
Director	United Microelectronics Corp. Rep: Po-Wen Yen	2	1	50.0%	Re-appointed on 2016.06.21
Director	Yi Te Optoelectronics Co., Ltd. Rep: Nan Yang Wu	6	0	100.0%	
Director	Lite-On Technology Corp. Rep: Kuang-Chung Chen	0	2	0.0%	Discharged on 2016.06.16
Director	Ming-Jiunn Jou	6	0	100.0%	
Independent director	Wei-Min Sheng	5	1	83.3%	
Independent director	Feng-Shang Wu	6	0	100.0%	
Independent director	Chi-Yen Liang	6	0	100.0%	

Note: [Total actual attendance rates/total attendance rates to be fulfilled] of all directors attained 86% in 2016.

<u>Other special disclosure:</u>

1. Where the board of directors' operation meets any of the following circumstances, please clearly state the directors' meeting date, term, contents of motions and resolution thereof, opinions of all independent directors and the Company's handling of said opinions:

(1) Securities and Exchange Act §14-3 resolutions:

Term/___st/nd/rd/th time Date	Contents of motion	Independent director's opinion	the Company's handling of independent director's opinion	Resolution
8/22 2016.05.05	The issuance of new common shares for cash to sponsor issuance of the global depository receipt and/or issuance of new common shares totaling 165 million shares for cash in private placement..	None.	N/A	The motion was approved, and submitted to the general shareholders' meeting for discussion on June 17, 2016.
9/2 2016.08.09	Evaluate the independence, eligibility, and contents of service and remuneration 2016 about appointment of Fang-Yu Wen and Ya-Huei Cheng, CPAs.	None.	N/A	As the case involved the CPA's conflict of interest, Fang-Yu Wen, CPA left the meeting temporarily to rescue himself from the discussion. The motion was approved ultimately.

Term/___st/nd/rd/th time Date	Contents of motion	Independent director's opinion	the Company's handling of independent director's opinion	Resolution
9/2 2016.08.09	Motion for remuneration to the Company's directors	As Director Wei-Min Sheng, Director Feng-Shang Wu and Director Chi-Yen Liang had conflict of interest with each other, all of them recused themselves from the discussion and voting. The motion was submitted to the board of directors for discussion and resolution.	As Director Wei-Min Sheng, Director Feng-Shang Wu and Director Chi-Yen Liang recused themselves from the discussion and voting about the motion for remuneration to them.	For the remuneration to independent directors, the directors, other than Director Wei-Min Sheng, Director Feng-Shang Wu and Director Chi-Yen Liang, who recused themselves from the discussion and voting for conflict of interest, approved the motion unanimously.

(2) There were no other written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion in 2016.

2. Recusals of Directors due to conflicts of interests in 2016:

Term/___st/nd/rd/th time Date	Contents of motion	Persons recusing themselves	Status
9/2 2016.08.09	Motion for remuneration to the Company's directors	Three independent directors, including Wei-Min Sheng, Feng-Shang Wu and Chi-Yen Liang	For the remuneration to independent directors, the directors, other than Director Wei-Min Sheng, Director Feng-Shang Wu and Director Chi-Yen Liang, who left the meeting temporarily and recused themselves from the discussion and voting for conflict of interest, approved the motion unanimously.

3. Measures taken to strengthen the functionality of the Board:
The Company has delegated the Audit Committee and Remuneration Committee, each consisting of 3 independent directors. Both committees' chairpersons would report the committees' activities and actions to the board of directors periodically. The external auditors would be invited to attend all meetings called by the board of directors, and the Company would communicate with the external auditors about the audit on the quarterly financial reports or audit results and other requirements under the related laws and regulations to seek the external auditor's comments.

3.3.2 Audit Committee Meeting Status

A total of 9 (A) Audit Committee meetings were held in 2016. The independent directors' attendance status is as follows.

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%)【B/A】	Remarks
Independent Director	Wei-Min Sheng	6	1	85.7%	Chair
Independent Director	Feng-Shang Wu	7	0	100.0%	
Independent Director	Chi-Yen Liang	7	0	100.0%	

Other special disclosure:

1. Where the Audit Committee's operation meets any of the following circumstances, please clearly state the directors' meeting date, term, contents of motions and resolution of the Audit Committee, and the Company's handling of the Audit Committee's opinions:

(1) Resolutions related to Securities and Exchange Act §14-5:

Term/___st/nd/rd/th time Date	Contents of motion	Resolution of Audit Committee	the Company's (the board of directors') handling of Audit Committee's opinion
8/22 2016.05.05	The issuance of new common shares for cash to sponsor issuance of the global depository receipt and/or issuance of new common shares for cash in private placement.	The motion was approved unanimously.	The motion was approved by all present directors unanimously, and submitted to the general shareholders' meeting for discussion on June 17, 2016.
9/2 2016.08.09	Evaluate the independence, eligibility, and contents of service and remuneration 2016 about appointment of Fang-Yu Wen and Ya-Huei Cheng, CPAs.	The motion was approved unanimously.	As the case involved the CPA's conflict of interest, Fang-Yu Wen, CPA left the meeting temporarily to rescue himself from the discussion. The motion was approved by all present directors ultimately.

(2) There was no other resolutions that was not approved by the Audit Committee but was approved by two thirds or more of all directors in 2016.

2. There were no recusals of independent directors due to conflicts of interests in 2016.

3. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2016:

(1) Mode of communication

A. The Company's internal audit officer would report the audit affairs to independent directors at the Audit Committee meeting periodically, and communicate with the committee members about the audit results and status of his follow-up report.

B. The Company's external auditor would report to independent directors on the result of review or audit on the financial statements of the Company and its domestic/foreign subsidiaries and status of audit on internal control at the Audit Committee's quarterly meeting.

(2) Summary of the communication between independent directors and internal audit officer

The Company's independent directors had fair communication about status and result of the audit affairs. The communication in 2016 was outlined as following:

Date	Points of communication
2016.03.10	1. Internal audit report of Q4 in 2015 2. "Statement of Declaration for Internal Control System" 2015
2016.05.05	Internal audit report of Q1 in 2016
2016.08.09	Internal audit report of Q2 in 2016
2016.11.04	1. Internal audit report of Q3 in 2016 2. Audit plan in 2017

(3) Summary of the communication between independent directors and the external auditor

The Company's independent directors had fair communication with the external auditor. The communication in 2016 was outlined as following:

Date	Points of communication
2016.03.10	1. The report on the audit result of the Company's consolidated and individual financial statements and audit on internal control in 2015, and discussion and communication for issues about application of some accounting principles and effect produced by new amendments to laws and regulations. 2. Communication with the corporate governance unit. 3. External auditor's independence.

Date	Points of communication
2016.05.05	1. The report on the audit result of the Company's consolidated financial statements and audit on internal control of Q1 in 2016. 2. Overview of the new external auditor's report and notes to key audit matter (KAM). 3. Communication with the corporate governance unit at the stage of completion. 4. External auditor's independence.
2016.06.23	Invite the external auditor to attend the meeting.
2016.08.09	1. The report on the audit result of the Company's consolidated a financial statements and audit on internal control of Q2 in 2016, and discussion and communication for issues about application of some accounting principles and effect produced by new amendments to laws and regulations. 2. Communication with the corporate governance unit. 3. External auditor's independence.
2016.11.04	1. The report on the audit result of the Company's consolidated a financial statements and audit on internal control of Q3 in 2016, and discussion and communication for issues about application of some accounting principles and effect produced by new amendments to laws and regulations. 2. Communication with the corporate governance unit. 3. Overview of the new external auditor's report and notes to key audit matter (KAM). 4. External auditor's independence.
2016.12.16	Invite the external auditor to attend the meeting.

3.3.3 Taiwan Corporate Governance Implementation as Required by Taiwan Financial Supervisory Commission

Assessment Item	Implementation Status			Non-Implementation and Its reason(s)
	YES	NO	Explanation	
1. Does Company follow "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies" to establish and disclose its corporate governance principles?	✓		The Regulations have been established upon approval of the board of directors on August 6, 2015. Please see the Relationship with Investor on the Company's official website or M.O.P.S.	None
2. Shareholding Structure & Shareholders' Rights				
(1) Does Company have Internal Operation Procedures for handling shareholders' suggestions, concerns, disputes and litigation matters. If yes, has these procedures been implemented accordingly?	✓		The related operations would be handled by the Spokesperson pursuant to the relevant laws and important regulations.	None
(2) Does Company possess a list of major shareholders and beneficial owners of these major shareholders?	✓		The professional shareholder service agent would be responsible for handling it, and controlling the information about shares held by insiders according to the information about changes of insiders' equity on a monthly basis.	None
(3) Has the Company built and executed a risk management system and "firewall" between the Company and its affiliates?	✓		The responsibilities between the Company and its affiliates was defined clearly and definitely. The investment projects was handled in accordance with the regulations governing long-term and short-term investment and the internal control system and related laws and regulations to control the financial and operating information from time to time. Meanwhile, the motion for lifting the non-competition restrictions on directors and managers was submitted to the shareholders' meeting and directors' meeting for resolution.	None
(4) Has the Company built and executed a risk management system and "firewall" between the Company and its affiliates?	✓		The Company established the operating procedure for prevention of insider trading. The subjects referred to therein include but are not limited to insiders, including their related parties, persons who forfeit the identity of insider for less than 6 months, and persons who access the information from said persons.	None
3. Composition and Responsibilities of the Board of Directors				
(1) Has the Company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly?	✓		See Page 16 of the annual report.	None
(2) Other than the Remuneration Committee and the Audit Committee that are required by law, does the Company plan to set up other Board committees?		✓	The various functional committees' responsibilities were defined clearly and definitely, and the committees executed related motions pursuant to laws. The Company will establish other functional committees pursuant to laws, or if necessary.	Same as explanation.
(3) Has the Company established methodology for evaluating the performance of its Board of Directors, on an annual basis?		✓	The Company has not yet established the regulations governing evaluation on performance of the board of directors. Notwithstanding, the Company had the corporate governance unit honestly evaluate and record the overall operations of the board of directors. Meanwhile, the evaluation on performance of the board of directors covered the following six major aspects for reference of composition of the board of directors: 1. The directors' grasp of the Company's goals and missions. 2. The directors' recognition of director's duties. 3. The directors' degree of participation in the Company's operations. 4. The directors' management of internal relationships and communication. 5. The directors' professionalism and continuing professional education. 6. Internal control	Same as explanation.

Assessment Item	Implementation Status			Non-Implementation and Its reason(s)
	YES	NO	Explanation	
			Meanwhile, with respect to the Company's related annual policies, Remuneration Committee would periodically review the policies, systems, standards, and structures for performance evaluation and remuneration for directors and managerial officers. The employee performance evaluation system should be combined with corporate social responsibility policies. The remuneration to directors, presidents and insiders would be reviewed by the Committee periodically each year and submitted to the board of directors for discussion and resolution.	
(4) Does the Company regularly evaluate its external auditors' independence?	✓		The motion for evaluation on the independence, eligibility, and contents of service and remuneration 2016 about appointment of Fang-Yu Wen and Ya-Huei Cheng, CPAs conducted by the Company once a year was approved upon resolution of the Audit Committee and board of directors on August 9, 2016. As of Q1 in 2017, Fang-Yu Wen, CPA and Ya-Huei Cheng, CPA would be replaced by Ya-Huei Cheng, CPA and Chin-Cheng Hsieh, CPA, whose independence and eligibility was approved by Audit Committee and the board of directors on March 16, 2017. The evaluation procedure for independence and eligibility is summarized as following: 1. The CPA has no direct or indirect financial interest relationship with the Company. 2. The CPA has no financing or guarantee relationship with the Company or the Company's directors. 3. The CPA has no close business relationship and potential employment relationship with the Company. 4. The CPA and its audit team members do not hold, or didn't hold in the most recent two years, the position as director or managerial officer of the Company or any position that has significant influence on the audit. 5. The CPA doesn't provide any non-auditing services that might affect the audit directly. 6. The CPA doesn't act as a broker of the stock or other securities issued by the Company. 7. The CPA doesn't act as the Company's advocate, or settle the dispute between the Company and a third party on behalf of the Company. 8. The CPA has no kinship relationship with any of the Company's directors or managerial officers, or any persons who hold the position that might affect the audit materially. The corporate governance unit would maintain the fair two-way communication with the team delegated by the CPA firm and related unit periodically. The CPA's audit/review also complies with the independence requirements defined in the Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China No. 10 to ensure reliability of the public financial information, communicate the auditors' work, and verify the Company's material risk and the management's approaches to mitigate risk.	None
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.	✓		Epistar corporation set up the regular (or concurrent) unit or personnel to be in charge of the matters related to corporate governance, and appoint the executives (financial and accounting director) for supervision. The matters related to corporate governance including: 1. Processing the company registration and amendment. 2. Conducting the related matters of board meeting and shareholders meeting according to the law and conducting the company to comply with the law and regulation. 3. Taking the meeting minutes of board meeting and shareholders meeting. 4. Providing the directors and supervisors with the information relating to perform the duties, the latest regulation and helping the directors and supervisors to comply with the law and regulation. 5. The matters relating to investors. 6. Other matters listed in articles of incorporation or contracts.	None

Assessment Item	Implementation Status			Non-Implementation and Its reason(s)
	YES	NO	Explanation	
5. Has the Company established a means of communicating with its Stakeholders or created a Stakeholders Section on its Company website? Does the Company respond to stakeholders' questions on corporate responsibilities?	✓		The Company's has set up the stakeholder section on its official website. The up-stream suppliers or contractors outside the organization may verify the laws and regulations related to products through procurement. Customers may verify the status of the Company and products via the customer service mailbox/hotline/sales representatives. The other stakeholders, such as investors/banks/government authorities, may follow up the Company's latest financial information or other information via the Company's official website, TV interview and media report. The stakeholders may contact the Company via the following website: http://www.ir-cloud.com/taiwan/2448/irwebsite_c/communication.php	None
6. Has the Company appointed a professional registrar for its Shareholders' Meetings?	✓		The professional shareholder service agent, Horizon Securities, was appointed to handle the affairs related to shareholders' meetings on behalf of the Company. Shareholder Service Agency department of Horizon Securities is also commissioned to tally and verify the proxies on behalf of the Company.	None
7. Information Disclosure				
(1) Has the Company established a corporate website to disclose information regarding its financials, business and corporate governance status?	✓		The Company's homepage has set up the sections exclusive for investors' shareholder service and customer service. The related messages may be accessed in the news and CSR sections.	None
(2) Does the Company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investors conference etc.)?	✓		● The Company has set up the English version of its homepage. ● Dedicated personnel is designated to collect information and periodically update the homepage. ● Contact information including the spokesman system rider@epistar.com.tw; robin_yu@epistar.com.tw ● Search the information about investor conferences Visit the official website: Investor service/event news	None
8. Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors)?	✓		● Employee's interest and right &care for employees: Please see the section about management-labor relationship in the annual report (Pages 89～93). ● The Company has established the Investor Relations department, and posted the contact information thereof on the Company's official website.. The department is dedicated to processing shareholders' suggestions and answering investors' questions. ● The Company maintains long-term fair relationship with its suppliers and introduces the phased planning of AEO certification, and conducts the self-inspection and random check at least per year. The Company reviews and improves the current supply chain safety control procedure via the AEO guidance and certification procedure to well found the management of supply chain and logistic safety and to meet AEO international standards. The Company acquired the AEO certification on October 30, 2015 and, therefore, became the safe supply chain benchmarking of the optoelectronic industry in Taiwan. The Company also fulfills its corporate social responsibility. ● The Company has established the stakeholder section. For the time being, the Company identifies 7 major stakeholders, including employees, shareholders/investors, corporate accounts, suppliers, contractors, governmental authorities, community residents/media, et al., who may keep in touch with the Company or submit any suggestions and complaints via various communication channels. ● For the status of directors' continuing education, please see Pages 50～51 of the annual report. ● For the risk management policies, et al., please see Chapter 7. Review of Financial Conditions, Financial Performance, and Risk Management (Pages 112～113).	

Assessment Item	Implementation Status			Non-Implementation and Its reason(s)
	YES	NO	Explanation	
			● With respect to health and safety of the product, marketing communication, customers' satisfaction, compliance with laws and customers' privacy, the customers may utilize questionnaire, customer service email box, customers' satisfaction survey and the Company's official website, et al. Meanwhile, the operating center's staff may visit customers or attend related fairs from time to time to facilitate a better understanding of customers and the market development orientation. ● For the Company's purchase of product liability insurance for directors and other important information to facilitate a better understanding of the Company's corporate governance practices, please see Pages 50～53 of the annual report, or access the information in the following manner: IR: rider@epistar.com.tw, robin_yu@epistar.com.tw CSR: csr@epistar.com.tw Customer service: sales@epistar.com.tw	None

9. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange:
   (1) According to the result of Corporate Governance Evaluation of the 2nd term announced by Taiwan Stock Exchange, the Company was held one of the companies ranking the first 6%~20%. Notwithstanding, the result of Corporate Governance Evaluation of 3rd term has not yet been announced before the date of publication of the annual report.
   (2) The Company has delegated the unit dedicated to (concurrently in charge of) corporate governance under supervision of the financial accounting supervisor. The relevant personnel shall have the experience in legal affairs, finance or shareholder service in a public company for 3 years or more;
   (3) All of the directors have completed the continuing education of the hours required under the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies" in 2016.
   (4) The directors' meeting called by the Company will be pre-arranged annually. Where it is impossible for any directors to attend the meeting, the director may still communicate and understanding the related motion in advance and issue a proxy to express his/her opinion. Where the directors' meeting date is changed temporarily, the Company will try its best to set the meeting on the date on which the director might be available to raise the whole directors' attendance rate.
   (5) For the time being, the Company only prepares the English annual report audited by the external auditor, while the English annual financial statements of Q1~Q3 will be prepared, if necessary.
   (6) Continue to strengthen or improve the Chinese and English versions of the Company's official website and transparency of information disclosure in the annual report.

3.3.4 Remuneration Committee

3.3.4.1 Remuneration Committee Members' Professional Qualifications and Independent Analysis

According to the relevant requirements set by Taiwan's Securities and Futures Bureau, the professional qualifications and independence status of the Company's Remuneration Committee members are listed in the table below.

Name Title/Criteria	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note)								Number of Other Taiwanese Public Companies Concurrently Serving as a Remuneration Committee Member in Taiwan
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	
Feng-Shang Wu Independent Director	✓			✓	✓	✓	✓	✓	✓	✓	✓	1
Wei-Min Sheng Independent Director	✓			✓	✓	✓	✓	✓	✓	✓	✓	3
Chi-Yen Liang Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	2

Note: Remuneration Committee Members, during the two years before being elected or during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:

1. Not an employee of the company or any of its affiliates;
2. Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the laws of Taiwan or with the laws of the country of the parent company or subsidiary;
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 issued shares of the company or ranks as one of its top ten shareholders;
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as of its top five shareholders;
6. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business 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 been a person of any conditions defined in Article 30 of the Company Law.

3.3.4.2 Remuneration Committee Meeting Status

Mr. Feng-Shang Wu, Chairman of the Remuneration Committee, convened four regular meetings in 2016. The Committee members' attendance status is as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate in Person (%) (B/A)	Note
Chair	Feng-Shang Wu	3	0	100.0%	
Member	Wei-Min Sheng	2	1	66.7%	
Member	Chi-Yen Liang	3	0	100.0%	
Annotation: 1. There was no recommendation of the Remuneration Committee that was not adopted or was modified by the Board of Directors in 2016. 2. There were no written or otherwise recorded resolutions on which a member of the Remuneration Committee had a dissenting opinion or qualified opinion.					

3.3.5 Social Responsibility Implementation Status as Required by the Taiwan Financial Supervisory Commission

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	YES	NO	Summary	
1. Implementation of Corporate Governance				
(1) Does the Company have a corporate social responsibility policy and evaluate its implementation?	✓		(1) The Company has established its own corporate social responsibility best-practice principles to fulfill the corporate governance, develop sustainable environment, maintain social welfare, and strengthen disclosure of information about corporate social responsibility. Meanwhile, the CSR compilation team is engaged in compiling the CSR report via communication with stakeholders, and is responsible for overall planning, integration of communication and compilation of revisions. The President acts as the convener of the compilation team, and Employee Relations Section of HR Center acts as the executive secretary. The organizational members consist of the representatives from various departments throughout the Company. The economic sustainability team is run by the Financial Accounting Center. The environmental sustainability team is acted by SHE and facility. Human Resources Center and Employee Relations Office act the employee relations team. The safety and culture team is acted by SHE. The product liability team is acted by Quality Assurance Center. The social community team is acted by Employee Relations Office and Marketing Management department The executive secretary shall report the review on the operating result to the convener periodically and issues concerned by stakeholders, call meetings to review and modify the operations, and report the status to the board of directors from time to time.	None
(2) Does the Company hold regular CSR training?	✓		(2) In addition to promoting the educational training, the Company also formed the dedicated team to have Employee Relations Office engage in propagation from time to time.	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	YES	NO	Summary	
(3) Does the Company have a dedicated (or ad-hoc) CSR organization with Board of Directors authorization for senior management, which reports to the Board of Directors?	✓		(3) President acts as the convener. Employee Relations Section of HR Center acts as the executive secretary and reports the status of implementation to the board of directors. Since 2013, the Company's Corporate Social Responsibility Report ("CSR") has been certified by BSI and held complying with GRI G3.1 A+ and AA1000AS 2008 standards, and awarded "Taiwan Corporate Sustainability Awards" related to CSR. The 2016 CSR is scheduled to be released by the end of June 2017.	None
(4) Does the Company set a reasonable compensation policy, integrate employee appraisal with CSR policy, and set clear and effective incentive and disciplinary policies?	✓		(4) Remuneration Committee will set the employee reward and punishment system based on the Company's related annual policy and by combining the employee performance evaluation and corporate social responsibility policy, and includes the policies, systems, standards, and structures for remuneration into the remuneration policy for consideration.	None
2. Environmentally Sustainable Development (1) Is the Company committed to improving resource efficiency and to the use of renewable materials with low environmental impact?	✓		(1) Since the Company was founded, it has upheld the life cycle idea about environmental management system, and voluntarily and continuously made improvements at the stages of use, production, circulation and waste of raw materials and supplies in order to mitigate the effect and impact produced to the environment. Meanwhile, the Company introduced the latest pollution prevention technology at the stage of construction of factory premises. The Company also upgrades the efficiency of energy utilization, builds comfortable living environment and pursues sustainable operations by the 3R model (Reduce, Reuse and Recycle), and approves the first motion for reuse of ammonia in Taiwan.	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	YES	NO	Summary	
(2) Has the Company set an Environmental management system designed to industry characteristics?	✓		(2) The Company continues to upgrade the management result of the environmental management system. In addition to ISO 14001:2004 certification (since 2006 until now), ISO14064-1 certification (2006~2015), and internal self-inspection since 2016, the Company also completed introduction and certification of PAS 2050 standards on carbon footprint of V45H chip in 2011. Since 2011, the Company has introduced the environmental accounting management system under guidance of Environmental Protection Administration. By virtue of environmental classification and code, the Company demonstrated its concrete achievement in environmental protection in detail and completely. The data analysis output from the system may also serve as the basis for investment or management to enable the Company to consider the entire environmental management performance comprehensively, in hopes of achieving the purpose of environmental protection sustainability in the most economic and effective manner.	None
(3) Does the Company track the impact of climate change on operations, carry out greenhouse gas inventories, and set energy conservation and greenhouse gas reduction strategy?	✓		(3) The Company values environmental protection very much. “Prevention of pollution, upgrading of energy utilization efficiency and creation of sustainable operation, and fulfillment of corporate social responsibility” will be the Company’s first priority to execute merger and reduction, upgrading of efficiency, continuous improvement, recycling and reuse, low-carbon management and green procurement. Since 2008, the Company has participated the GHG project of TOSIA, and followed ISO 14064-1 standard procedure to inspect the greenhouse gas emission of the Company’s factory premises, and also passed the certification organization’s inspection procedure and acquire the GHG emission certificate. Meanwhile, the Company continues to work with TOSIA to update GHG inspection information, with the tools in ready.	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	YES	NO	Summary	
			The Company responds to the energy-saving and carbon-reduction policy boosted by the government and deepens its awareness toward environmental protection by setting ten major key performance indicators for environmental protection and completing 2016 EPISTAR environmental protection performance baseline to discuss the descriptions about impact to environment by factory and draft the management programs to keep improving. The Company's countermeasures: ● Prevention of flood and increase recycled water volume. ● Compliance with the water usage plan applicable during drought period, and the energy-saving and carbon-reduction plan. ● The GHG emission strength in 2016 was 9.59 (tons CO_2e/m^2), declining by 35.6% from that in 2011, which was 14.9 (tons CO_2e/m^2). Due to the increase in number of factories and productivity from 2011, the total GHG emission volume increased by 38,338 (tons CO_2e). ● The water usage strength in 2016 declined by 62% from 2011. ● For the prevention of pollution, the sewage emission strength in 2016 declined by 34% from 2011. ● Green products: 100% compliance with RoHS and REACH SVHC; acquisition of IECQ QC080000 certification; acquisition of SONY GP certification.	
3. Promotion of Social Welfare (1) Does the Company set policies and procedures in compliance with regulations and internationally recognized human rights principles?	✓		(1) The company has stipulated rules and regulations to be followed for business partners of suppliers/contractors under the supplier management procedures and regulations governing safety & health management, so that suppliers/contractors are required to comply with the relevant human rights provisions under Labor Standards Law, including the prohibition of child labor and forced labor. PLS refer to CSR report for reference.	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	YES	NO	Summary	
(2) Has the Company established appropriately managed employee appeal procedures?	✓		(2) The Company values relationship with employees very much. Employee Relations department will organize the labor-management meeting periodically, and communication meetings and various events from time to time. Employees may file a complaint against any misconduct (including corruption) and unethical conduct via such complaining channels as speech list at the labor-management meeting and dedicated mailbox of Employee Relations department and Audit Office. The Company may set up the complaining channels and procedures on the official website to achieve fair two-way communication and exchange.	None
(3) Does the Company provide employees with a safe and healthy working environment, with regular safety and health training?	✓		(3) The company has established an Emergency Response Team. We hold various response trainings and drills to ensure employees' knowledge regarding industrial safety and to decrease the loss of accidents. We also hold various health precaution activities. We also promote customized and risk control programs through health risk indicators to improve the quality of health services. We've cooperated with the HsinChu City Lifelan Association to promote employees assistance service with confidentiality and professional services for employees to deal with their daily life's problems.	None
(4) Has the Company established a mechanism for regular communication with employees and use reasonable measures to notify employees of operational changes, which may cause significant impact to employees?	✓		(4) The company has a sound communication platform, regular questionnaires, annual strategic planning meeting, monthly management, two-way communication meeting and staff meetings. In the meeting, we not only get clear and correct information of the company, but also achieve a good two-way communication and exchange.	None
(5) Has the Company established effective career development training plans?	✓		(5) The company has a comprehensive learning program. Employees are encouraged to attend professional courses or irregular English program on-line in our "Chan Gin Que" website. Employees' learning records shall be duly recorded and employees may log on to check whose own learning history.	None
(6) Has the Company set polices and consumer appeal procedures in its R&D, purchasing, production, operations, and service processes?	✓		(6) The Company has set up the contractor management system and homepage.	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	YES	NO	Summary	
(7) Does the Company follow regulations and international standards in the marketing and labeling of its products and services?	✓		(7) The Company values product liability very much. The Company maintains the product liability insurance and its marketing of products and services also complies with the related laws & regulations and international standards. Meanwhile, it conducts the customer's satisfaction survey to keep improving.	None
(8) Does the company evaluate environmental and social track records before engaging with potential suppliers?	✓		(8) The Company has set up the contractor management system, and constructed the green value chain together with suppliers and vendors to upgrade the performance of environmental protection and safety & health by sharing experience and improving cooperation, thus constructing a value chain of environmental sustainability, fulfillment of occupational safety & health and mutual growth to be oriented toward the harmony relationship with environmental safety.	None
(9) Does the Company's contracts with major suppliers include termination clauses if they violate CSR policy and cause significant environmental and social impact?	✓		(9) The Company is aware of the concept about sustainable operations and asks to extend the concept to the supply chain and introduces the "Supply Chain CSR Management Evaluation" to conduct the evaluation on new suppliers and existing suppliers in terms of the four aspects including environment, labor conditions, human right and impact to society, so as to enable suppliers to continue the improvement voluntarily and fulfill corporate social responsibilities.	None
4. Enhanced Information Disclosure Does the Company disclose relevant and reliable CSR information on its website and the Taiwan Stock Exchange website?	✓		The Company discloses the information related to the Company's corporate social responsibility on the official website, and delegates dedicated personnel to maintain and update the information. The website address is http://www.epistar.com.tw. Should there be any questions, please contact the Company via CSR mailbox: csr@epistar.com.tw.	None
5. If the company has established its corporate social responsibility code of practice according to "Listed Companies Corporate Social Responsibility Code of Practice," please describe the operational status and differences. The Company has established its own corporate social responsibility best-practice principles and have its SHE and administrative unit to report the status of implementation thereof to the board of directors from time to time to fulfill its corporate social responsibility.				

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	YES	NO	Summary	
6. Other important information to facilitate better understanding of the company’s implementation of corporate social responsibility: The Company’s social participation is briefed as follows: ● In 2016, our company was invited to attend “Safety & health specialist platform health project—maternal protection & precaution consultation” held in the Hsinchu Science Park to work as leader and counselor. We’ve assisted three factory owners and a total of 6 meetings. ● In line with the spirit of social citizen; we’ve contributed to support the community, society care, and charitable activities including charitable donations of NT$1,450,000. There were 4,000 goods donated and 244 units of appliances donation such as computers, notebooks….plus Epistar volunteers’ involvement of the activities.				
7. Other information regarding “Corporate Responsibility Report” which is verified by certifying bodies: ● The British Standards Association issued a CSR certification statement and received the 2016 Taiwan Enterprise Sustainability Report Award. ● The Company acquires the following quality system certification and continues maintaining the same: ➢ ISO 9001 Certificate of Quality Management System ➢ ISO/TS 16949 Certificate of Automotive Industry Quality Management System ➢ IECQ QC 080000 Certificate of Conformity Hazardous Substance Process Management System Requirements ➢ SONY Green Partner Certification ● The Company acquires the following SHE system certification and continues maintaining the same: ➢ Environmental management system-ISO 14001:2004 ➢ Greenhouse Gases Emissions-ISO 14064-1 ➢ Occupational health & safety management system-OHSAS 18001 ➢ Taiwan Occupational health & safety management system-TOSHMS/CNS 15506				

3.3.6 Taiwan Corporate Conduct and Ethics Implementation as Required by the Taiwan Financial Supervisory Commission

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	YES	NO	Summary	
1. Establishment of Corporate Conduct and Ethics Policy and Implementation Measures				
(1) Does the company have bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and the commitment regarding implementation of such policy from the Board of Directors and the management team?	✓		(1) Based on the policy being a prudent administrator; the board of directors and management are engaged in good management, loyalty, and honesty to implement the business. We've set Ethical Corporate Management Best Practice Principles, Please refer to Market Observation Post System or the Epistar's official website.	None
(2) Does the company establish relevant policies that are duly enforced to prevent unethical conduct and provide implementation procedures, guidelines, consequence of violation and complaint procedures in such policies?	✓		(2) The Company strictly prohibits corruption, bribe and blackmail, establishes effective accounting system and internal control system, includes such promotional documents as employee handbook and employee reward & punishment regulations into the relevant anti-corruption guidelines and punishment against rule breakers, and provides employees with related educational training to ensure that each of the employees understand the related agreement and rules. The internal auditors will audit the status of compliance with said system. The Company also establishes the ethical corporate management best-practice principles, ethical code, operating procedure for prevention of insider trading and employees' complaining channels. For the relevant complaining mechanism, channel, and procedure, please visit the Company's official website.	None
(3) Does the company establish appropriate compliance measures for the business activities prescribed in Paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and any other such activities associated with high risk of unethical conduct?	✓		(3) The company abides by the laws and regulations in running business. Before the official information is announced, anyone involved is required to sign confidentiality agreement and shall not disclose important internal information to others. We also have strict control and precaution system about information security (IT).	None
2. Ethic Management Practice				
(1) Does the company assess the ethics records of whom it has business relationship with and include business conduct and ethics related clauses in the business contracts?	✓		(1) The company conducts business activities in a fair and transparent manner and carefully assesses the objects of the transaction before engaging in commercial activities so as to prevent dealing with the objects of dishonesty, good faith principles are incorporated into the contract when signing commercial contract to ensure mutual rights and interests.	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	YES	NO	Summary	
(2) Does the company set up a unit, which is dedicated to or tasked with promoting the company's ethical standards, and reports directly to the Board of Directors with periodical updates on relevant matters?	✓		(2) In order to well found the ethical corporate management, the Company has Human Resources Center responsible for planning and executing various functions, and reporting to the board of directors from time to time. President will also delegate related units to help establishment of the ethical corporate management policies and prevention programs.	None
(3) Does the company establish policies to prevent conflict of interests, provide appropriate communication and complaint channels and implement such policies properly?	✓		(3) We've established effective accounting and internal control system and operated smoothly. Complaints or reporting system also runs well so as to prevent corruption.	None
(4) To implement relevant policies on ethical conducts, does the company establish effective accounting and internal control systems that are audited by internal auditors or CPA periodically?	✓		(4) The company has established an effective accounting and internal control system and operated smoothly. Internal audit members conduct regular audit as the planned schedule and make audit reports. Audit reports are sent for directors and independent directors for inspection so as to prevent corruption.	None
(5) Does the company provide internal and external ethical conduct training programs on a regular basis?	✓		(5) The Company will implement the online educational training on the Company's intranet "CANG JING GE" from time to time, and precisely record and implement the result on test. The Company upholds the management philosophy of integrity, transparency, and responsibility to plan and establish the fair corporate governance and risk control mechanism to create the management environment for sustainable development. The colleagues from various departments engage in various business activities in an honest, fair, and transparent manner, and comply with related laws and internal regulations in order to fulfill the ethical corporate management.	None
3. Implementation of Complaint Procedures (1) Does the company establish specific complaint and reward procedures, set up conveniently accessible complaint channels, and designate responsible individuals to handle the complaint received?	✓		(1) The Company sets up the independent email box and hotline available to complainants at the Company's internal portal website and official website. Any person who suspects or finds any violation of laws or ethical code may report the case to any of the following units and also provide sufficient information. If necessary, the Company will privately form a dedicated committee consisting of related department's supervisor, legal office supervisor, and Human Resources Center supervisor. The process of investigation and information related to the committee members, concerned parties shall be kept confidential, and the	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	YES	NO	Summary	
			complainants' safety must be secured. The process shall also be reported to the Chairman of Board. (1.1) Immediate supervisor (1.2) Audit dept. supervisor, Human Resources Center/Employee Relations department supervisor or legal office & intellectual property right supervisor (1.3) The opinion response mechanism set up by the Company internally (1.4) The channel available to stakeholders (1.5) or other eligible personnel The opinion response mechanism not only offers the employees' complaining hotline but also sets up the opinion mailbox exclusive for employees. Employee Relations department acts as the dedicated unit responsible for organizing seminars for employees periodically, installing the sexual harassment hotline and mailbox, and organize the "Heart Communication Meeting" chaired by President from time to time. Additionally, the complaint may be filed with Audit department. Investor relations mailbox, CSR mailbox, customer service mailbox or channel available to stakeholders may serve as the external communication channel. The Company establishes SHE communication and consultation management procedure to enable the SHE management system to reach the consensus within the Company, and also establishes the SHE consultation and communication channel available to the Company's external stakeholders. Any complaint will be processed as a special case promptly, and the process thereof will be reported to the Chairman of Board. Given this, the Company's complaining channels are considered perfect.	

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	YES	NO	Summary	
(2) Does the company establish standard operation procedures for investigating the complaints received and ensuring such complaints are handled in a confidential manner?	✓		(2) Employee complaint and reporting shall abide by the relevant internal control system, kept in confidentiality and subject to the relevant protection mechanism.	None
(3) Does the company adopt proper measures to prevent a complainant from retaliation for his/her filing a complaint?	✓		(3) Strictly keep the complainant's identity in confidence, and the process of investigation and related information; if necessary, privately form a dedicated committee to conduct the related investigation.	None
4. Information Disclosure Does the company disclose its guidelines on business ethics as well as information about implementation of such guidelines on its website and Market Observation Post System ("MOPS")?	✓		The Company discloses the information related to the Company in the investor service section and stakeholder section on the Company's official website at: http://www.epistar.com.tw.	None
5. If the company has established corporate governance 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: None.				
6. Other important information to facilitate better understanding of the company's corporate conduct and ethics compliance practices (e.g., review the company's corporate conduct and ethics policy): None.				

3.3.7 How to be searched corporate governance best-practice principles or related bylaws

Major Internal Policies	Expose & Query Method
Articles of Incorporation Rules for the Procedures of the Shareholders' Meeting Rules for Elections of Directors and Supervisors Rules for the Procedures of the Board of Directors' Meeting Audit Committee Charter Remuneration Committee Charter Acquisition or Disposal Procedures of Asset Procedures for Endorsements and Guarantees Procedures for Loaning Funds to Other Parties Corporate Governance Best Practice Principles Ethical Corporate Management Best Practice Principles Rules Governing the Scope of Powers of Independent Directors Corporate Social Responsibility Best Practice Principles Procedures for Preventing Insider Trading Procedure for halt and resumption applications	M.O.P.S.: http:// mops.twse.com.tw Search in Basic information section/E-book/Annual report and information about shareholders' meeting or corporate governance section/Establishment of corporate governance best-practice principles. Company's website: http://www.epistar.com.tw Search in the investor service section/corporate governance/important laws & regulations.

3.3.8 About the other information of EPISTAR's implementation of corporate governance

3.3.8.1 Continuing Education/Training of Directors in 2016

Title	Name	Date	Host by	Training Title	Duration
Chairman	Biing-Jye Lee	2016.10.20	Financial Supervisory Commission R.O.C.	Taipei Corporate Governance Forum of 11th term	6.0
Director	Ming-Jiunn Jou	2016.11.24	Taiwan Corporate Governance Association	Independent directors' functions	3.0
Director	Ming-Jiunn Jou	2016.11.24	Taiwan Corporate Governance Association	Operations of independent directors and functional committees	3.0
Director	Yin-Fu Yeh	2016.08.12	Taiwan Corporate Governance Association	Operations of audit committee	3.0
Director	Yin-Fu Yeh	2016.10.07	Taiwan Corporate Governance Association	12th International Summit Forum of Corporate Governance	3.0

Title	Name	Date	Host by	Training Title	Duration
Director	Chih-Yuan Chen	2016.03.08	Taiwan Institute of Directors	Competitiveness cogitation - international configuration and countermeasures after Cop21	3.0
Director	Chih-Yuan Chen	2016.03.25	Taiwan Corporate Governance Association	Special topic for risk management and international banking	3.0
Director	Nan Yang Wu	2016.10.20	Securities & Futures Institute	How to analyze corporate risk management through finance	3.0
Director	Nan Yang Wu	2016.10.20	Securities & Futures Institute	Anti-avoidance development and enterprises' responsive actions in the world and Taiwan	3.0
Director	Po-Wen Yen	2016.05.17	United Microelectronics Corp.	The future led by digital technology	2.0
Director	Po-Wen Yen	2016.12.14	Securities & Futures Institute	How directors/supervisors direct the company to fulfill risk management and crisis management	4.0
Independent Director	Feng-Shang Wu	2016.10.20	Securities & Futures Institute	How to analyze corporate risk management through finance	3.0
Independent Director	Feng-Shang Wu	2016.10.20	Securities & Futures Institute	Anti-avoidance development and enterprises' responsive actions in the world and Taiwan	3.0
Independent Director	Wei-Min Sheng	2016.08.10	Securities & Futures Institute	Update of finance and tax laws and regulations	3.0
Independent Director	Wei-Min Sheng	2016.11.10	Securities & Futures Institute	Study on corruption of revenue recognized in the financial statements	3.0
Independent Director	Chi-Yen Liang	2016.03.17	Taiwan Securities Association	Development of insider trading practices and enterprise's responsive actions	3.0
Independent Director	Chi-Yen Liang	2016.04.13	Taiwan Academy of Banking and Finance	Corporate governance forum-wealth management and taxation planning of high asset group	3.0

Note: All of the active directors have completed the continuing education of the hours required under the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies".

3.3.8.2 Continuing Education/Training of Management in 2016

Title	Name	Date	Host by	Training Title	Duration
Accounting Officer	Shih-Shieh Chang	2017.01.05~ 2017.01.06	Accounting Research and Development Foundation	Interpretation of entire structure of IFRS "Interpretation Sample"	3.0
Accounting Officer	Shih-Shieh Chang	2017.01.05~ 2017.01.06	Accounting Research and Development Foundation	Final accounting practices related to the new "external auditor's report" and indicator of the new "corporate governance practices evaluation"	3.0

Title	Name	Date	Host by	Training Title	Duration
Accounting Officer	Shih-Shieh Chang	2017.01.05~ 2017.01.06	Accounting Research and Development Foundation	Study on authority for "audit and supervision" and legal liability of directors/supervisors in a public company, as well as the legal liability of omission	3.0
Accounting Officer	Shih-Shieh Chang	2017.01.05~ 2017.01.06	Accounting Research and Development Foundation	"Study on legal liability and guiding cases for defendant's confession in exchange of judicial leniency" in economic crimes	3.0
Acting Accounting Officer	Tao-jung Lin	2016.11.08	Accounting Research and Development Foundation	Analysis on variance between the new "Statement of Enterprise Accounting Standards" and the Statement of Financial Accounting Standards in Taiwan	6.0
Acting Accounting Officer	Tao-jung Lin	2017.01.19	Accounting Research and Development Foundation	Interpretation of entire structure of the latest IFRS "Interpretation Sample"	3.0
Acting Accounting Officer	Tao-jung Lin	2017.01.20	Accounting Research and Development Foundation	Final accounting practices related to the new "external auditor's report" and indicator of the new "corporate governance evaluation"	3.0
Internal Audit Officer	Tzu-Hsiang Tai	2016.09.09	The Institute of Internal Auditors-Chinese Taiwan	Sharing of experience in procurement and audit	6.0
Internal Audit Officer	Tzu-Hsiang Tai	2016.11.30	Accounting Research and Development Foundation	Analysis on internal auditor's approach to "collect evidence" and observation on the raid action and seizure of criminal evidence by the prosecuting and investigation apparatus	6.0

Note: Said persons meet Regulations Governing the Qualification Requirements and Professional Development of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges, Regulations Governing Establishment of Internal Control Systems by Public Companies, and Article 29 of the Company's corporate governance best-practice principles related to continuing education requirements. The accountants engaged in preparation of financial statements shall also take the relevant continuing education for 6 hours or more each year.

3.3.8.3 EPISTAR maintains D&O Insurance for its directors and officers

Objects	Company	Amount	Duration
All Directors	AIG Taiwan Insurance Co., Ltd.	US$15,000,000	August 25, 2015 ~ August 25, 2016
All Directors	Insurance Company of North America,Taiwan Branch	US$15,000,000	August 25, 2016 ~ August 25, 2017

Note: The motion for the insured value, coverage, and premium of the renewed directors'/supervisors' liability insurance was submitted to the board of directors on November 4, 2016.

3.3.9 Internal Control System Execution Status

3.3.9.1 Statement of Internal Control System: As Appendix 1.1 (pages 135).

3.3.9.2 Where a CPA has been hired to carry out a special audit of the internal control system, furnish the CPA audit report: None.

3.3.10 For the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report, disclose any sanctions imposed in accordance with the law upon the company or its internal personnel. Sanctions imposed by the company upon its internal personnel for violations of internal control system provisions, principal deficiencies, and the state of any efforts to make improvements: None.

3.3.11 Major Decisions of Shareholders' Meeting and Board Meetings

During the 2016 calendar year, and as of the date of this Annual Report, major resolutions approved at Shareholder' Meeting and Board meetings and execution situation are summarized below:

3.3.11.1 Shareholder' Meeting

(1)Approved the 2015 Business Report and Financial Statements.

The Group's consolidated operating revenue was NT$25,509,789 thousand, net operating loss NT$3,510,547 thousand, and losses after tax of NT$3,317,582 thousand in 2015. The loss was NT$2.81 per share.

(2)Approved 2015 Deficit Compensation.

The Company's individual loss after tax was NT$3,018,757 thousand in 2015, which was covered by the undistributed earnings for the previous years, NT$1,712,405 thousand, and the legal reserve, NT$1,306,352 thousand. After that, the accumulated loss-ending was NT$0.

(3)To elect the Company's 9th term of Directors (Including three Independent Directors)

9 directors were elected to hold the position from June 17, 2016 to June 16, 2019, and already registered upon approval of Hsinchu Science Park Bureau of Ministry of Science and Technology on July 5, 2016 and posted on the Company's website.

Title	Name
Director	Biing-Jye Lee
Director	Fon Tain Belon Co., Ltd. Rep: Chih-Yuan Chen
Director	Everlight Electronics Co., Ltd.
Director	United Microelectronics Corp. Rep: Stan Hung
Director	Yi Te Optoelectronics Co., Ltd. Rep: Nan-Yang Wu

Title	Name
Director	Ming-Jiunn Jou
Independent Director	Wei-Min Sheng
Independent Director	Feng-Shang Wu
Independent Director	Chi-Yen Liang

(4)Approved the issuance of new common shares for cash to sponsor issuance of the global depositary receipt and/or issuance of new common shares for cash in private placement.

Approved the issuance of no more than 165 million common shares, provided that the motion has not yet been executed as no investors were found before the date of publication of the annual report.

(5)Approved of releasing the newly elected directors from non-competition restrictions.

Name	Positions in Other Companies	Engage business
Biing-Jye Lee	The director of Epicrystal Corporation (ChangZhou) Ltd.	Manufacture & sales of LED products.
	The director of KAISTAR LIGHTING (XIAMEN) Co., Ltd.	Manufacture & sales of LED products.
	The director of FormoLight Technologies, Inc.	Manufacturing of electronic parts.
Ming-Jiunn Jou	The director of Luxlite (Shenzhen) Corporation Limited	Sales of LED products.
	The director of Jiangsu Canyang Optoelectronics Ltd.	Manufacture & sales of LED products.
	The director of Nan Ya Photonics Inc.	LED lighting applications.
	The director of TE Opto Corporation	Manufacture & sales of LED products.
Chih-Yuan Chen (Fon Tain Belon Co., Ltd. Rep)	The director of Nan Ya Photonics Inc.	LED lighting applications.
Yi Te Optoelectronics Co., Ltd.	The director of Nan Ya Photonics Inc.	LED lighting applications.
Nan-Yang Wu (Yi Te Optoelectronics Co., Ltd. Rep)	The director of EDISON Opto Corporation	Manufacture & sales of LED products.
	The director of ProLight Opto Technology Corporation	The manufacturer of LED packaging.
Stan Hung (United Microelectronics Corp. Rep)	The Chairman and Strategy officer of United Microelectronics Corp.	IC OEM/ODM/Foundry
Everlight Electronics Co., Ltd.	The director of Tekcore Co., Ltd.	Manufacture & sales of LED products.
	The director of Crystal Applied Technology Inc.	Manufacturing of electronic parts.
	The director of EVERLIGHT SS Lighting Co., Ltd.	Sales of LED lighting products.
	The director of Zenaro Lighting Co., Ltd.	Sales of LED lighting products.
	The director of EVERLIGHT Lighting & management Ltd.	R&D & sales LED lighting products.
Feng-Shang Wu	The independent director of ProLight Opto Technology Corporation.	The manufacturer of LED packaging.

3.3.11.2 Board meetings

Date	Major Resolutions	Review on status
2016.03.10	(1) Approved 2015 financial report. (2) Approved 2015 business report and proposal for covering of loss. (3) Resolved to discontinue the motion for issuance of common shares in private placement approved at the general shareholders' meeting 2015. (4) Approved the time, location and cause of the general shareholders' meeting 2016. (5) Approved election of directors of 9th term and candidates for directors nominated by the board of directors. (6) Approved the application with Land Bank of Taiwan for the syndicated loan to the Company, Formosa Epitaxy Incorporation and Jiangsu Canyang Optoelectronics Ltd. (7) Approved the application for endorsement/guarantee of facility granted by bank to the subsidiary. ● Endorsement/gurantee for Formosa Epitaxy Incorporation amounting to NT$2 billion. ● Endorsement/guarantee to Episky Corporation (Xiamen) Ltd. in the amount of US$12 million. (8) Approved the application with financial organizations including Chinatrust for renewal and increase of financing and renewal of facility for trading of financial derivatives. (9) Approved the Statement of Declaration for Internal Control System 2015. (10) Approved managerial officers' raise 2016. (11) Approved the addition of incentive reward.	Resolved and approved at the shareholders' meeting on June 17, 2016, and elected the board members of 9th term; signed the syndicated loan agreement effective for three years for NT$4 billion and US$20 million with 7 financial organizations including Land Bank of Taiwan on May 17, 2016.
2016.05.05	(1) Approved 2016 financial report of Q1. (2) Reviewed and approved the name list of candidates for directors (including independent directors) of 9th term. (3) Approved lifting of the non-competition restrictions on new directors of 9th term. (4) Approved the issuance of new common shares for cash to sponsor issuance of the global depository receipt and/or issuance of new common shares for cash in private placement. (5) Approved the underlying terms and conditions and commitment in the application with Land Bank of Taiwan for the syndicated loan to the Company, Epistar Corporation, Formosa Epitaxy Incorporation and Jiangsu Canyang Optoelectronics Ltd. (6) Approved sale of R1 factory premises and auxiliary facilities. (7) Approved investment of US$9 million in GaN Ventures Co., Limited. (8) Approved endorsement/guarantee for the application with the bank for the facility to the subsidiary, Episky Corporation (Xiamen) Ltd., in the amount of US$33 million and RMB40 million. (9) Approved loaning to the subsidiary, Formosa Epitaxy	The motion for issuance of global depository receipts or common shares in private placement totaling 165 million shares was approved at the shareholders' meeting on June 17, 2016. Notwithstanding, the motion has not yet been executed before the date of publication of the annual report, as no strategic investors were found. On May 5, 2016, the Company signed the agreement with Powertech Technology Inc. for sale of R1 factory, and completed the registration of title transfer of the factory in Q3 of 2016. The

Date	Major Resolutions	Review on status
	Incorporation, amounting to NT$1.6 billion. (10) Approved the amendments to Procedures for Halt and Resumption Applications in part.	investment agreement for GaN Ventures Co., Limited was signed on October 4, 2016 and complied with accordingly. The other matters were executed subject to resolution.
2016.06.23	(1) Election of the Chairman of Board of 9th term. (2) Approved the appointment of Remuneration Committee members of 3rd term. (3) Approved the record date for cancellation of capital reduction by issuance of new restricted employee shares. (4) Approved the merger of the Company and Formosa Epitaxy Incorporation and HUGA Optotech Inc. (5) Approved the application with financial organization for renewal and modification of the facility. (6) Approved the endorsement/gurantee for Formosa Epitaxy Incorporation amounting to NT$2 billion.	Re-elected Biing-Jye Lee to be the Chairman of Board; appointed 3 independent directors to act as Remuneration Committee members of 3rd term; set September 29, 2016 as the record date for merger of Formosa Epitaxy Incorporation and HUGA Optotech Inc.; executed the other matters per resolution.
2016.08.09	(1) Approved 2016 financial report of Q2. (2) Approved the evaluation on independence, eligibility, and contents of service and remuneration 2016 about appointment of the CPAs. (3) Approved the loaning to the subsidiary, Jiangsu Canyang Optoelectronics Ltd., totaling no more than NT$29 million. (4) Approved the change of terms and conditions in the syndicated loan agreement effective for 3 years for NT$4 billion and US$20 million. (5) Approved the succession to external endorsement/guarantee and loaning upon merger of HUGA Optotech Inc. and Formosa Epitaxy Incorporation. (6) Approved the application with financial organization for renewal of the facility. (7) Approved the motion for remuneration to the Company's directors.	Appointment of Fang-Yu Wen and Ya-Huei Cheng, CPAs as the external auditors of the Company's financial statements 2016 per the resolution.
2016.11.04	(1) Report on renewal of directors'/supervisors' liability insurance. (2) Approved 2016 financial report of Q3. (3) Approved consolidation/cancellation of the Company's shares. (4) Approved the amendments to Procedures for Halt and Resumption Applications and corporate governance best-practice principles in part. (5) Approved the audit plan 2017. (6) Approved the competition engaged in by the Company's managerial officers.	September 29, 2016 was set as the record date for merger upon merger of Formosa Epitaxy Incorporation and HUGA Optotech Inc., and the Company's shares were canceled on the same day as required. The competition engaged in by the managerial officers was posted on the M.O.P.S and the Company's website.

Date	Major Resolutions	Review on status
		The other matters were executed per resolution.
2016.12.16	(1) Approved 2017 business plan and budget. (2) Approved acquisition of 32.98% of shares of Can Yang Investments Limited. (3) Approved endorsement/guarantee to the subsidiary, Episky Corporation (Xiamen) Ltd., to the amount of US$15 million. (4) Approved the application with financial organization for renewal of facility and the facility for trading of financial derivatives. (5) Approved appointment of managerial officers. (6) Approved the motion for managerial officers' raise 2017.	Acquired 32.98% of the equity of Can Yang Investments Limited at the price of US$9,269 thousand, and the Group holding a total of 96.51% of the investee's shares upon the acquisition. The other matters were executed per resolution.
2017.03.16	(1) Approved 2016 financial report. (2) Approved 2016 business report and proposal for covering of loss. (3) Approved the amendments to "Procedures for Loaning Funds to Other Parties" in part. (4) Approved the amendments to "Acquisition or Disposal Procedures of Asset" in part. (5) Approved lifting of the non-competition restrictions on the Company's directors. (6) Approved the time, location and cause of the general shareholders' meeting 2017. (7) Approved the Statement of Declaration for Internal Control System 2016. (8) Approved the change of external auditors. (9) Approved the application with financial organization for increase in and renewal of facility and the facility for trading of financial derivatives. (10) Approved the competition engaged in by the Company's managerial officers. (11) Approved appointment of managerial officers. (12) Approved managerial officers' raise 2017. (13) Approved the motion for retention policy.	Per the resolution, as of Q1 of 2017, the Company appointed Ya-Huei Cheng, CPA and Chin-Cheng Hsieh, CPA to be the external auditors. The competition engaged in by the managerial officers was posted on the M.O.P.S and the Company's website. The other matters were executed as per the resolution at the general shareholders' meeting on June 21, 2017.

3.3.12 Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors during the 2016 Calendar Year and as of the Date of this Annual Report: None.

3.3.13 Resignation or Dismissal of Chairman, General Manager, and Heads of Accounting, Finance, Internal Audit and R&D during the 2016 Calendar Year and as of the Date of this Annual Report: None.

3.4 Audit Fee

Unit: NT$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Audit Period
			System Design	Company Registration	Human Resource	Others (Note 1)	Subtotal	
PricewaterhouseCoopers, Taiwan	Irene Wen and Cheng Ya-Huei	15,352	0	100	0	14,928	15,028	2016.01.01～2016.12.31

Note 1: It primarily refers to the professional fees for finance and taxation of the Project, NT$7,762 thousand, professional fees for transfer pricing and taxation consultation, NT$6,266 thousand, and the consultation fees for registration of merger and acquisition of the subsidiaries, HUGA Optotech Inc. and Formosa Epitaxy Incorporation, NT$900 thousand.

Note 2: When the company changes its accounting firm and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year, the amounts of the audit fees before and after the change and the reasons shall be disclosed.: NA

Note 3: When the audit fees paid for the current fiscal year are lower than those for the previous fiscal year by 15 percent or more, the reduction in the amount of audit fees, reduction percentage, and reason(s) therefor shall be disclosed.: NA

3.5 Replacement of CPA

3.5.1 Regarding the former CPA

<table>
<tr><td>Replacement Date</td><td colspan="5">March 16, 2017</td></tr>
<tr><td>Replacement reasons and explanations</td><td colspan="5">According to Article 29 of the Corporate Governance Best Practice Principles, which requires CPA's independence, and in order to be in line with the transfer of CPAs within PricewaterhouseCoopers, Taiwan, as of Q1 of 2017, Fang-Yu Wen, CPA and Ya-Huei Cheng, CPA were replaced by Ya-Huei Cheng, CPA and Chin-Cheng Hsieh, CPA.</td></tr>
<tr><td rowspan="3">Describe whether the Company terminated or the CPA did not accept the appointment</td><td colspan="3">Parties
Status</td><td>CPA</td><td>The Company</td></tr>
<tr><td colspan="3">Termination of appointment</td><td>NA</td><td>NA</td></tr>
<tr><td colspan="3">No longer accepted (continued) appointment</td><td>NA</td><td>NA</td></tr>
<tr><td>Other issues (except for unqualified issues) in the audit reports within the last two years</td><td colspan="5">None</td></tr>
<tr><td rowspan="6">Differences with the company</td><td rowspan="4">Yes</td><td></td><td colspan="3">Accounting principles or practices</td></tr>
<tr><td></td><td colspan="3">Disclosure of Financial Statements</td></tr>
<tr><td></td><td colspan="3">Audit scope or steps</td></tr>
<tr><td></td><td colspan="3">Others</td></tr>
<tr><td>None</td><td>✓</td><td colspan="3"></td></tr>
<tr><td colspan="5">Remarks/specify details: None</td></tr>
<tr><td>Other Revealed Matters</td><td colspan="5">None</td></tr>
</table>

3.5.2 Regarding the former CPA

Name of accounting firm	PricewaterhouseCoopers, Taiwan
Name of CPA	CPACheng Ya-Huei and CPA Chin-Cheng Hsieh
Date of appointment	March 16, 2017
Consultation results and opinions on accounting treatments or principles with respect to specified transactions and the company's financial reports that the CPA might issue prior to the engagement.	None
Succeeding CPA's written opinion of disagreement toward the former CPA	None

3.5.3 The content of the reply letter from the former certified public accountant: NA

3.6 Information on the company's chairman, general manager, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm: None.

3.7 Any transfer / pledge / Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders

3.7.1 Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders

Unit: Share

Title	Name	2016		January 1,2016 ~ February 28, 2017	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman & CSO	Biing-Jye Lee	0	0	0	0
Director	Fon Tain Belon Co., Ltd.	0	0	0	0
	Rep: Chih-Yuan Chen	0	0	0	0
Director	Everlight Electronics Co., Ltd.	0	0	0	0
	Rep: Yin-Fu Yeh	0	0	0	0
	Rep: Huei-Chen Fu (Note 2)	0	0	NA	NA
Director	United Microelectronics Corp.	0	0	0	0
	Rep: Stan Hung	0	0	NA	NA
	Rep: Po-Wen Yen	0	0	0	0
Director	Yi Te Optoelectronics Co., Ltd.	0	0	0	0
	Rep: Nan Yang Wu	0	0	0	0
Director (Note 2)	Lite-On Technology Corp.	0	0	NA	NA
	Rep: Kuang Chung Chen	0	0	NA	NA
Director & General Manager	Ming-Jiunn Jou	288,770	0	0	0
Independent Director	Wei-Min Sheng	0	0	0	0
Independent Director	Feng-Shang Wu	0	0	0	0
Independent Director	Chi-Yen Liang	0	0	0	0
Vice President	Min-Hsun Hsieh	(28,000)	0	0	0
Vice President	Jen-Chau Wu	0	0	0	0
Vice President	Rong-Yih Hwang	0	0	(26,000)	0
Vice President & CFO	Shih-Shieh Chang	0	0	0	0
Vice President	Chao-Nien Huang (Note 5)	(25,000)	0	NA	NA
Vice President	Chen Ou	(54,000)	0	0	0
Vice President	Ming-Da Jin	0	0	0	0
Vice President	Lin-Tien Yang	(52,000)	0	0	0
Vice President	Chin-Yung Fan	0	0	0	0
Associate Vice President	Tao-jung Lin	0	0	0	0
Associate Vice President	Hsiu-Jen Liu	(90,000)	0	0	0
Associate Vice President	Schang-Jing Hon (Note 6)	0	0	NA	NA
Associate Vice President	Han-brown Lai	0	0	0	0
Associate Vice President	Shu-Li Tuan	(10,000)	0	0	0
Associate Vice President	Ming-Yong Zhou (Note 7)	0	0	NA	NA
Associate Vice President	Zhi-Jiang Lu	(12,000)	0	(14,000)	0
Associate Vice President	Qi-Lin Li (Note 8)	0	0	NA	NA
Associate Vice President	Chung-Hsin Chang (Note 9)	0	0	NA	NA
Associate Vice President	I-Ta Lin (Note 10)	0	0	NA	NA
Associate Vice President	Li-Cheng Hung	0	0	0	0
Associate Vice President	Wen-Chieh Kuo	(48,340)	0	0	0
Associate Vice President	Wei-Shih	0	0	0	0
Associate Vice President	Biau-Dar Chen	0	0	0	0
Associate Vice President	Ben-Yu Liao	0	0	0	0
Associate Vice President	Shaoyou Deng	0	0	(5,000)	0
Associate Vice President	Hsien-Chun Weng	0	0	0	0
Associate Vice President	Chia-Chen Chang	0	0	0	0
Associate Vice President	Jia-Liang Xu	(40,000)	0	(1,790)	0
Associate Vice President & Internal Audit Officer	Tzu-Hsiang Tai	0	0	0	0
Associate Vice President	Guo-Xin Hong	0	0	0	0
Associate Vice President	Feng-Sheng Qiu	0	0	0	0
Associate Vice President	Yu-Pin Hsu	0	0	0	0
Associate Vice President	Cheng-Chi Chiang	0	0	0	0
Associate Vice President	Yi-Chang Hong (Note 11)	0	0	0	0
Associate Vice President	Jian-Feng Chen (Note 11)	0	0	0	0
Associate Vice President	Wei-Kuo Su (Note 11)	0	0	0	0
Associate Vice President	Sun-Jie Wang (Note 11)	0	0	0	0
Associate Vice President	Shen-Gjie Xu (Note 11)	0	0	0	0
Associate Vice President	Jun-Long Zeng (Note 12)	NA	NA	0	0
Associate Vice President	Zheng-Da Cai (Note 12)	NA	NA	0	0

Unit: Share

Title	Name	2016		January 1,2016 ~ February 28, 2017	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged

Note 1: The information about the change of equity disclosed until the time of discharge.
Note 2: Reelected and discharged on June 17, 2016.
Note 3: Reelected and discharged on June 21, 2016.
Note 4: Reelected and discharged on June 21, 2016.
Note 5: Discharged on June 21, 2016.
Note 6: Discharged on June 2, 2016.
Note 7: Discharged on February 14, 2016.
Note 8: Discharged on November 24, 2016.
Note 9: Discharged on July 31, 2016.
Note 10: Discharged on March 10, 2016.
Note 11: Initially appointed on November 24, 2016.
Note 12: Initially appointed on March 16, 2017, and expressed the change in equity from the date of inauguration.

3.7.2 Stock Trade with Related Party: None.

3.7.3 Stock Pledge with Related Party: None.

3.8 Relationship among the Top Ten Shareholders

April 23, 2017

	Name	Current Shareholding		Spouse and Minor Shareholding		EPISTAR Shareholding by Nominee Arrangement		Name and Relationship between EPISTAR's Shareholders	
		Shares	%	Shares	%	Shares	%	Name	Relationship
1	Cathay Life Insurance Co., Ltd.	44,001,000	4.00%	NA	NA	NA	NA	None	None
	Chairman: Hong-Tu Cai	0	0.00%	0	0.00%	0	0.00%	None	None
2	Nan Shan Life Insurance Co., Ltd.	38,445,000	3.50%	NA	NA	NA	NA	None	None
	Chairman: Ying-Zong Du	0	0.00%	0	0.00%	0	0.00%	None	None
3	San' an Optoelectronics Co., Ltd.	33,305,578	3.03%	NA	NA	NA	NA	None	None
	Chairman: Xiu-Cheng Lin	0	0.00%	0	0.00%	0	0.00%	None	None
4	Mitsui And Co., Ltd.	20,730,779	1.88%	NA	NA	NA	NA	None	None
5	Hsin Feng Corp.	20,289,213	1.84%	NA	NA	NA	NA	None	None
	Chairman: De-Ming Lin	555	0.00%	0	0.00%	0	0.00%	None	None
6	Everlight Electronics Co., Ltd.	19,800,175	1.80%	NA	NA	NA	NA	None	None
	Rep & Chairman: Yin-Fu Yeh	0	0.00%	34,311	0.00%	0	0.00%	None	None
7	Evervaliant Corp.	17,546,925	1.60%	NA	NA	NA	NA	None	None
	Chairman: Qing- zhi Chen	0	0.00%	0	0.00%	0	0.00%	None	None
8	Tai Li Corp.	15,737,487	1.43%	NA	NA	NA	NA	None	None
	Chairman: Hon-Gji Luo	0	0.00%	0	0.00%	0	0.00%	None	None
9	Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds	14,923,732	1.36%	NA	NA	NA	NA	None	None
10	Public service pension fund Management Committee	12,326,169	1.12%	NA	NA	NA	NA	None	None

Note: The stock transfer was not suspended before the date of publication of the annual report; therefore, said record date was intended for the quantity of shares held before the latest suspension of stock transfer (namely April 19, 2016).

3.9 Ownership of Shares in Affiliated Enterprises

As of December 31, 2016

Long-term Investment	Ownership by EPISTAR		Ownership by Directors, Managers and Directly/Indirectly Owned Subsidiaries		Total Ownership	
	Shares	%	Shares	%	Shares	%
UEC Investment Ltd.	67,300,247	100.00	0	0.00	67,300,247	100.00
Lighting Investment Corp.	135,297,086	100.00	0	0.00	135,297,086	100.00
Epistar JV Holding (BVI) Co., Ltd.	23,416	100.00	0	0.00	23,416	100.00
Zheng-Yi Technology Corporation	60,000,000	100.00	0	0.00	60,000,000	100.00
EPI Crystal Investment Inc.	118,000,000	100.00	0	0.00	118,000,000	100.00
HUGA Holding (BVI) Limited	278,510	100.00	0	0.00	278,510	100.00
Full Star Enterprises Ltd.	8,660,000	100.00	0	0.00	8,660,000	100.00
Bee Rich Corporation	109,472,700	100.00	0	0.00	109,472,700	100.00
Ecoled Venture Co., Limited	7,189,668	51.99	6,638,461	48.01	13,828,129	100.00
GaN Ventures Co., Limited	3,600,000	64.29	0	0.00	3,600,000	64.29
SH Optotech Co., Ltd.	3,179,176	49.00	0	0.00	3,179,176	49.00
SF Light Co., Ltd.	1,470,000	49.00	0	0.00	1,470,000	49.00
Tops Electrical Technology Co., Ltd.	1,200,000	47.06	0	0.00	1,200,000	47.06
Nan Ya Photonics Inc.	81,608,270	40.80	4,927,000	2.47	86,535,270	43.27
Te Opto Corporation	920,000	40.00	0	0.00	920,000	40.00
Tekcore Co., Ltd	20,247,828	21.05	11,908,254	12.38	32,156,082	33.43
ProLight Opto Technology Corporation	8,000,000	16.81	5,829,234	12.24	13,829,234	29.05
Play Nitride Inc.	2,612,500	17.98	600,000	4.13	3,212,500	22.11

Note: EPISTAR's long-term investment using the equity method.

4. Capital Overview

4.1 Capital and Shares

4.1.1 Capitalization

Unit: k share / NT$K

Month/ Year	Issue Price (Per Share)	Authorized Share Capital		Capital Stock		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Other (Note)
01/2016	10	1,300,000	13,000,000	1,099,844	10,998,443	Cancellation of RSA $4,964	None	2
07/2016	10	1,300,000	13,000,000	1,091,880	10,918,800	Cancellation of RSA $79,642	None	3
11/2016	10	1,300,000	13,000,000	1,091,549	10,915,491	Cancellation of treasury stock $3,309	None	4

Note: New Restricted Employee Shares ("RSA")

Note 1: Said information refers to that available until the date of publication, March 16.

Note 2: Chu-Shang-Tze No. 1050000407 dated January 6, 2016.

Note 3: Chu-Shang-Tze No. 1050017941 dated July 5, 2016.

Note 4: Chu-Shang-Tze No. 1050032418 dated November 17, 2016.

Unit: Share

Type of Stock	Authorized Share Capital (Listed Stock)		
	Outstanding shares(Note)	Unissued Shares	Total
Common Stock	1,091,549,190	208,450,810	1,300,000,000

Note: Said information refers to that available until the date of publication; including the treasury stock held by the parent company and subsidiaries, totaling 25,412,535 shares.

Shelf Registration: None.

4.1.2 Composition of Shareholders

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions and Natural Persons	Domestic Natural Persons	Total
Number of Shareholders	3	39	221	344	117,143	117,750
Shareholding	15,573,169	112,696,312	175,131,007	169,095,144	627,348,636	1,099,844,268
Holding Percentage (%)	1.42	10.25	15.92	15.37	57.04	100.00

Note: The stock transfer was not suspended before the date of publication of the annual report; therefore, said record date was intended for the quantity of shares held and issued shares before the latest suspension of stock transfer (namely April 19, 2016).

4.1.3 Distribution Profile of Share Ownership

4.1.3.1 Common Share

As of April 19, 2016 (last record date)
Per Share Issue Price is NT$10

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership	Ownership (%)
1～999	38,517	9,421,006	0.85
1,000～5,000	57,159	126,744,963	11.52
5,001～10,000	11,059	86,886,989	7.90
10,001～15,000	3,358	42,974,467	3.91
15,001～20,000	2,389	44,453,187	4.04
20,001～30,000	1,888	48,403,768	4.40
30,001～50,000	1,520	61,016,090	5.55

As of April 19, 2016 (last record date)
Per Share Issue Price is NT$10

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership	Ownership (%)
50,001～100,000	1,043	75,830,403	6.89
100,001～200,000	440	62,660,929	5.70
200,001～400,000	199	57,201,027	5.20
400,001～600,000	70	34,501,369	3.14
600,001～800,000	18	12,833,682	1.17
800,001～1,000,000	16	14,830,698	1.35
Over 1,000,001	74	422,085,690	38.38
Total	117,750	1,099,844,268	100.00

Note: The stock transfer was not suspended before the date of publication of the annual report; therefore, said record date was intended for the quantity of shares held and issued shares before the latest suspension of stock transfer (namely April 19, 2016).

4.1.3.2 Preferred Share: None.

4.1.4 Major Shareholders

As of April 19, 2016 (last record date)
Unit: share

Shareholders	Total Shares Owned	Ownership (%)
Cathay Life Insurance Co., Ltd.	44,001,000	4.00
Nan Shan Life Insurance Co., Ltd.	38,445,000	3.50
San'an Optoelectronics Co., Ltd.	33,305,578	3.03
Mitsui And Co., Ltd.	20,730,779	1.88
Hsin Feng Corp.	20,289,213	1.84
Everlight Electronics Co., Ltd.	19,800,175	1.80
Evervaliant Corp.	17,546,925	1.60
Tai Li Corp.	15,737,487	1.43
Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds	14,923,732	1.36
Public service pension fund Management Committee	12,326,169	1.12

Note: The stock transfer was not suspended before the date of publication of the annual report; therefore, said record date was intended for the quantity of shares held and issued shares before the latest suspension of stock transfer (namely April 19, 2016).

4.1.5 Market Price, Net Worth, Earnings, and Dividends Per Common Share

Unit: NTD

<table>
<tr><th colspan="3">Item / Year</th><th>2015</th><th>2015</th><th>01/01/2017 ~03/16/2017</th></tr>
<tr><td rowspan="3">Market Price Per Share</td><td colspan="2">Highest Market Price</td><td>63.90</td><td>30.40</td><td>31.30</td></tr>
<tr><td colspan="2">Lowest Market Price</td><td>20.00</td><td>16.80</td><td>23.00</td></tr>
<tr><td colspan="2">Average Market Price</td><td>34.77</td><td>24.01</td><td>27.21</td></tr>
<tr><td rowspan="2">Net Worth Per Share</td><td colspan="2">Before Distribution</td><td>49.71</td><td>46.22</td><td>–</td></tr>
<tr><td colspan="2">After Distribution</td><td>49.71</td><td>46.22</td><td>–</td></tr>
<tr><td rowspan="2">Earnings Per Share</td><td colspan="2">Weighted Average Shares (thousand shares)</td><td>1,075,626</td><td>1,064,989</td><td>–</td></tr>
<tr><td colspan="2">EPS</td><td>(2.81)</td><td>(3.33)</td><td>–</td></tr>
<tr><td rowspan="4">Dividends Per Share</td><td colspan="2">Cash Dividends</td><td>0</td><td>0</td><td>–</td></tr>
<tr><td rowspan="2">Stock Dividends</td><td>Share Dividend</td><td>0</td><td>0</td><td>–</td></tr>
<tr><td>Capital Surplus stock dividend</td><td>0</td><td>0</td><td>–</td></tr>
<tr><td colspan="2">Accumulated Undistributed Dividend</td><td>0</td><td>0</td><td>–</td></tr>
</table>

Unit: NTD

Item		Year 2015	2015	01/01/2017 ~03/16/2017
Return on Investment	Price/Earnings Ratio (Note 1)	(12.37)	(7.21)	–
	Price/Dividend Ratio (Note 2)	–	–	–
	Cash Dividend Yield (%)(Note 3)	–	–	–

Note 1: Price/Earnings Ratio = Average Market Price/ Diluted Earnings Per Share
Note 2: Price/Dividend Ratio = Average Market Price/Cash Dividends Per Share
Note 3: Cash Dividend Yield = Cash Dividends Per Share/Average Market Price
Note 4: Given the loss after tax 2016, no stock dividend was allocated.

4.1.6 Dividend Policy and Implementation Status

4.1.6.1 Dividend Policy

In consideration of the Company's current and future development strategy, investment environment, funding need, and competition, domestically and overseas, as well as the shareholders' equity and capital adequacy ratio, the board of directors is authorized to set 50% of the earnings after tax to be allocated as stock dividends, unless in special circumstances, in which the cash dividends to shareholders shall be no less than 10% of the total stock dividends to be allocated.

4.1.6.2 Proposed Distribution of Dividend

Unit: NTD

Year	Date for Board of Directors to approve Distribution of Dividend	Shareholders Meeting		
		Cash Dividend	Capital Surplus (in cash)	Share Dividend
2016	March 16, 2017	\$0 (NT\$ 0 per share)	\$0 (NT\$ 0 per share)	\$0 (NT\$ 0 per share)

Note: Given the loss after tax 2016, no stock dividend was allocated.

4.1.6.3 Expected dividend policy will have a significant change in circumstances: None.

4.1.7 Impact to 2017 Business Performance and EPS Resulting from Stock Dividend Distribution: Not applicable.

4.1.8 Compensation to Directors and Profit Sharing Bonus to Employees

4.1.8.1 Information Relating to Employee Bonus and Directors' and Supervisors' Remuneration in the Articles of Incorporation

Item	Rang
Employee's Profit Sharing Bonus (Cash)	10 %~20% of annual profit as a bonus for employees.
Directors' Compensation (Cash)	2 % of annual profit as compensation for directors.

Note: The "annual profit" in first paragraph means the current year pre-tax profit (excluding other benefits or losses, such as the put option right, the call option rights, the conversion rights and the redeem of overseas convertible bonds) before the deduction of the staff remuneration and director remuneration.

4.1.8.2 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: Not applicable.

4.1.8.3 2016 Directors' Compensation and Employees' Profit Sharing Bonus

Unit: NT$ thousands

Item	Board Resolution (March 16, 2017)
Directors' Compensation (Cash)	0
Employee's Compensation (Cash)	0
Total	0

Note: The proposed amount of the compensation for the employees, directors and supervisors is the same as the estimated amount of recognition fees of the year.

4.1.8.4 2015 Directors' Compensation and Employees' Profit Sharing Bonus

Unit: NT$

Item	Actual Result (June 17,2016)	Board Resolution (March 10, 2016)	Variance	Cause of variance
Directors' Compensation (Cash)	0	0	0	None
Employee's Compensation (Cash)	0	0	0	None
Total	0	0	0	None

4.1.9 Buyback of Treasury Stock

As of March 16, 2017

Batch Order	The 4th Batch
Purpose of buy-back	Transfer to Employees
Timeframe of buy-back	August 7, 2015～October 6, 2015
Price range	NT$25～NT$40
Class, quantity of shares buy back	20,000,000 shares
Value of shares bought-back (in NT$ thousands)	531,301
Shares sold/transferred	0 share
Accumulated number of company shares held	20,000,000 shares
Percentage of total company shares held (%)(Note)	1.83%

Note: Calculated according to issued share on March 16, 2017 (1,091,549,190 shares).

4.2 Issuance of Corporate Bonds: None.

4.3 Preferred Shares: None.

4.4 Issuance of Overseas Depositary Shares

Issuing Date	September 22, 2009
Issuance and Listing	Bourse de Luxembourg
Total Amount (US$)	351,000,000
Offering Price Per GDR (US$)	13.00
Units Issued	27,000,000
Underlying Securities	EPISTAR Common Shares from Selling Shareholders
Common Shares Represented	135,000,000
Rights and Obligations of GDR Holders	Same as those of Common Share Holders
Trustee	Not Applicable
Depositary Bank	Citibank, N.A.
Custodian Bank	Citibank, N.A. – Taipei Branch

GDRs Outstanding			As of March 16, 2017, total number of outstanding GDRs was 6,023
Apportionment of Expenses for Issuance and Maintenance			The issuance-related expenses were borne by the issuer and underwriter, while the expenses incurred during the surviving period were borne by the Company.
Terms and Conditions in the Deposit Agreement and Custody Agreement			See Deposit Agreement and Custody Agreement for Details
Closing Price Per GDR (US$)	2016	High	4.39
		Low	2.61
		Average	3.59
	01/01/2017~ 03/16/2017	High	4.79
		Low	3.57
		Average	4.39

4.5 Status of Employee Stock Option Plan: None.

4.6 Status of New Restricted Employee Shares: None.

4.7 Status of New Shares Issuance in Connection with Mergers and Acquisitions: None.

4.8 Financing Plans and Implementation: None.

5. Operational Highlights

5.1 Business Activities
5.1.1 Business Scope
5.1.1.1 Main areas of business operations

Research, development, manufacturing, and sale of the following products:

(1) AlGaInP Epi Wafer & Chips
(2) AlGaAs Epi Wafer & Chips
(3) InGaN Epi Wafer & Chips
(4) PHEMT
(5) InP-based HBT
(6) GaAsP Wafer & Chips
(7) GaP Wafer & Chips
(8) AlGaInN Wafer & Chips
(9) GaInAsP Wafer & Chips
(10) Optoelectronic detection components
(11) Wafer for microwave communications
(12) Wafer & Chips for fiber-optics communications
(13) LED and its mold
(14) System and application parts for the above products
(15) Phosphor powders

5.1.1.2 Revenue distribution

Consolidated　　　　Unit: NT$ thousands

Item	Total Sales in Year 2016	(%) of Sales
Chip	25,186,948	98.62
Epi Wafer	192,217	0.75
The Others	159,998	0.63
Total	25,539,163	100.00

Note: Based on IFRS

5.1.1.3 Current Products (Services)

Epistar's current main commodities are AlGaInP, Epi Wafer, Chip, InGaN Epi Wafer & Chip and AlGaAs Epi Wafer & Chip. According to different emission colors and materials, its product range as follows:

Color of emitting light	Material	Product Category
High Brightness Red	AlGaInP	Epitaxial Wafer, Die
High Brightness Orange	AlGaInP	Epitaxial Wafer, Die
High Brightness Amber	AlGaInP	Epitaxial Wafer, Die
High Brightness Yellow Green	AlGaInP	Epitaxial Wafer, Die
High Brightness Blue	InGaN	Epitaxial Wafer, Die
High Brightness Green	InGaN	Epitaxial Wafer, Die
Ultra Violet	InGaN	Epitaxial Wafer, Die
Infrared	AlGaAs	Epitaxial Wafer, Die

5.1.1.4 Plan of new product (service) development

(1) Proximity sensor/emitter for handheld/wearable device
(2) New type of LED product of biometric identification of handheld/wearable device

(3) New type of LED product for commercial/residential/advanced driver assistance systems
(4) New type of LED product with high wall-plug efficiency for horticulture market
(5) New type of ultra-high brightness red and yellow LED product for special lighting application
(6) New type of various sizes of red LED products for automotive rear combination lamps
(7) New LED structure smaller LED package fitting
(8) Sirius-type blue LED chip
(9) Blue chips for chip-scale-package
(10) Fine-pitch flip-chip LED for Display
(11) High-power flip-chip LEDs for automobile
(12) High-Power & high-current-density blue/green chips for projector
(13) High performance UV 365nm vertical chip
(14) New InGaN products with 400~420nm
(15) New technology for fine-pitch display
(16) New white LED product for ultra-slim panel of cell phone
(17) New LED technology of wide color gamut for direct-type back light unit of display
(18) New white LED product for camera flash light
(19) New white LED technology for lighting application
(20) New white LED technology for high power application
(21) Ultra-high brightness white LED product for automotive application
(22) New UVC LED product
(23) New technology for blue laser application

5.1.2 Industry Overview

5.1.2.1 The current status and development of the industry

It's been 30 years since the LED industry developed and grew from 1990. The LED components were used firstly as indicators in home appliances, then in cell phone starting 2002, Netbook BLU from 2007… etc. Since 2010 LED had become the only light sources BLUs of every Notebook and Tablet. With Samsung's leading launch of Edge-lit LED BLU LCDTV in 2009, and Direct-lit LED BLU LCD in 2012, the LEDs not only had reached penetration rate of 90% in TV application since 2014, but also support the LCD display industry for superior design and performance.

LEDs also penetrate into other applications including architecture lighting, outdoor lighting, and indoor lighting due to its advantages of high efficacy, low power consumption, low greenhouse emission, mercury-free, and coming in multi-color. In terms of efficiency, we expect LEDs to continue to improve 10% annually, which already met the US DOE's 2015 target of 150 Lm/W and 200 Lm/W of 2020 too. Meanwhile the DOE's "$10/kLm cost target in 2015 to challenge CFLs" was also met in the second half of 2014 by both LED's technology innovation and supply chain's integration and co-work. With the industry's efforts and government's policies on carbon-emissions, incandescent-banning, street-lamp updating, the worldwide leading lighting branders are expecting LED lighting penetration to reach 70% in 2020. On the basis of the ongoing promotion of the public projects concerning the policies on incandescent light ban, carbon emission and street lighting replacement from different governments, LED lighting is now one of the most important mega trends globally.

The fast-turn-on property of LED lights is very important for automotive lighting & signaling, and so LEDs were adopted in the Center-High-Mount-Stop-Lamp (CHMSL) in the late-1980s. Nowadays, HB LEDs are also used as indicators and lightings both internally and externally, examples like dash board indicators, CHMSL, tail lamp, turning lamp, daytime-running-light, headlight…etc. The All-LED trend is getting popular in both premium and mainstream models.

The high brightness and high purity properties make LEDs the best fit for the indoor and outdoor signage market. The large size RGB LED digital signage displays are used in outdoor commercials, event broadcasting, traffic controls & notifications… and keep expanding. Meanwhile, fine-pitch high-density LED displays provide premium picture quality due to its high pixel density, detailed greyscale, high contrast, and seamless screen. These superior properties make it a better choice over LCDs, PDPs and DLPs in the military and governmental control-room, broadcasting center, event commercials…etc.

Moreover, LEDs also make many special applications possible including horticulture, bio-medicine, security & surveillance, wireless communication, smart-home lighting, etc. The superior properties of LEDs like small-size, multi-wavelength, fast response time, and better efficacy make it not only fit in many applications, but also help create more possibilities.

5.1.2.2 Upstream Downstream supply chain relation

After 20 years of development, Taiwan's LED industries are now structured into three segments. We can plot it as below including Single Carystal / Epi Wafter / Die the Upstream, package and module assembly the mid-stream, and all kinds of application in the downstream.

LED industry supply chain structure

Upstream：Single crystal, Epi wafer, Die

⇩

Midstream：Package, Module

⇩

Downstream：Applications
(LCD BLU, Lighting, Signage, Automotive……)

5.1.2.3 Application developing trend of LED products

(1) Indicators and LED Display

"Ultra-High-Brightness" and "Full-color" are major trends of Visible-LED development. UHB LEDs can provide significantly better contrast and readability for outdoor application like traffic signs, indicators in vehicles, and outdoor LED display under sunlight conditions.

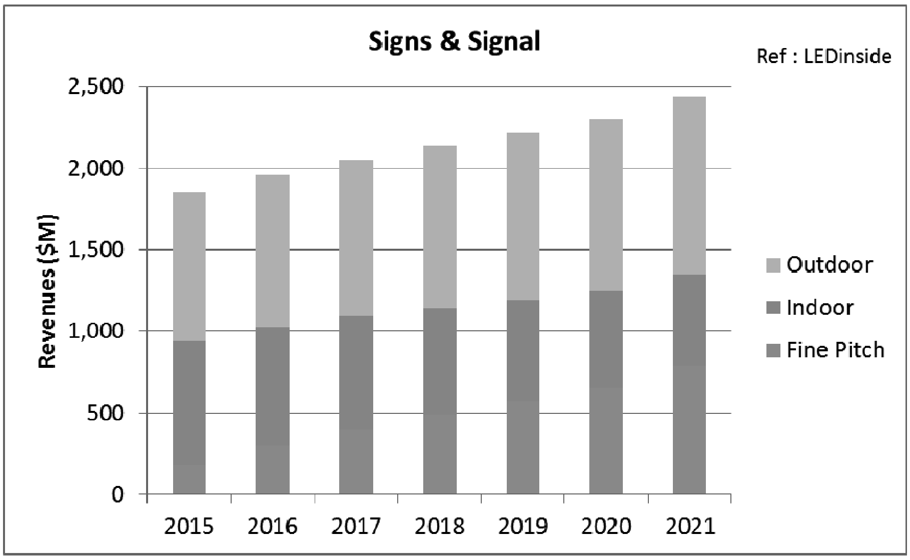
LED displays are an essential medium for bringing real-time information and conveniences to people in all kinds of commercial activities like the Beijing Olympic in 2008, Shanghai World Expo in 2010, and FIFA World cup in South

Africa and Brazil in 2014. The broad adaption brings fabulous video performances that attract more viewing audiences. As the technology and cost evolves, we can expect the Display application to keep the growing trend.

As the SMD and module technology improved, outdoor LED displays have crossed the 5mm bottle-neck to allow for designs like those with a 3.x and 4.x mm pitch. Moreover, 1.25mm pitch indoor displays are also in production. “fine-pitch” is officially the new industry mainstream for both indoor and outdoor LED displays.

(2) Traffic Signs and Signals
After experiencing several global energy crisis, the energy awareness keep raising in every country. Starting in 1987, the Sendai, Nagoya, Tokushima city in Japan started to install full-color LED traffic signs or signals. Taiwan also finished the replacement of all 700k Traffic lights in September of 2011, becoming the second country in the world to utilize all-LED traffic lights after Singapore.

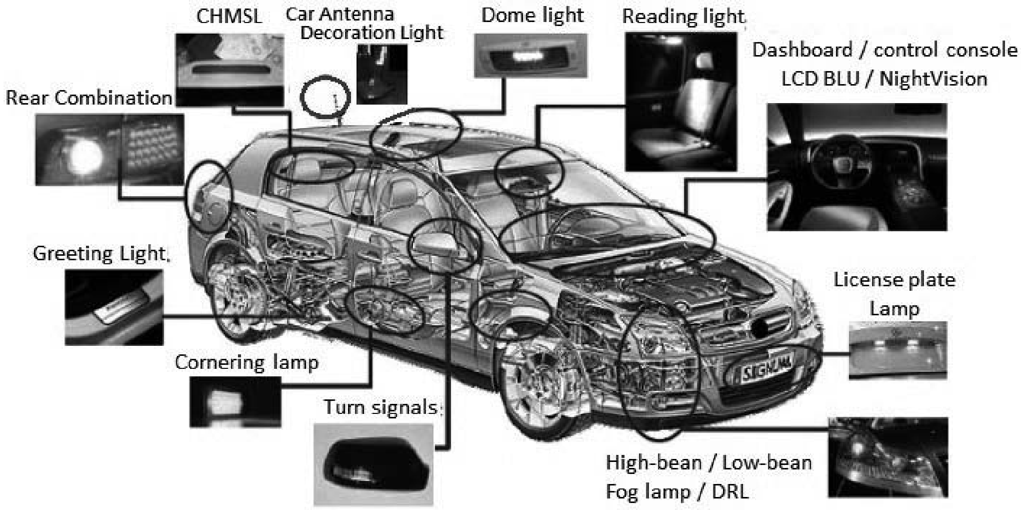
LED revenue in Signs & Signal and Display market, 2015-2021



(3) Automotive Lighting
High reliability, energy saving, and instant response make HB LEDs the best light source in both interior and exterior automotive applications. Interior applications include light sources in dashboard and control console, reading light, interior dome light, trunk light, and doorway light. Exterior applications include lighting for visibility (like headlamp, fog lamp, and license plate lamp) and lighting for signaling (like stop lamp, turning lamp, tail lamp, CHMSL, reversing lamp, and DRL). LED light sources are becoming standard equipment in not only premium models but also mainstream models.

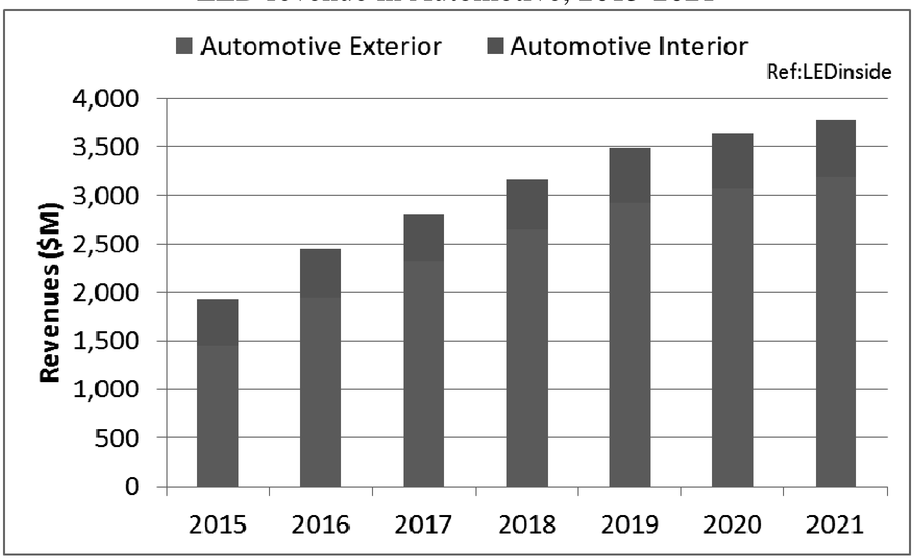
LED light sources in automotive application

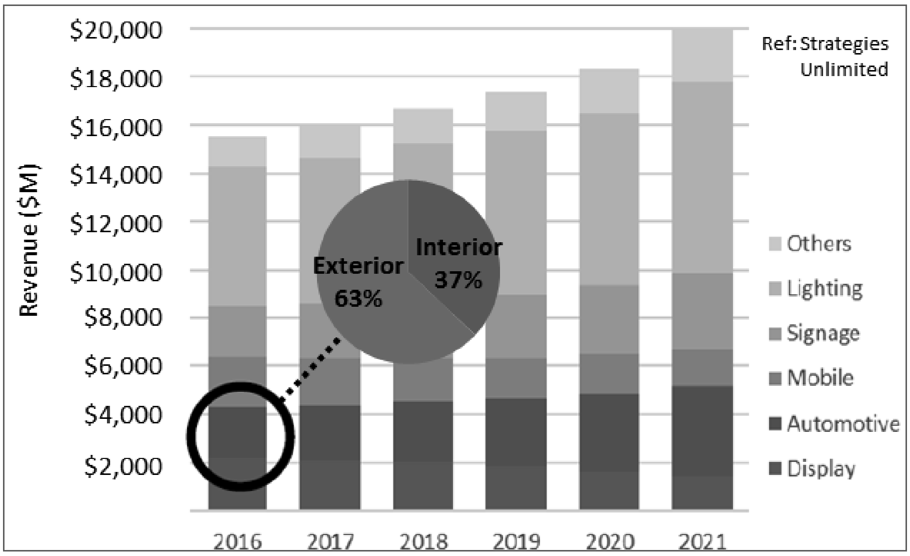
Source: Topology



Beyond the above interior & exterior lighting, more optoelectronic devices are designed into ADAS or Auto-driving system. The integration of infrared camera and smart headlamp, and the range-finding sensor fusion of Radar & Lidar & Ultrasonic devices also expand the automotive related market.

LED revenue in Automotive, 2015-2021

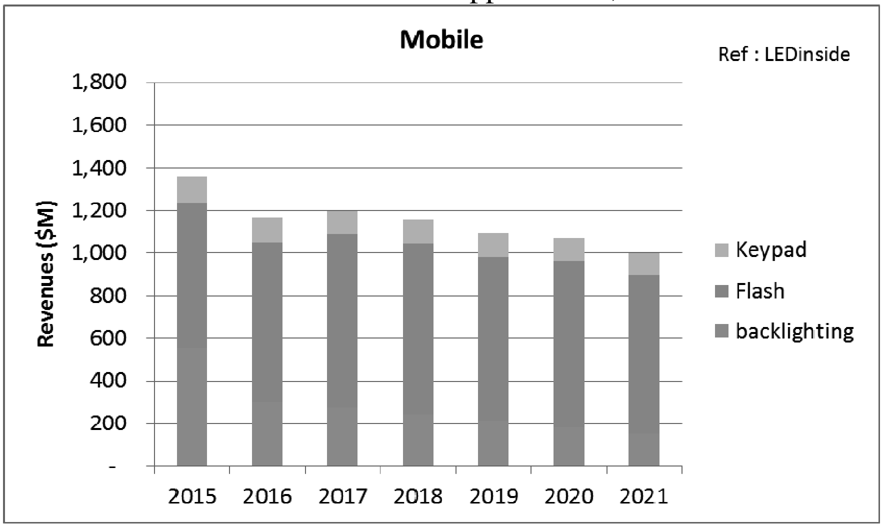


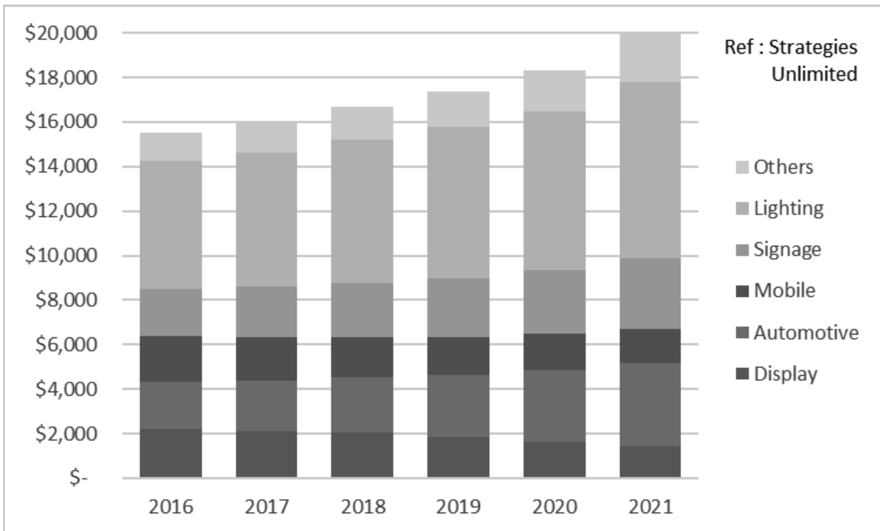


(4) BLU for cellphone and portable handheld devices

The "thin and lightweight" requirement for hand-held consumer electronics like cell phones and GPS make LEDs the best choice for keypads and LCD backlights due to LED's advantages in both size and weight. As Apple's iPhone led smartphone growth since 2010, their annual sales grew from 1 billion units in 2013 to 1.3 billion units in 2014. Though the quantity growth was slowing in 2016, the trend of increasing size and higher resolution remains. The LED number per phone increased from 6 in 3.5" to 8 in 4" to 12~16 in 5"+. Performance requirements like high brightness and low voltage also drives LED technology advances. Moreover, the flash LED for rear cameras also increased from 2 to 4 in iPhone 7s. We believe this trend will expand the push by other brands to follow suit. Overall the LED revenue in handheld devices could remain flat. Due to the very high driving current and flux requirement of flash applications, CSP types of LEDs are being gradually adapted. Over the long-term, LEDs still could be impacted by 1) Substitution between phablets and tablets, and 2) OLED penetration into the smartphone market. Therefore, LED industries are also developing different types of sensing components to keep the revenue in the handheld market.

LED revenue in handheld applications, 2015-2021





(5) Mid to large size BLU for LCD

In 2009, LEDs began to replace CCFL as light source for Netbook PC's BLU. Following Sony's launch of large-size LCDTVs with LED BLU in 2004, in 2009 Samsung was the first to use the Edge-lit BLU structure to lower the LED number and BLU thickness. The smaller price gap with CCFL counterpart made it a big hit in the consumers market in 2010. Many TV branders then further brought the price to almost CCFL levels by introducing directly lit BLU structure LCD TVs, which pushed the LED penetration rate to 70% with the help of China's subsidies for energy-efficient appliances. After 2015, the overall LED penetration rate of all mid-to-large LCD BLUs were almost 100%, so it's generally believed that the LED revenue had reached the peak for this type of application.

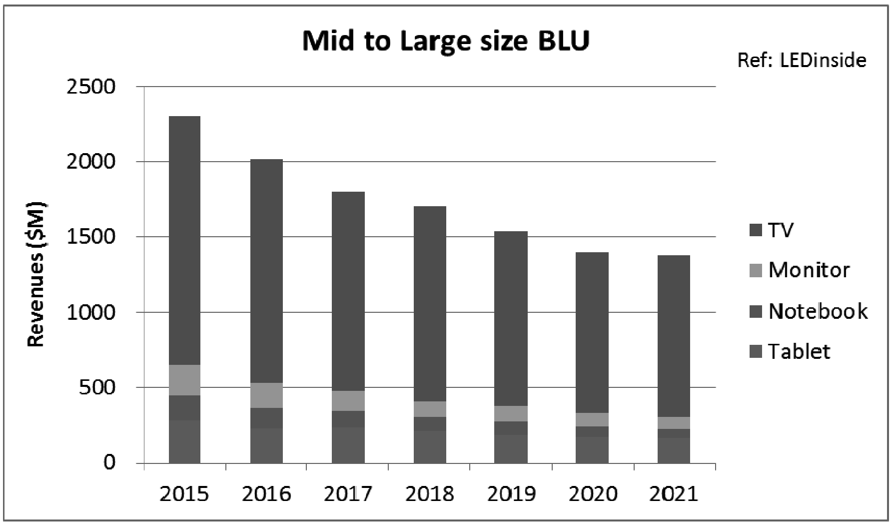
Nevertheless, there are some positive factors for this application including:

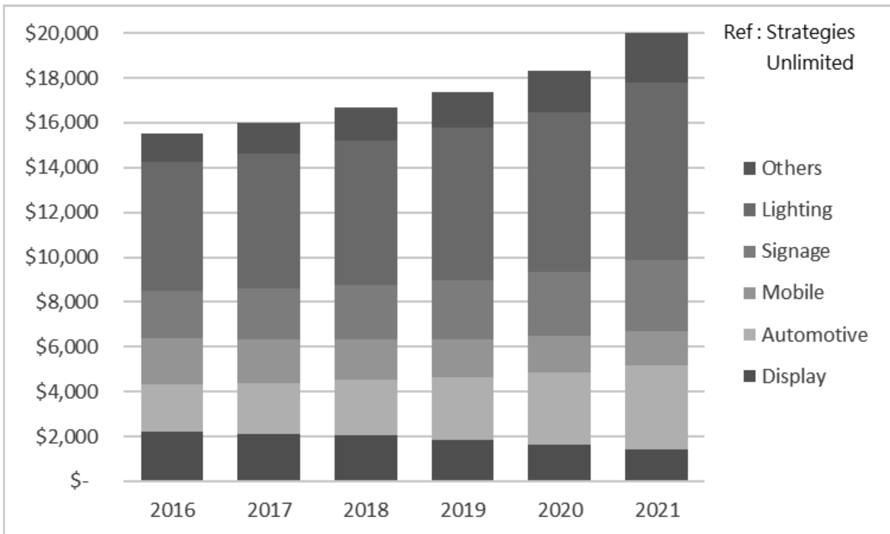
A. Trend for average size-up every year. 35"@2011, 37"@2012, 39"@2013, 41.7"@2014, 41.4"@2015 and 43.6"@2016 forecasted by WiteView. A 10% increase in panel size and LED count in yearly average can be observed.
B. Trend to UHD (4k2k). 30%~50% more LED per TV comparing to FHD

C. Trend to High Color Gamut. The CG target increased from 70% ~ 72%NTSC @2009 to 90~95%, which requires more LED for to compensate the brightness loss by different phosphor. The introduction of Quantum Dot also helped pushing CG to 100% NTSC while the lower conversion efficiency calls for more LED in BLU design. QD-based design also requires lower driving current to avoid heating, and that means more LED per TV too.
D. High Dynamic Range. To compete with OLED in terms of contrast, the HDR BLU design uses more LED per TV to boost the contrast performance.

Combining all that, although the LED penetration rate is almost saturated, the positive factors like size-up, UHD, HCG, and HDR can still stimulate mid-to-high-end LED revenue. The CSP type of LED is also an important trend for large size BLU. CSP's high driving current capability is a plus for direct-lit BLU, it's smaller geometry also fits in thinner light guide plate for new edge-lit BLU design. The CSP design is expected to become a major trend in the 2017 model, spreading from Korean brands to others.

LED revenue in mid to large size BLU, 2015-2021



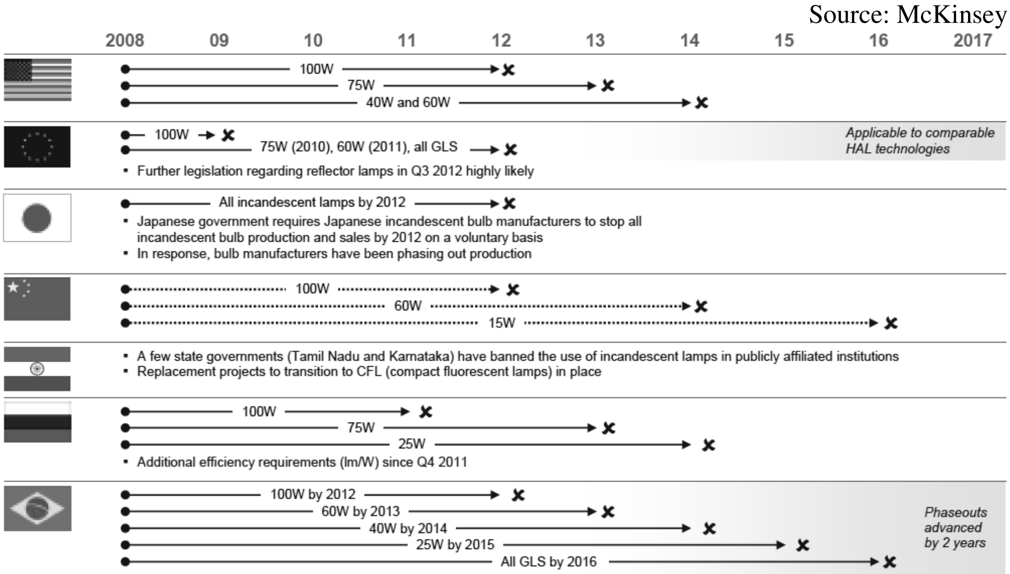


(6) Solid-state lighting market

According to OECD, global lighting electricity consumption accounts for about 19% of total electricity consumption. In recent years, due to the global warming, energy shortages, high oil prices and other issues, the global awareness of energy conservation have been gradually increasing. Generally estimated, if the LED light sources replace existing conventional lighting, about 1,325 TWH savings will be made per year, corresponding to 50% energy savings, savings approximately equal to the amount of 132 nuclear power plants (set 10 TWH as annual electricity generation per nuclear power plant). Therefore, integrating considerations including environmental protection, energy conservation and safety, governments have embarked on to ban incandescent lamp, and LED lighting is undoubtedly an important solution.

The policy of ban on incandescent lamp

Source: McKinsey

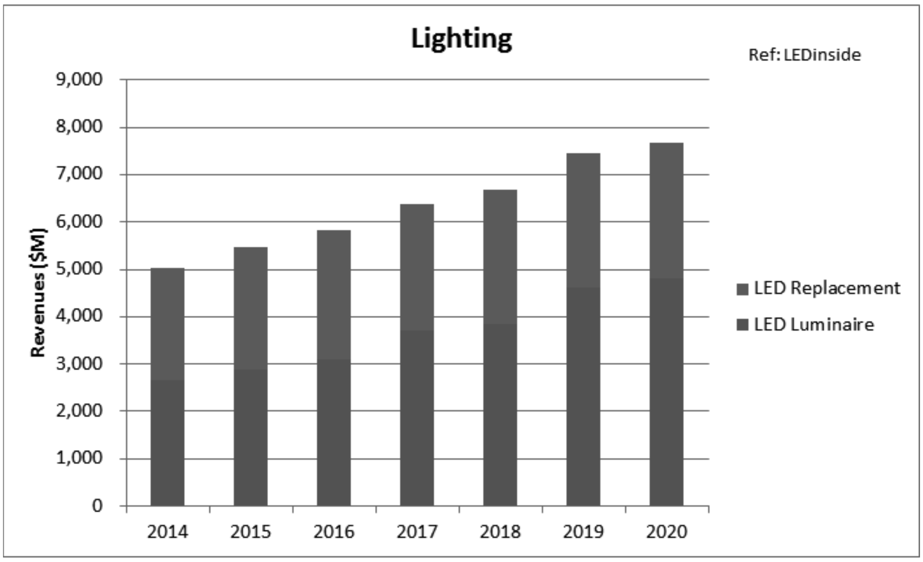


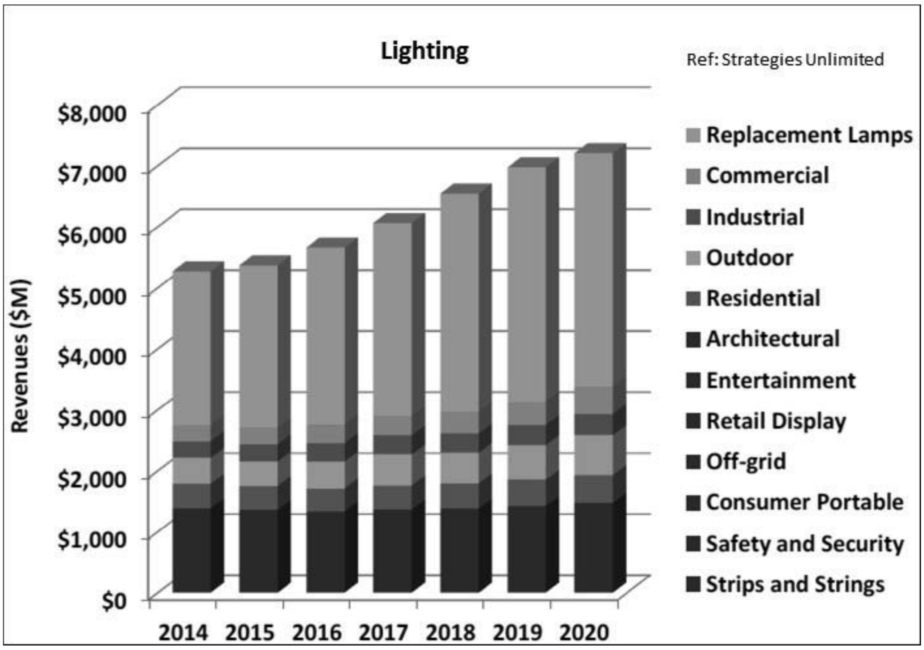
Lighting industry has two main market segments, one for the replacing light source market, and another one for the luminaries. From the cumulative installed capacity of global illumination (the number of sockets) point of view, LED lighting penetration rate in 2013 and 2014 were only about 2% and 4% respectively. A period of rapid growth officially began in 2014, and the next five to seven years therefore will be the fastest growing and most exciting stage of the LED lighting industry.

Outdoor street lighting market is the fastest growing category of solid-state lighting applications. Taiwan's government first launched the CNS-15233 LED lights standard in late 2008 to properly define product specifications and market rules, and in 2011 budgeted 2.768 billion TWD for the replacement of 326,000 streetlights with LEDs. Subsequently, from the US American Recovery and Reinvestment Act (ARRA) providing subsidies for LED streetlights, to China's 12th Five-Year Plan to promote the "10 cities with ten thousand lights" and "lighting every village" initiatives, to the EU's 20-20-20 plan, streetlight markets have been key projects for governments. In 2011, the International Energy Agency (IEA) surveyed that about 160 to 180 million existing streetlights, LED lights in 2011 penetration rate was only about 5%. By 2016, they are expected to reach 50%, with a total demand amounting to 95 million LED lights.

In 2014, changes in indoor alternate lighting sources started due to the complete specifications and the arrival of a pricing sweet spot. This allows for a large number of solid-state lighting started penetrating into the consumer market. The US government officially banned the production and import of 40-watt and 60-watt incandescent bulbs in 2014. The EU's policy from 2013 gradually regulated and guided the replacement of low energy efficiency incandescent halogen lamps with efficient LED bulbs. In the United States, state governments and power companies subsidize the purchase of Energy Star certified LED light sources, making the US Department of Energy in advance to reach 2015 target of 1000 lumens/10 USD in the second half of 2014, following by the market penetration rate highly growing year by year.

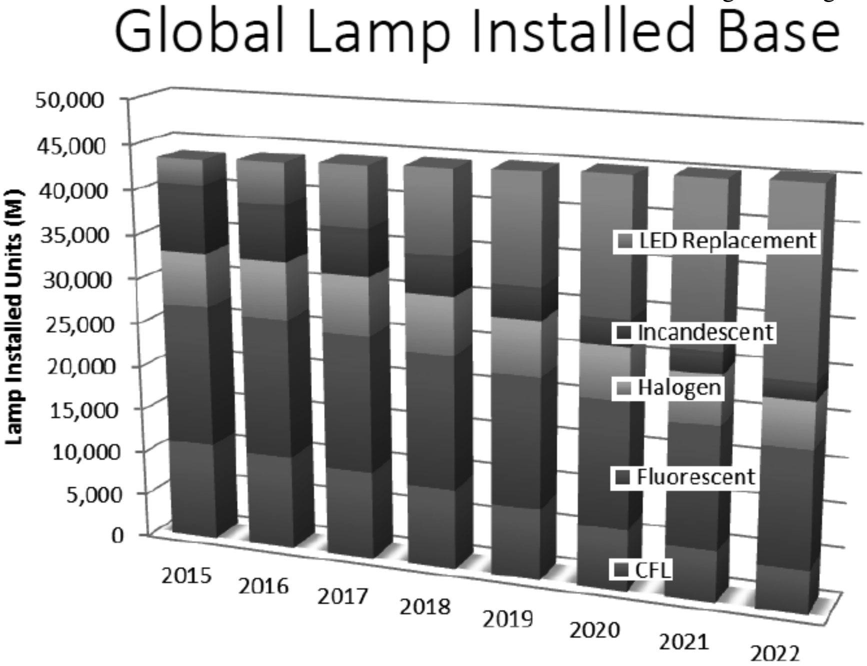
LED market analyses conducted by various international research firms have shown that in 2014, the solid-state lighting market officially went beyond the LED backlight market, become an application with largest output value.





Device amount in global retrofit light source market, 2015-2022 (unit: million)

Source: Strategies in Light 2017



5.1.2.4 Current situation in industry competition

Domestic and foreign LED mega manufacturers have unique advantages with LED structures, elements, epitaxy, and technology on process technology. With reference to the public information published by the enterprises, the important technical items are described as follows:

(1) PHILIPS LUMILEDS performs high efficiency and high power LED with technical advantages of transparent substrate and the flip-chip technologies.
(2) NICHIA invested in developing InGaN LED technology very early and has advantages on high-efficiency LED technology.
(3) OSRAM OPTO SEMICONDUCTOR invested in developing Buried Micro - Reflector Type LED and Thin - GaN LED technology and has advantages on high-efficiency LED technology.
(4) CREE uses vertical adhesive technology and integrated packaging technology on high power InGaN dies, and breaks the records of luminous efficiency frequently.

All enterprises each have leading and dominant technologies in different aspects. While along with rapid changes in technology, companies are able to communicate, research and develop various new LED structure, component, and process technology by using different technology platforms. Then based on considerations including each company’s technologies, transferable production, and ROI rate etc., profits will be reduced, and companies will gradually lose competitiveness. Therefore, they will only survive in this strict market if they continually improve their LED technological innovations. The LED industry is a technology-intensive industry, and patents are a key indicator of competitiveness. By the end of 2016, Epistar acquired 4,169 domestic and foreign patents, and has been deemed as the manufacturer with the most key patents in the domestic upstream LED epitaxy / dies in the industry.

5.1.3 Research and Development

5.1.3.1 Research and Development Expenses

Consolidated — Unit: NT$ thousands

Year	Research and Development Expenses	% to revenues
2016	1,532,888	6.00%

Note: Based on IFRS

5.1.3.2 Successfully developed technologies or products as of the publication of this annual report

(1) Successfully developed IR Dual-Junction LEDs with multi wavelength of 810, 850 and 940nm
(2) New product of ultra-high brightness AlGaInP/AlGaAs LED for car application, which can be used for rear combination light assembly and night vision safety driving system
(3) Proximity sensor for handheld/wearable device and emitter with biometric identification
(4) Flip-chip type of red PEC-LED product
(5) Technology development for high performance Sirius-type LED product
(6) Flip-chip LED for chip-scale-package to scale down the package size for backlight module
(7) High performance (150 Lm/W @ 350mA) flip-chip LED for street lighting
(8) Blue & green flip-chip LED for fin-pitch display
(9) High-voltage flip-chip LED (6V~12V) for backlight module to simplify the power supply IC.
(10) UV-400nm flip chip
(11) High luminance (630lm @ 1.4A (3.5 A/mm2)) blue & green chips for projector
(12) High-Power (650mW @ 0.35A) UV-385nm vertical chip
(13) High-Power (520mW @ 0.35A) UV-365nm vertical chip
(14) High performance white LED technology
(15) Ultra-slim type of high performance and wide color gamut white LED product for back light unit of display
(16) White LED product for camera flash light of cell phone
(17) UVC LED technology

5.1.3.3 Ongoing Research and Development Projects and Expenses

Future R&D plan and estimates of R&D expense. The R&D expense of the company in 2017 is roughly 1.27 billion. The R&D items are shown as follows:

(1) Product design, epitaxy, and chip technology development of VCSEL
(2) Develop new product of high efficiency flip chip
(3) Develop emitter/receiver for biometric sensing and identification
(4) Develop new type of high efficiency/stable product for automotive market
(5) Fine-pitch flip-chip LED for Display
(6) High performance/high quality flip-chip LED for automobile
(7) High luminance & high current density blue/green chips for projector
(8) High performance UV365nm vertical chip
(9) New white LED product for back light unit of display, lighting, and camera flash light
(10) New LED technology for fine-pitch display
(11) New Ultra-high brightness white LED product for automotive application

(12) New UVC LED product
(13) New technology for blue laser application

5.1.4 Long- term and Short-term Business Development Plans

5.1.4.1 Short-term Business Development Plans

(1) Focus on visible light, UV light, infrared light LED technology development LED wafers and dies, in order to improve product performance and increase profits.
(2) Provide LED products with high light intensity and cost advantages, high Lm / $ core competencies to meet specific customer.
(3) Expand the China, Europe, America, Japan, Korea, and other regional marketing channels, improve the proportion of exports and increase international market share.
(4) Rapid response to customer demand, adjust the product combination to meet the rapidly changing market.
(5) Create a virtual vertical integration (VVI) service, to improve the efficiency of cooperation lighting supply chain, improve the popularity of LED lighting.

5.1.4.2 Long- term Business Development Plans

(1) Improve the company's own research and development capabilities, launch technical cooperation with domestic and foreign research institutions and customers, and arrange high proportion of investment in R & D resources to raise liters of long-term international competitiveness.
(2) Develop long-wavelength infrared light and short-wavelength UV light technology to provide a full spectrum LED product line.
(3) To become the world's leading LED manufacturer continues to develop new products, improve the efficiency of LED and relevant applications in order to actualize unlimited LED potentials.
(4) Continually thick technical design capability and enhance patent portfolio basis.
(5) Continually optimize production technology, lower production costs, and establish a more cost-competitive production capacity.
(6) Optimize production capacity and complete quality certification system, continuing to improve product quality, shorten product delivery to provide customers with the most satisfactory services.
(7) To enhance the transferable efficiency of LED products, reduce the heat and thus save energy; committed to the development of other Ⅲ-Ⅴ semiconductors technology applications, such as the power element to conserve energy, to develop new applications mission.

5.2 Market and Sales Overview

5.2.1 Market Analysis

5.2.1.1 Sales (Service) Region

Consolidated Unit: NT$ thousands

Area	Sales	Sales %
Taiwan	5,884,192	23.04
Asia	18,019,630	70.56
Others	1,635,341	6.40
Total	25,539,163	100.00

Note: Based on IFRS

5.2.1.2 Market Share, Supply and Demand, and Future Growth.

Epistar's main products are two categories of epi wafers/LED chips: AlGaInP and InGaN. According to statistics, the total revenue of 8 LED chip manufactures in Taiwan (including publicly traded companies in LED industry) was around 38.5 billion NTD. Epistar's revenue in 2016 was around 25.5 billion NTD. The market share went up from 63% in 2015 to 66.5% in 2016.

Source: MOPS

Ranking	Company	2016 Consolidated Revenue (NTD million)	%
1	Epistar	25,539	66.5%
2	Optotech *	5,489	14.3%
3	Tyntek *	3,124	8.1%
4	Genesis	1,297	3.4%
5	Epileds	1,253	3.3%
6	Tekcore	923	2.4%
7	HPO	608	1.6%
8	Arima	172	0.4%

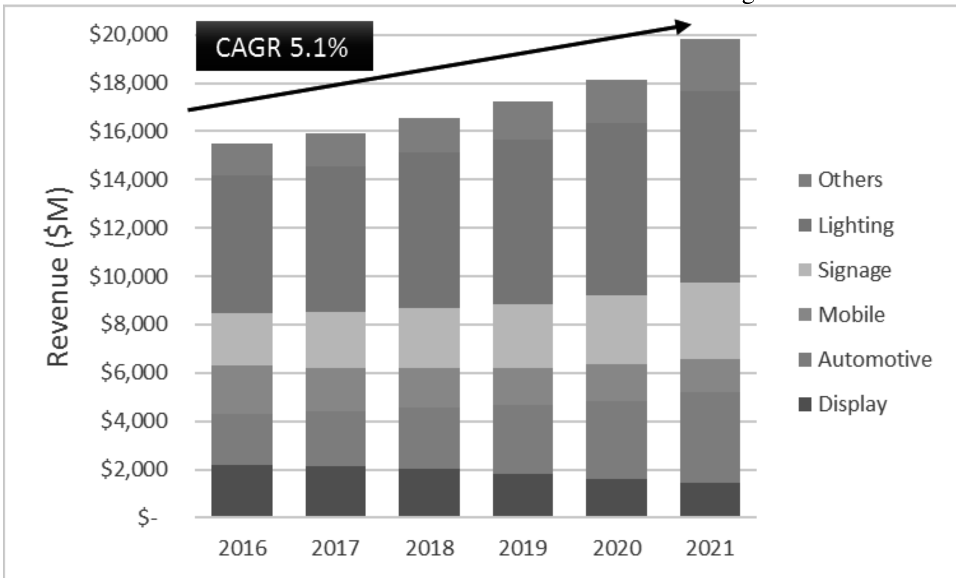
*: consolidated revenue including non-Epi wafer and non-chip product

Starting in 2009, China's government subsequent 11th and 12th 5-year plan subsidized and encouraged Chinese manufacturers to purchase MOCVDs, create joint ventures, or new companies. Many new industry players were created and the market became highly-competitive, and the supply and demand became out-of-balance. The price went down and some players went bankrupt. As a result, the annual revenue of 2015 declined 2-3%.

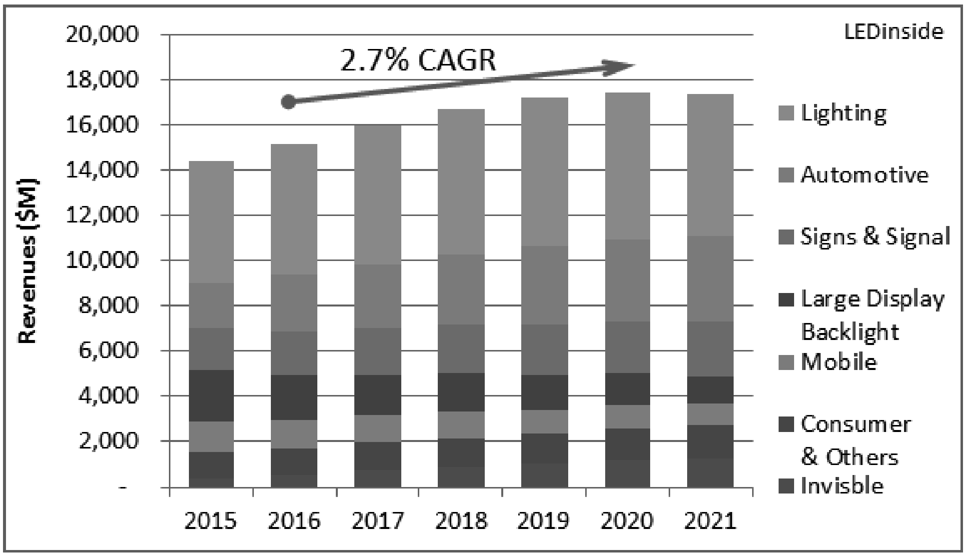
In spite of the needs of solid state lighting having increased, the consuming habit for general lighting focuses on the "cost / performance ratio" and this factor makes revenue increase quickly but profits sharply decrease. However, the applications like automotive, medical, horticulture, security, and wearable devices are still growing up. We believe that the players equipped with effective production and strong abilities will be bigger and survive in the market after supply and demand is balanced. There are two research companies' points of view about the estimation of the LED market.

LED revenue in all applications, 2015-2021

Source: Strategies Unlimited 2016



Source: LEDinside 2017



5.2.1.3 Competitiveness

(1) Full spectrum product portfolio.

Epistar's AlGaInP product series provides yellow-green, yellow, orange, and red high brightness epi wafers and chips. Epistar's InGaN product series provide purple, blue, and green epi wafers and chips. Epistar also has ultraviolet and infrared products. From 385nm to 940nm, features of full spectrum product portfolio and one-stop shopping satisfy all kinds of needs for all kinds of applications.

(2) Concentrate on epi wafers and chips manufacturing.

For the 21 years after its founding, Epistar has remained focused on epi wafers and chips, dedicated to the optimization of chip manufacturing technologies. Instead of vertical integration, Epistar chooses horizontal expansion and looks for cooperation in patents, seeks a wide variety of products and depth of technologies.

Epistar acquired United Epitaxy Company, Ltd. in 2005, Epitech Technology Corporation and Highlink Technology Corporation in 2007, HUGA Optotech Inc. in 2012, and Formosa Epitaxy Incorporation in 2014.

(3) Adjust product portfolio and meet market needs rapidly.
Except for high brightness LEDs and AC LEDs, Epistar started mass production of high voltage LEDs in 2011. The high voltage product series was TAIWAN EXCELLENCE certificated in 2014. It saves driver cost for client and creates more design ability by using high voltage LEDs. The combination of blue and red high voltage LEDs also provides high quality and high CRI warm-white light sources. Epistar also began mass production of pad extension chip (PEC) in 2012. PEC is especially for high operating current and there’s no need of the wire bonding process. The PEC also enables higher package density and satisfies the needs for high lumen output in lighting market. Furthermore, Epistar has developed UV LED, infrared ED, and automotive LEDs for a long time. Take niche projector application as an example, in emerging market of portable projectors, it needs extremely high quality and high reliability red, green, and blue light source. Epistar is able to provide one-stop shopping for projector clients. This case embodies the technology and quality value of Epistar.

(4) Excellent R&D ability with complete IP portfolio.
Started from establishment, Epistar has been always dedicated to improve manufacturing technologies and develop for innovations. There are over 240 people in R&D Center (EPISTAR LAB) and over 1300 people in engineering, research, and development. Most of them form Electronic and Optoelectronic System Research Laboratories of ITRI, experts overseas, and domestic professional talents. They are experienced in LED R&D and manufacturing to optimize the technologies of manufacturing LED chips and make LED chips apply to different applications. In 2016, Epistar has 4,169 patents, including patents issued or pending.
For many years, Epistar has been devoted to develop all kinds of technologies for different applications, like “InGaN Blue LED Project” (1999), “InGaN Green LED and White LED Development Project” (2001), “Key Technologies of High Efficiency and High Power Emitting Components Development Project” (2003), “Next Generation Lighting Project” (2003), “Advanced Flat Display Material and Component Integration Project” (2005), “Key Technologies of CPV Solar Cell Development Project” (2007), “Full Color Outdoor Display Development Project” (2014), and “HV LED Application Project” (2014). All of them are key to Epistar’s competitiveness.

(5) Sound and reliable quality system.
Epistar always dedicates to improve product quality. Epistar was UL ISO9002 and IEQC certificated in February and May 1999, ISO 9001 certificated in March, 1999. For quality standards especially for automotive application, Epistar was TS 16949 certificated in January 2006. In addition, Epistar was ISO 14001 certificated in June, 2006, OHSAS 18001 certificated in 2008, CNS 15506, QC 080000, Sony Partner certificated in 2009. The factor shows that Epistar pays attention on product quality and environment sustainability.

5.2.1.4 Favorable factors and unfavorable factors in futures and counter measures.

(1) Favorable factors

A. Products are widely used to all kinds of applications and has great potential

High brightness LED wafers and chips are widely applied because of several advantages derived from their small dimensions, low electricity consumption, less hear, and long lifetime. Main applications are outdoor display, traffic information display, and light source for automotive lighting, like indicators in interior and third brake light, fog light, tail light, directional light in exterior. Traffic light, traffic signs, light sources for backlight modules in displays, cellphones, and notebooks are also included. For saving energy, LEDs are also widely used for general lighting and streetlights.

B. LED supply chain is completed and channels are clear and smooth

Taiwan LED industry has developed for over 20 years and it is well-constructed. Mature and effective manufacturing technologies make Taiwan LED industry an important role in global market. This is a favorable factor for up-stream makers. In addition, Epistar started to develop overseas customers very early and owns abundant down-stream resources. Therefore, forming alliances with downstream customers is one of the important characteristic of Epistar. By work specialization and alliance strategy, Epistar is able to catch market trend and adjust product portfolio to improve competitiveness.

C. Future application of MOVPE core competence

MOVPE technology is utilized to manufacture HB-LED and LD due to its strong controls over material purity, epi-layer thickness, and superior uniformity than LPE and VPE technologies. It's also the major technology in manufacturing devices of fibercom and RF front-end module. Those devices include LD & VCSEL in fibercom, CPV Solar cell, HBT in wireless communication. Epistar's management and technology team have years of intensive experiences in both MOVPE epitaxy technology development and MOVPE system design and modification. This expertise brings competence in possible future possible in fibercom and RF related device manufacturing.

(2) Unfavorable factors and counter measures.

A. Risk of patent infringement

After Nichia Corporation successfully developed InGaN blue and green led chips, 5 main suppliers formed patent alliance. Patent infringement became the common issue for development of LED's all spectrum manufacturing.

Counter measures:

Epistar owns a large number of patents of high brightness AlGaInP LED and InGaN LED and dedicates to increase the wideness and deepness of patents by endless research and development. Epistar also signed cross-license agreement with name brands, like TOYODA GOSEI (Japan) in September 2010. Two companies are able to use patents own by others, including InGaN LED and AlGaInP LED technologies. Epistar also signed cross-license agreement with PHILIPS in February 2014 and with CREE in 2015. The cross-license agreement with CREE focuses on InGaN LED technologies.

B. There are great opportunities in LED lighting market. Many players emerged and increased competition.

The price of traditional LED lighting dropped. Future directions tend to focus on high brightness and full color applications. Most of the players target high brightness LEDs. In addition, Asia manufacturers usually earn business by lowering price. It makes market competition get worse.

Counter measures:

Epistar's strategies are focusing on research and development, improving manufacturing technologies and yield rate, strengthening product reliability, and creating manufacturing scale. Through these strategies, Epistar is not only able to reduce cost but also maintain quality to maintain our competitive advantages. Furthermore, Epistar also develops new products, like UV LEDs and AlGaInP LEDs for datalink applications with all the latest technologies.

In addition to effort spent in research and development and yield rate improvement, Epistar also tries to optimize the human resource system, co-work with clients closely, and strengthen customer relationship to get closer to end market needs. Epistar also deepens the management and operation in China by setting up joint ventures and subsidiaries.

5.2.2 Important applications and process of main products

5.2.2.1 Important applications

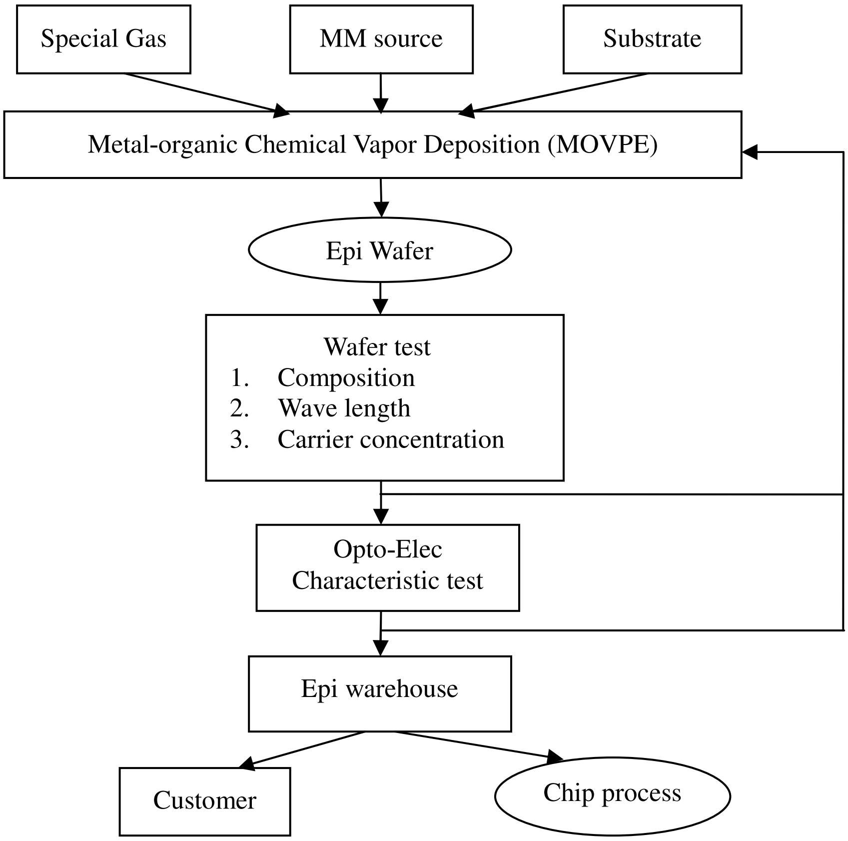
LED epi wafers and chips produced by EPISTAR featured with advantages like small dimension, less electricity consumption, less heat, long life-time. Epistar's chips are widely used for different applications.

(1) Outdoor display, traffic signs, traffic information display
(2) Automotive
Interior: backlight source for meter board, indicators, map light.
Exterior: third brake light, fog light, tail lamp, directional light, day running light.
(3) Consumer products
Indicators, 7 segment for all kinds of consumer products.
(4) Communications industry
Backlight source, flashlight, and distance measuring in all kinds of cellphones.
(5) IT industry
Indicators in all kinds of computer related equipment, backlight source of small display, scan light source of photocopier, CIS light source of fax machine.
(6) Indicators and display for industry and instruments.
(7) Light sources for large TV backlight module and projectors.
(8) Lighting applications like landscape lighting, streetlight, general lighting, commercial lighting, industrial lighting.
(9) Special lightings like horticulture lighting, medical lighting, and UV.

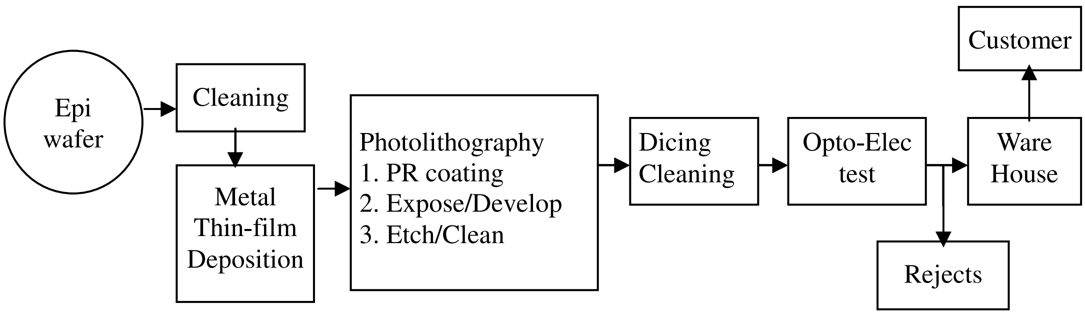
5.2.2.2 Manufacturing process

The major process can be categorized as Epi Process and Chip process

(1) Epi Process



(2) Chip Process



5.2.3 Supply status of major raw materials

Material	Vendor	From	Status
Substrate	Rigidtech Microelectronics Corp. Crystalwaise Technology Inc. TXC Optech Corporation	Taiwan	Smooth
MO source	SAFC Hitech Taiwan Co., Ltd. Laminar advanced material Co. Ltd.	Taiwan	Smooth
Special Gas	Praxair Electornics Taiyo Nippon Sanso Taiwan, Inc. Air Products San Fu Co., Ltd.	Taiwan	Smooth
Metal	Tanaka Kikinzoku Kogyo K.K	Japan	Smooth

5.2.4 Major Suppliers and Clients

5.2.4.1 Major Clients

Unit: NT$ thousands

2015				2016			
Customer	Net Revenue	As % of 2014 Total Net Revenue	Relation to EPISTAR	Customer	Net Revenue	As % of 2014 Total Net Revenue	Relation to EPISTAR
A	3,178,994	12.46	The company's Chairman of Board acts as the Company's director.	A	3,722,150	14.57	The company's Chairman of Board acts as the Company's director.
Others	22,330,795	87.54	None	Others	21,817,013	85.43	None
Total Net Revenue	25,509,789	100.00		Total Net Revenue	25,539,163	100.00	

Note: Adoption of IFRSs (consolidated subject)

Notes to cause of increase/decrease:

The customers from whom the operating revenue accounted for more than 10% of the Group's consolidated operating revenue in the most recent three years all refer to Customer A. The increase/decrease in the operating revenue of Customer A for the same period in the most recent two years was no more than 2%. Therefore, no material effect would be rendered therefor.

5.2.4.2 Major Suppliers

Unit: NT$ thousands

2015				2016			
Supplier	Procurement Amount	As % of 2015 Total Net Procurement	Relation to EPISTAR	Supplier	Procurement Amount	As % of 2015 Total Net Procurement	Relation to EPISTAR
A	1,178,880	10.20	None	B	2,042,101	22.07	The Company's stakeholder
B	1,350,098	11.69	The Company's stakeholder	Others	7,210,109	77.93	None
C	1,232,639	10.67	None				
Others	7,790,463	67.44	None				
Total Net Procurement	11,552,080	100.00		Total Net Procurement	9,252,210	100.00	

Note: Adoption of IFRSs (consolidated subject)

Notes to cause of increase/decrease:

To be in line with planning and adjustment of the Company's production and marketing.

5.2.5 Production in the Last Two Years

Consolidated Base

Unit: Square inch, in the case of chip; thousand pieces, in the case of die; NT$ thousand

Year	2015			2016		
Output / Major Products	Capacity	Output	Amount	Capacity	Output	Amount
Chip	504,559,913	416,600,971	30,522,768	415,367,136	345,776,952	23,937,565
Epi Wafer	13,986,347	11,213,303	6,797,913	7,334,247	5,905,814	1,103,753
Total	—	—	37,320,681	—	—	25,041,318

5.2.6 Consolidated Shipments and Net Revenue in the Last Two Years

Consolidated Base

Unit: Square inch, in the case of chip; thousand pieces, in the case of die; NT$ thousand

Year	2015				2016			
Sales	Local		Export		Local		Export	
Major Products	Quantity	Net Revenue	Quantity	Net Revenue	Quantity	Net Revenue	Quantity	Net Revenue
Chip	22,955,682	4,831,035	388,056,879	19,664,476	22,446,725	5,775,326	323,254,038	19,411,622
Epi Wafer	132,101	37,169	1,916,222	491,265	42,287	63,945	585,643	128,272
Others	—	16,019	—	469,825	—	44,921	—	115,077
Total	—	4,884,223	—	20,625,566	22,489,012	5,884,192	323,839,681	19,654,971

5.3 Human Resources

Consolidated

Year		2015	2016	Mar. 31, 2017
Number of Employees	Management	644	535	534
	R&D and Technician	1,597	1,317	1,325
	Direct	2,721	2,100	2,049
	Total	4,962	3,952	3,908
Average Age		33.7	34.4	34.6
Average Years of Service		6.1	6.8	6.9
Education	Ph.D.	1.8	2.0	2.0
	Masters	17.2	18.6	19.0
	Bachelor's Degree	43.4	42.3	42.9
	Senior High School & Below Senior High School	37.6	37.1	36.1

5.4 Environmental Protection Expenditure

5.4.1 The loss or penalty caused by environmental pollution during the latest year and up to the printing date of this annual report:

The Company did not suffer any loss or receive indemnity for environmental pollution in 2016. Notwithstanding, the audit result on the waste reported by the Company's Fab N6 showed abnormal, and the Company was fined NT$60,000 by the competent authority.

5.4.2 Countermeasures and Possible Expenditure

As a member of the global village, since the Company was founded, it has upheld the life cycle idea about environmental management systems, and voluntarily and continuously makes improvements at the stages of use, production, circulation, and waste of raw materials and supplies in order to mitigate the effect and impact produced to the environment. Meanwhile, the Company introduced the latest pollution prevention technology at the stage of construction of factory premises. The Company also upgrades the efficiency of energy utilization, builds comfortable living environment, and pursues sustainable operations by the 3R model (Reduce, Reuse and Recycle). In order to continue to upgrade the management result of the environmental management system, the company maintained its ISO 14001: 2004 certification (since 2006 until now), ISO14064-1 certification (2006~2015), and internal self-inspection since 2016, and also completed introduction and certification of PAS 2050 standards on carbon footprint of V45H chip in 2011. In 2016, the Company actively worked with TOSIA members in research of environmental laws and regulations and countermeasures, including suppliers' and vendors' on-site SHE audit, improvement and guidance as the points of guidance, to facilitate upgrading of the performance of environmental protection and safety of TOSIA members' employees.

With respect to the management of expenditure in prevention of pollution and environmental protection, since 2011, the Company has introduced the environmental accounting management system under guidance of Environmental Protection Administration. By virtue of environmental classification and code, the Company demonstrated its concrete achievement in environmental protection in detail and completely. The data analysis output from the system may also serve as the basis for investment or management to enable the Company to consider the entire environmental management performance comprehensively, in hopes of achieving the purpose of environmental protection sustainability in the most economic and effective manner. Meanwhile, the statistics show that the expenditure spent in the entire environmental management system maintenance and operation was about NT$153,590,000, primarily for the construction of H1 waste water processing yard-chemical mixture system, H1 waste liquid recycling construction engineering, fab repairing and maintenance, and payment of government fees in 2016. The Company's new fab (N9) also engaged in the planning of green construction at the very beginning, and received the "LEED Certification-Gold Level" from the U.S. Green Building Council. The Company also spared no effort to invest in green production. The investment in the program 2016 effectively reduced the annual waste volume by 289 tons.

In order to fulfill corporate social responsibility, the Company also actively participated in the related groups' SHE operations, e.g. participation in the event organized by Environmental Protection Commission of the Allied Association for Science Park Industries, participation in Environmental Protection Development and Promotion Foundation of the Southern Taiwan Science Park, support of the environmental protection sustainability boosted by TOSIA Environmental and Safety Sustainable Development Commission, cooperation with public sectors to boost policies, submission of suggestions about enactment of environmental protection laws and regulations to governmental departments, and sharing of the experience in boosting environmental protection work.

There are numerous goals worth pursuing with respect to the environmental protection. In the future, the Company will continue to move forward toward the enterprise's sustainable development and fulfillment of corporate social responsibility, and be dedicated to achieving stakeholders' expectations toward the Company.

5.5 Labor Relations

5.5.1 Planning and implementation of employee benefit plans, continuing education, training, retirement systems. Negotiation of labor relations and various safeguarding measures of employee's rights and interests.

The company has emphasized keeping good employees and labor relations. We supply generous remuneration packages, a flexible leave system, and a complete insurance system to provide a healthy and friendly work environment to prevent the loss of employees and retain talents.

5.5.1.1 Employee Benefit Plans

For the purpose of safeguarding employees and their conditions of daily life, the company not only has provided basic guarantee, but also assisted and sponsored various benefit plans, and help organizing the employee welfare committee for implementing and planning all kinds of matters of employee benefits. PLS refer to the current measures below:

(1) Employee bonus plan.
(2) Three important Chinese holidays bonus, incentive bonus, employee patent application reward, employee proposal bonus.
(3) Entitled to labor insurance, health insurance, and group insurance.
(4) Wedding presents, funeral ceremony, birth subsidy, hospitalization & consolation money, etc.
(5) Year-end party, birthday gathering, social clubs subsidy, domestic & overseas traveling subsidy, newspapers & magazines, various sports events and leisure activities.
(6) New staff members' wage is higher than the minimum wage under Labor Standards Law no matter the gender.

For the full protection of employees' health; we've introduced three elements of healthy "body", satisfaction in "mind" and joyful "spirit" in the year of 2015. "Body", "mind", and "spirit" are the main concerns of employee healthcare. We also extend and combine the knowledge of body health, psychological satisfaction, self- dialogue into the activities in our company and then to family to build a perfect and happy working environment for achieving a physical, mental, social, and spiritual balance. Please refer to the healthcare measures provided below:

(1) Physical checkup management:
There is employee in-service physical checkup (including abdominal ultrasonography) twice a year. Special operation and transference checkups are done according to the law. The rate of completion of checkup is 100%.
For the implementation of checkup abnormality management, we keep track of employees who have abnormal checkup records through heath education or doctor consultation in our FAB to strengthen the awareness of the healthcare provided. We also supply customized health care project for those who with higher health risks and give health care advice according to the severity levels to carry out the prevention of illness in workplace.

(2) Health promotion programs:
To strengthen the awareness and ability of health care on self-management; and from the passive way of health care to the active way of illness prevention, in line with "preventive medicine", a total of 144 people (148 people were eligible for the program) enrolled in the hospital for a free low-dosage computed tomography scan (CT scan). It's a 97% participation rate and a total saving of NT$864,000. Moreover, for the purpose of greater diversity, course of lectures, dynamic rhythm, charitable blood donation, thematic activities on special occasion were also included in 2016. A total of 12,753 people enrolled and 47% participation rate in 2016.

(3) Operational health risk prevention and management:
We continue human factors hazard prevention in 2016, and have conducted hazard assessments for those stations that have higher hazard risk in 2015. We may reduce human factors through the improvement of working environment and workmanship.

(4) Infectious disease management:
We've assigned a responsible unit for continuous monitoring and based on the epidemic to develop workplace epidemic prevention program, and from the experience accumulated to avoid inappropriate response. In addition to epidemic materials preparation and vaccination (influenza vaccine, expatriates to Mainland China have hepatitis type A), we also promote through posters, announcements, e-mails, and lectures to strengthen the knowledge about epidemic prevention and encourage employees to maintain family members and colleagues' health at workplace and in the family to prevent group infection. We provide epidemic prevention facemasks, thermometers, record sheets for those who travelling on business or on leave.

(5) Occupational injured employee health care:
When employees reinstate from injury or other physical and mental reasons; to prevent frustration occurred from their health issue or the original work may worsen their health and result in worries of work safety; through support from relevant departments, we shall implement health care assistance and reinstatement mechanisms to give essential care to the reinstated employees.

(6) Maternal protection & healthy workplace:
In 2016, we've set up a maternal protection SOP to build an appropriate pregnancy notification system to implement maternal care and risk prevention

control. A total of 174 new mother's were taken care of in 2016 with a participation rate is 100%.

Every plant has a breast-feeding room, equipped with comfortable couches, disinfected pots, and other relevant breast-feeding items. In addition, there is cleaning lady that regularly disinfects the room. The cleanliness has won the heart and praise of mothers. We also won breast-feeding room certification issued from city/county government. In addition, there is exclusive chair for pregnant woman in production line and priority car parking space in the company.

To encourage and remind prospective female employees to take the initiative to inform and participate in the protection measure and collect relevant information about pregnancy, childbirth, childcare, we've drew up "smooth childbirth hand book" and particularly provide maternal employees care gifts, so that they shall be embraced by the caring rendered by the company and practice a maternal friendly workplace.

(7) A great diversity of activities and soft lectures:

To promote and keep the balance of work and life, we've planned various activities and soft lectures monthly or irregularly. We design activities based on different ages and needs including sports events of basketball, badminton, volleyball, swimming, and road running and also included health lectures, soul-elevating seminars and parent-child lectures. In addition, there are movies, craft lessons, family day, and parent-child day. We encourage the spirit of teamwork through such activities. We also design activities that enable family members to join in and to thank them for their support. We also design special activities combined holidays like Valentine's Day, Mother's Day, and Christmas. Through a wide range of activities, we build up connections between colleagues outside of work, which enhances company coherence. We also hold charitable events for employees and families to participate in social care and services.

5.5.1.2 Employees advanced studies and training

New staff members participate in orientation to ensure the quality of the company's products. Specific employees are required to be qualified for certification test and regular assessment to ensure the ability to meet the requirement.

To achieve sustainable development of the company's business and high performance of the employees, we've organized a wide range of training courses, such as management competency, quality control, professional technology, environment/safety/health (ESH) series, professional courses and orientation.

A total of 41,261 hrs of education and training courses were held in 2016, and around 9,400 people attended those courses. The training costs were about NT$4,513,000. Please refer to the chart below:

Unit: NT$ thousands

Items of 2016	Attendee count	Hours of advanced studies	Cost of advanced studies
Series of management talents	333	2,432.5	4,513
Series of quality	1,325	5,003.9	
Series of professionalism	2,686	9,480.0	
Series of environment/safety/health (ESH)	1,228	5,183.3	
Various series of professionalism	2,953	10,691.3	
Orientation	878	8,470.7	
Total	9,403	41,261.7	

5.5.1.3 Retirement Systems

The Company and its domestic subsidiaries have established a defined benefit pension plan based on the Labor Standard Law and Labor Pension Act, and contributed to the pension fund on a monthly basis.

Pension system	Old	New
Applicable laws	Labor Standard Law	Labor Pension Act
Contribution	The Company will contribute 2% of the total salary as the pension fund on a monthly basis, and deposit the same in the account maintained at "Bank of Taiwan" in the name of "Labor Pension Supervision Commission".	The Company will contribute 6% of the salary as the labor pension and deposit the same to the employee's personal account maintained at Bureau of Labor Insurance on a monthly basis.
Contributed amount	Balance of the labor pension, NT$223,785 thousand	The pension cost recognized in 2016 was NT$194,938 thousand.

The subsidiaries in Mainland China were enrolled into the social insurance programs managed and handled by the local governmental authorities in Mainland China. The programs refer to the defined contribution plan. The Company paid the social insurance premium under the social insurance programs managed by the governments.

5.5.1.4 Labor-Management Agreements

Harmonious labor relations have always been the major management policy of human resources management. We have established a good communication and consultation channel so that employees can work comfortably and maintain high efficiency. Hence, we have established the Employee Relations Deptartment to provide assistance by integrating professional staff and experts both internally and externally to help solve problems or pressures from work or daily life. We also provide confidential and professional external services and consultations with other professional resources.

Our internal communication channel includes an exclusive suggestion box that enables employees to express their opinions, all of which are kept confidential and listed into labor relations meeting for discussion and follow-ups. We also set up a sexual harassment hot line and mailbox for employees, job applicants, and suppliers to express and it would be responded timely. We also communicate and coordinate with employees through formal channel if there is major business change that may affect employees' rights & interests. We hope to provide the best working environment for all employees.

5.5.1.5 Working Environment and Employee Safety Protection Measures

To secure a safe working environment for employees, please refer to the safety protection measures below:

(1) To ensure a safe working environment for employees, the company has set up a professional environmental and safety team to formulate "Decreasing Occupational Accidents program" and give instructions to relevant departments to practice.

(2) We conduct safety and health training for new staff members and in-service employees.

(3) We conduct annual environmental assessment in working area to ensure the quality of working environment.
(4) We conduct annual physical checkup for those who perform special operation and general physical checkup for all employees for every two years.
(5) We have medical room located in every site for preliminary care and awaiting for further medical treatment at the time of emergency. We also provide occupational disease specialist/doctor in our factory to supply relevant medical care consultation and connect with other medical organizations for referral services for hospitalization.
(6) According to the rules & regulations; hazardous machinery and equipment shall have inspection methods for entering the factory. We also have established special department for facility and equipment maintenance and inspection.
(7) Every department is required to conduct environment, health, and hygiene self-management. For environment & safety planning, we have management level to carry out line routine check and safety observation.
(8) Every site has planned emergency response team equipped with emergency facility and equipment, carrying out various evacuation drills based on different situations.
(9) According to the rules and regulations, every site has established safety monitoring control system. Employees and the company shall be covered through Property and Casualty Insurance for compensation if there is any accident occurs.

In addition to above protection measures, we also provide friendly working environment as followings:
(1) Various recreation facilities (ex: table tennis, billiard, yoga room…)
(2) Various convenient store, café
(3) Complete medical room equipped with breast feed room
(4) Spacious and joyful dining area, a wide range of dining choices and subsidy.

5.5.1.6 Procedures for Preventing Insider Trading

The procedures train management in the prevention of insider trading into the internal control system; and in notifying employees, managerial officers and board members, from time to time; to note whether there is any important messages to be disclosed pursuant to laws; and advise them of the related requirements. This prevents staff members from breaching laws and engaging in inside trading. Relevant regulations are accessible from the Company's website or internal policies and regulations.

Said personnel may access the internal important information due to their identity, occupation, or relation, who shall perform their duties and fulfill their obligation as a good administrator with due diligence and also exercise their authority in a highly self-disciplined and careful manner. This ensures strict compliance with the requirements for processing, disclosure and confidentiality of important information defined by the competent authority, or sign non-disclosure agreement case by case, if necessary.

5.5.2 Labor/employer dispute loss in 2016 and as of the publication date of the annual report: None.

5.6 Material Contract

Subject	Counter Party	Contract term	Main content	Limitation
Patent licensing	Research Institute	2014.03~ 2020.01	Exclusive license of patent	Epistar shall attach patent markings and certification number of patent to products or packages while selling at home and abroad. Epistar shall not breach the laws of Republic of China.
Patent licensing	Research Institute	2006.02~ 2023.02	Non-exclusive license of patent	Epistar shall attach patent markings and certification number of patent to products or packages while selling at home and abroad. Epistar shall not sublicense the patent to any third party. In addition, without prior consent of Ministry of Economic Affairs, Epistar will not use the patent to manufacture products in other countries.
Early-stage Technology transfer licensing	National K University	2011.10.12~ 2018.10.11	Technology research and development of Solar power	The parties agree that they will not license the technology in agreement to any third party except corporative enterprises of the project for a period of one year form the effective date of contract.
Industrial-Academic Collaboration Project and Early-Stage Technology Transfer Agreement with Ministry of Science and Technology, Executive Yuan subsidy	National A University	2014.07.15~ 2021.07.14	Research and manufacture of light-emitting diode array	The technology and related technical information belong to National A University. The University and project investigator may enter into a technology transfer/license agreement with a third party after consent by both parties.
Syndicated Loan Agreement	Jiangsu Canyang Optoelectronics Ltd., Land Bank Of Taiwan Co., Ltd., Taipei FUBON Commercial Bank Co., Ltd., First Commercial Bank Co., Ltd., Mega International Commercial Bank Co., Ltd., CTBC Commercial Bank Co., Ltd., Bank SinoPac Co., Ltd., Bank Of Taiwan Co., Ltd.	2016.05.30~ 2019.05.30	Loan amount: NT$ 4,000,000,000 and USD$ 19,000,000	If our company fails to repay the principal and the interest, or the Bank declares that all liabilities become immediately due and payable upon the event of default, our company shall pay the default interest and penalty.

6. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Balance Sheet

IFRSs (consolidated subject) Unit: NT$ thousands

Item \ Year		2012	2013	2014	2015	2016
Current Assets		27,279,120	36,249,273	38,297,332	30,885,730	24,798,264
Property, Plant and Equipment		29,440,237	27,627,752	36,314,695	34,396,105	27,286,631
Intangible Assets		4,218,110	4,291,051	7,529,578	7,994,637	8,007,219
Other Assets		6,466,155	7,827,957	9,817,434	9,855,452	9,005,320
Total Assets		67,403,622	75,996,033	91,959,039	83,131,924	69,097,434
Current Liabilities	Before Distribution	8,952,084	18,453,138	19,653,411	22,001,168	10,214,070
	After Distribution	9,452,084	18,871,139	20,842,626	22,001,168	Note 2
Non-Current Liabilities		11,225,457	9,939,982	11,190,751	5,485,999	7,899,368
Total Liabilities	Before Distribution	20,177,541	28,393,120	30,844,162	27,487,167	18,113,438
	After Distribution	20,677,541	28,811,121	32,033,377	27,487,167	Note 2
Equity Attributable to Owners of the Parent		45,734,465	45,963,990	58,262,391	53,273,900	49,274,144
Share Capital		9,318,175	9,359,711	11,031,787	10,998,443	10,915,492
Capital Surplus		35,161,521	34,774,489	43,342,832	42,810,893	43,016,259
Retained Earnings	Before Distribution	2,537,671	2,557,328	4,205,135	241,512	(3,303,516)
	After Distribution	2,537,671	2,139,327	3,015,920	241,512	Note 2
Other equity Interest		(1,086,075)	(529,916)	143,837	143,141	(505,370)
Treasury Stock		(196,827)	(197,622)	(461,200)	(920,089)	(848,721)
Non-Controlling Interest		1,491,616	1,638,923	2,852,486	2,370,857	1,709,852
Total Equity	Before Distribution	47,226,081	47,602,913	61,114,877	55,644,757	50,983,996
	After Distribution	46,726,081	47,573,498	59,925,662	55,644,757	Note 2

Note 1: Adoption of IFRSs since 2013.

Note 2: The Company suffered loss after tax in 2016, which was covered by the legal reserve and capital surplus. Therefore, no stock dividends were allocated. Notwithstanding, the resolution of the general shareholders' meeting is still pending.

Financial Accounting Standards of the R.O.C. (consolidated subject) Unit: NT$ thousands

Item \ Year		2012	2013	2014	2015	2016
Current Assets		27,410,209	None	None	None	None
Long-term Investments		4,546,307				
Fixed Assets		28,661,554				
Intangible Assets		4,624,867				
Other Assets		1,774,182				
Total Assets		67,017,119				
Current Liabilities	Before Distribution	8,817,382				
	After Distribution	9,317,382				
Long-term Liabilities		11,014,137				
Other Liabilities		36,684				
Total Liabilities	Before Distribution	19,868,203				
	After Distribution	20,368,203				
Share Capital		9,318,175				
Capital Surplus		35,986,350				
Retained Earnings	Before Distribution	1,681,702				
	After Distribution	1,681,702				
Unrealized Gain/Loss on Financial Instruments		(63,676)				
Cumulative Transaction Adjustments		(288,049)				
Net loss not recognized as pension costs		(47,072)				
Treasury Stock		(229,694)				
Total Equity	Before Distribution	47,148,916				
	After Distribution	46,648,916				

IFRSs (individual entity) Unit: NT$ thousands

Item \ Year		2012	2013	2014	2015	2016
Current Assets		19,862,319	28,200,434	22,154,385	19,821,426	20,914,997
Property, Plant and Equipment		17,541,853	16,064,927	15,832,635	15,764,303	19,174,184
Intangible Assets		799,886	902,844	823,884	1,339,452	7,813,856
Other Assets		20,994,205	23,053,304	36,552,166	35,102,565	16,949,893
Total Assets		59,198,263	68,221,509	75,363,070	72,027,746	64,852,930
Current Liabilities	Before Distribution	5,937,218	15,061,163	8,154,176	15,483,790	9,090,726
	After Distribution	6,437,218	15,479,164	9,064,176	15,483,790	Note 2
Non-Current Liabilities		7,526,580	7,196,356	8,946,503	3,270,056	6,488,060
Total Liabilities	Before Distribution	13,463,798	22,257,519	17,100,679	18,753,846	15,578,786
	After Distribution	13,963,798	22,675,520	18,010,679	18,753,846	Note 2
Equity Attributable to Owners of the Parent		45,734,465	45,963,990	58,262,391	53,273,900	49,274,144
Share Capital		9,318,175	9,359,711	11,031,787	10,998,443	10,915,492
Capital Surplus		35,161,521	34,774,489	43,342,832	42,810,893	43,016,259
Retained Earnings	Before Distribution	2,537,671	2,557,328	4,205,135	241,512	(3,303,516)
	After Distribution	2,537,671	2,139,327	3,295,139	241,512	Note 2
Other equity Interest		(1,086,075)	(529,916)	143,837	143,141	(505,370)
Treasury Stock		(196,827)	(197,622)	(461,200)	(920,089)	(848,721)
Total Equity	Before Distribution	45,734,465	45,963,990	58,262,391	53,273,900	49,274,144
	After Distribution	45,234,465	45,545,989	57,352,391	53,273,900	Note 2

Note 1: Adoption of IFRSs since 2013.

Note 2: The Company suffered losses after taxes in 2016, which was covered by the legal reserve and capital surplus. Therefore, no stock dividends were allocated. Notwithstanding, the resolution of the general shareholders' meeting is still pending.

Financial Accounting Standards of the R.O.C. (individual entity) Unit: NT$ thousands

Item / Year		2012	2013	2014	2015	2016
Current Assets		19,990,069	None	None	None	None
Long-term Investments		19,559,956				
Fixed Assets		17,931,711				
Intangible Assets		789,914				
Other Assets		557,389				
Total Assets		58,829,039				
Current Liabilities	Before Distribution	5,805,677				
	After Distribution	6,305,677				
Long-term Liabilities		7,283,881				
Other Liabilities		68,063				
Total Liabilities	Before Distribution	13,157,621				
	After Distribution	13,657,621				
Share Capital		9,318,175				
Capital Surplus		35,986,350				
Retained Earnings	Before Distribution	1,681,702				
	After Distribution	1,681,702				
Unrealized Gain/Loss on Financial Instruments		(63,676)				
Cumulative Transaction Adjustments		(288,049)				
Net loss not recognized as pension costs		(47,072)				
Treasury Stock		(229,694)				
Total Equity	Before Distribution	45,671,418				
	After Distribution	45,171,418				

6.1.2 Condensed Statement of Comprehensive Income

Condensed Statement of Comprehensive Income from 2012 to 2016 (Consolidated)

Unit: NT$ thousands (Except EPS: NT$)

Item \ Year	2012	2013	2014	2015	2016
Operating Revenue	19,931,384	22,241,387	27,713,156	25,509,789	25,539,163
Gross Profit from Operations	1,457,134	2,957,868	5,276,129	123,499	1,916,010
Net operating income(loss)	(995,830)	440,853	2,388,586	(3,510,547)	(1,255,776)
Non-Operating Income and Expense	(1,298,371)	(372,226)	(192,504)	(110,325)	(2,499,138)
Income (Loss) before Tax	(2,294,201)	68,627	2,196,082	(3,620,872)	(3,754,914)
Income (Loss) for Continued Operations	(2,404,724)	74,555	1,802,947	(3,317,582)	(4,012,752)
Net Income (Loss)	(2,404,724)	74,555	1,802,947	(3,317,582)	(4,012,752)
Other Comprehensive Income (Income after Tax)	(374,906)	321,885	701,761	(590,541)	(801,435)
Total Comprehensive Income	(2,779,630)	396,440	2,504,708	(3,908,123)	(4,814,187)
Net Income Attributable to Owners of the Parent	(1,192,824)	38,349	1,810,334	(3,018,757)	(3,546,045)
Net Income Attributable to Non-Controlling Interest	(1,211,900)	36,206	(7,387)	(298,825)	(466,707)
Comprehensive Income Attributable to Owners of the Parent	(1,501,105)	300,985	2,412,184	(3,400,444)	(4,193,030)
Comprehensive Income Attributable to Non-Controlling Interest	(1,278,525)	95,455	92,524	(507,679)	(621,157)
Earnings (Loss) Per Share	(1.38)	0.04	1.98	(2.81)	(3.33)

Note: Adoption of IFRSs since 2013.

Condensed Statement of Income — 2012 (Consolidated)－R.O.C. GAAP

Unit: NT$ thousands (Except EPS: NT$)

Item \ Year	2012	2013	2014	2015	2016
Net Sales	19,931,384	None	None	None	None
Gross Profit	1,465,552				
Income from Operations	(1,203,393)				
Non-operating Income and Gains	483,895				
Non-operating Expenses and Losses	(1,464,407)				
Income before tax from continuing operations	(2,183,905)				
Income from continuing operations	(2,330,122)				
Income from discontinuing operations	—				
Extraordinary income	—				
Cumulative effect of changes in accounting	—				
Net Income	(2,330,122)				
Basic Earnings Per Share	(1.30)				

Condensed Statement of Comprehensive Income from 2012 to 2016 (Unconsolidated)

Unit: NT$ thousands (Except EPS: NT$)

Item \ Year	2012	2013	2014	2015	2016
Operating Revenue	17,531,907	19,390,873	24,634,071	23,376,051	23,442,193
Gross Profit from Operations	2,703,851	3,017,369	3,840,177	83,703	2,211,199
Net operating income(loss)	803,188	885,305	1,583,129	(2,373,253)	(252,510)
Non-Operating Income and Expense	(1,864,180)	(910,144)	517,589	(918,309)	(3,908,094)
Income (Loss) before Tax	(1,060,992)	(24,839)	2,100,718	(3,291,562)	(4,160,604)
Income (Loss) for Continued Operations	(1,192,824)	38,349	1,810,334	(3,018,757)	(3,546,045)
Net Income (Loss)	(1,192,824)	38,349	1,810,334	(3,018,757)	(3,546,045)
Other Comprehensive Income (Income after Tax)	(308,281)	262,636	601,850	(381,687)	(646,985)
Total Comprehensive Income	(1,501,105)	300,985	2,412,184	(3,400,444)	(4,193,030)
Earnings (Loss) Per Share	(1.38)	0.04	1.98	(2.81)	(3.33)

Note: Adoption of IFRSs since 2013.

Condensed Statement of Income – 2012 (Unconsolidated) – R.O.C. GAAP

Unit: NT$ thousands (Except EPS: NT$)

Item \ Year	2012	2013	2014	2015	2016
Net Sales	17,531,907	None	None	None	None
Gross Profit	2,681,885				
Income from Operations	769,504				
Non-operating Income and Gains	198,814				
Non-operating Expenses and Losses	1,917,704				
Income before tax from continuing operations	(949,386)				
Income from continuing operations	(1,116,951)				
Income from discontinuing operations	—				
Extraordinary income	—				
Cumulative effect of changes in accounting	—				
Net Income	(1,116,951)				
Basic Earnings Per Share	(1.30)				

6.1.3 Auditors' Opinions from 2012 to 2016

Year	Accounting Firm	CPA	Audit Opinion
2012	PricewaterhouseCoopers	Fang-Yu Wen, Yin-Fei Liu	Modified Unqualified Opinion
2013	PricewaterhouseCoopers	Fang-Yu Wen, Yin-Fei Liu	Modified Unqualified Opinion
2014	PricewaterhouseCoopers	Fang-Yu Wen, Ya-Huei Cheng	Modified Unqualified Opinion
2015	PricewaterhouseCoopers	Fang-Yu Wen, Ya-Huei Cheng	Modified Unqualified Opinion
2016	PricewaterhouseCoopers	Fang-Yu Wen, Ya-Huei Cheng	Unqualified Opinion

6.2 Five-Year Financial Analysis

Financial Analysis from 2012 to 2016 (Consolidated)

Item	Year	2012	2013	2014	2015	2016
Financial Structure (%)	Debts Ratio (%)	29.94	37.36	33.54	33.06	26.21
	Long-term Fund to Property, Plant and Equipment (%)	198.54	208.28	199.11	177.73	215.80
Solvency (%)	Current Ratio (%)	304.72	196.44	194.86	140.38	242.79
	Quick Ratio (%)	245.30	163.88	153.34	98.05	181.49
	Times Interest Earned (Times)	(4.45)	1.17	7.78	(6.55)	(8.48)
Operating Performance	Average Collection Turnover (Times)	2.39	2.15	1.98	1.84	2.28
	Days Sales Outstanding	152	170	184	198	160
	Average Inventory Turnover (Times)	3.47	3.57	3.55	3.29	3.56
	Average Payment Turnover (Times)	8.26	7.59	7.44	7.45	7.15
	Average Inventory Turnover Days	105	102	103	110	102
	Property, Plant and Equipment Turnover (Times)	0.64	0.78	0.87	0.72	0.83
	Total Assets Turnover (Times)	0.29	0.31	0.33	0.29	0.34
Profitability	Return on Total Assets (%)	(2.87)	0.65	2.46	(3.25)	(4.79)
	Return on Equity (%)	(4.90)	0.16	3.32	(5.68)	(7.53)
	Pre-tax Income to Paid-in Capital Ratio (%)	(24.62)	0.73	19.91	(32.92)	(34.40)
	Net Margin (%)	(12.07)	0.34	6.51	(13.01)	(15.71)
	Earnings Per Share (NT$)	(1.38)	0.04	1.98	(2.81)	(3.33)
Cash flow	Cash Flow Ratio (%)	25.72	8.30	21.72	30.20	68.01
	Cash Flow Adequacy Ratio (%)	58.52	51.07	52.15	52.72	97.31
	Cash Flow Reinvestment Ratio (%)	2.68	2.23	5.02	7.83	8.99
Leverage	Operating Leverage	(7.37)	20.38	4.76	(2.10)	(7.06)
	Financial Leverage	0.70	8.92	1.15	0.88	0.76

Note: Adoption of IFRSs since 2013.

<u>Notes to causes of changes in financial ratios in the most recent two years:</u>

1. Ratio of liabilities to assets: Primarily as a result of the repurchase of 4th overseas convertible corporate bonds in 2016 resulting in a decrease in the liabilities and in impairment on idle assets stated by the Group, and decrease in ratio of liabilities to assets.
2. Ratio of long-term capital to property, plant and equipment: Primarily as a result of the Company's repayment of short-term liabilities and impairment on idle assets stated by the Group in 2016, resulting in a decrease in the net amount of property, plan, and equipment and increase in ratio of long-term capital to property, plant and equipment.
3. Current/quick ratio: Primarily as a result of the repurchase of 4th overseas convertible corporate bonds in 2016 resulting in a decrease in the liabilities and increase in current/quick ratio.
4. Interest coverage folds: Primarily as a result of the loss caused by impairment on idle assets in 2016, resulting in a decrease in the income before tax and decrease in interest coverage folds.
5. Profitability: Primarily as a result of the adequate response to the changes in market demand and adjustment of product portfolio in 2016, resulting in increase in gross profit, and decrease in costs by integration and utilization of the Group's operating resources, resulting in increase in operating gains; notwithstanding, the non-operating impairment on assets as provided resulted in a decrease in the income before tax/income after tax, resulting in a decrease in the profitability.
6. Cash flow ratio: Primarily as a result of the repurchase of 4th overseas convertible corporate bonds-current portion in 2016 resulting in a decrease in the liabilities and increase in cash flow ratio.
7. Cash flow adequacy ratio: Primarily as a result of the decrease in capital expenditure by integrating of the Group's operating resources in 2016, resulting in a decrease in the inventory amount and increase in cash flow adequacy ratio.
8. Leverage: Primarily as a result of the adequate response to the changes in market demand and adjustment of product portfolio in 2016, resulting in increase in gross profit, and decrease in costs by integration and utilization of the Group's operating resources, resulting in increase in operating gains.

Financial Analysis － 2012 (Consolidated)－R.O.C. GAAP

Item		2012	2013	2014	2015	2016
Financial Structure (%)	Debts Ratio (%)	29.65	None	None	None	None
	Long-term Fund to Fixed Assets (%)	202.93				
Solvency (%)	Current Ratio (%)	310.87				
	Quick Ratio (%)	248.77				
	Times Interest Earned (Times)	(5.00)				
Operating Performance	Average Collection Turnover (Times)	2.39				
	Days Sales Outstanding	152				
	Average Inventory Turnover (Times)	3.65				
	Average Payment Turnover (Times)	8.25				
	Average Inventory Turnover Days	100				
	Fixed Assets Turnover (Times)	0.65				
	Total Assets Turnover (Times)	0.29				
Profitability	Return on Total Assets (%)	(2.85)				
	Return on Stockholders' Equity (%)	(4.75)				
	Operating Income to Paid-in Capital Ratio (%)	(12.91)				
	Pre-tax Income to Paid-in Capital Ratio (%)	(23.44)				
	Net Margin (%)	(11.69)				
	Earnings Per Share (NT$)	(1.30)				
Cash flow	Cash Flow Ratio (%)	26.11				
	Cash Flow Adequacy Ratio (%)	58.03				
	Cash Flow Reinvestment Ratio (%)	2.65				
Leverage	Operating Leverage	(5.91)				
	Financial Leverage	0.77				

Financial Analysis from 2012 to 2016 (Unconsolidated)

Item	Year	2012	2013	2014	2015	2016
Financial Structure (%)	Debts Ratio (%)	22.74	32.63	22.69	26.04	24.02
	Long-term Fund to Property, Plant, and Equipment (%)	303.62	330.91	424.50	358.68	290.82
Solvency (%)	Current Ratio (%)	334.54	187.24	271.69	128.01	230.07
	Quick Ratio (%)	278.70	165.29	229.13	97.83	187.14
	Times Interest Earned (Times)	(2.24)	0.92	12.07	(15.31)	(19.55)
Operating Performance	Average Collection Turnover (Times)	2.30	2.03	2.12	2.00	2.11
	Days Sales Outstanding	159	180	172	183	173
	Average Inventory Turnover (Times)	4.10	4.52	5.83	6.00	5.58
	Average Payment Turnover (Times)	7.30	6.75	8.16	7.64	6.12
	Average Inventory Turnover Days	89	81	63	61	65
	Property, Plant and Equipment Turnover (Times)	0.96	1.15	1.54	1.48	1.34
	Total Assets Turnover (Times)	0.30	0.30	0.34	0.32	0.34
Profitability	Return on Total Assets (%)	(1.54)	0.53	2.74	(3.84)	(4.89)
	Return on Equity (%)	(2.64)	0.08	3.47	(5.41)	(6.92)
	Pre-tax Income to Paid-in Capital Ratio (%)	(11.39)	(0.27)	19.04	(29.93)	(38.12)
	Net Margin (%)	(6.80)	0.20	7.35	(12.91)	(15.13)
	Earnings Per Share (NT$)	(1.38)	0.04	1.98	(2.81)	(3.33)
Cash flow	Cash Flow Ratio (%)	52.26	12.88	53.15	17.90	42.01
	Cash Flow Adequacy Ratio (%)	70.33	63.62	66.83	61.76	89.71
	Cash Flow Reinvestment Ratio (%)	4.21	3.03	5.27	2.74	5.58
Leverage	Operating Leverage	8.01	7.84	4.51	(1.25)	(21.80)
	Financial Leverage	1.69	1.51	1.13	0.93	0.56

Note: Adoption of IFRSs since 2013.

Notes to causes of changes in financial ratios in the most recent two years:

1. Current/quick ratio: Primarily as a result of the repurchase of 4th overseas convertible corporate bonds in 2016 resulting in a decrease in the current liabilities and increase in current/quick ratio.
2. Interest coverage folds: Primarily as a result of the long-term investment loss and the loss caused by impairments on idle assets in 2016, resulting in a decrease in the income before tax and decrease in interest coverage folds.
3. Average days payable: As a result of the response to changes in market demand in 2016, resulting in increase in shipment of medium-size chips, increase in gross profit, decrease in cost of goods sold, and increase in average days payable.
4. Profitability: Primarily as a result of the adequate response to the changes in market demand and adjustment of product portfolio in 2016, resulting in increase in gross profit; notwithstanding, the non-operating long-term investment loss and the loss caused by impairment on idle assets as provided resulted in a decrease in the income before tax/income after tax, resulting in a decrease in the profitability.
5. Cash flow ratio: Primarily as a result of the repurchase of 4th overseas convertible corporate bonds-current portion in 2016 resulting in a decrease in the liabilities and increase in cash flow ratio.
6. Cash flow adequacy ratio: Primarily as a result of the decrease in capital expenditure by integrating of the Group’s operating resources in 2016, resulting in a decrease in the inventory amount and increase in cash flow adequacy ratio.
7. Cash reinvestment ratio: Primarily as a result of the adequate response to the changes in market demand and adjustment of product portfolio in 2016, resulting in increase in gross profit, and net cash inflow from operating activities, and merger of HUGA Optotech Inc. and Formosa Epitaxy Incorporation resulted in increase in cash reinvestment ratio.
8. Leverage: Primarily as a result of the adequate response to the changes in market demand and adjustment of product portfolio in 2016, resulting in increase in gross profit, and increase in operating gains, resulting in a decrease in the financial/operating leverage.

Financial Analysis — 2012 (Unconsolidated)－R.O.C. GAAP

Item	Year	2012	2013	2014	2015	2016
Financial Structure (%)	Debts Ratio (%)	22.37	None	None	None	None
	Long-term Fund to Fixed Assets (%)	295.32				
Solvency (%)	Current Ratio (%)	344.32				
	Quick Ratio (%)	284.60				
	Times Interest Earned (Times)	(2.50)				
Operating Performance	Average Collection Turnover (Times)	2.30				
	Days Sales Outstanding	159				
	Average Inventory Turnover (Times)	4.31				
	Average Payment Turnover (Times)	7.28				
	Average Inventory Turnover Days	85				
	Fixed Assets Turnover (Times)	0.95				
	Total Assets Turnover (Times)	0.30				
Profitability	Return on Total Assets (%)	(1.52)				
	Return on Stockholders' Equity (%)	(2.48)				
	Operating Income to Paid-in Capital Ratio (%)	8.26				
	Pre-tax Income to Paid-in Capital Ratio (%)	(10.19)				
	Net Margin (%)	(6.37)				
	Earnings Per Share (NT$)	(1.30)				
Cash flow	Cash Flow Ratio (%)	53.44				
	Cash Flow Adequacy Ratio (%)	65.07				
	Cash Flow Reinvestment Ratio (%)	4.13				
Leverage	Operating Leverage	6.92				
	Financial Leverage	1.54				

Glossary －Taiwan-IFRSs version:

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 = Net Sales / Average Trade Receivables
   (2) Days Sales Outstanding = 365 / Average Collection Turnover
   (3) Average Inventory Turnover = Cost of Sales / Average Inventory
   (4) Average Payment Turnover = Cost of Sales / Average Trade Payables
   (5) Average Inventory Turnover Days = 365 / Average Inventory Turnover
   (6) Property, Plant and Equipment Turnover = Net Sales / Average Net Property, Plant and Equipment
   (7) Total Assets Turnover = Net Sales / Average Total Assets
4. Profitability Analysis
   (1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate))/Average Total Assets
   (2) Return on Equity = Net Income / Average Equity
   (3) Net Margin = Net Income / Net Sales
   (4) Earnings Per Share = (Net Income - Preferred Stock Dividend) /Weighted Average Number of Shares Outstanding
5. Cash Flow
   (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
   (2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
   (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends)/(Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital)
6. Leverage
   (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
   (2) Financial Leverage = Income from Operations / (Income from Operations – Interest Expenses)

Glossary－R.O.C. GAAP:

1. Capital Structure Analysis
   (1) Debt Ratio = Total Liabilities / Total Assets
   (2) Long-term Fund to Fixed Assets Ratio = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets
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 = Net Sales / Average Trade Receivables
   (2) Days Sales Outstanding = 365 / Average Collection Turnover
   (3) Average Inventory Turnover = Cost of Sales / Average Inventory
   (4) Average Payment Turnover = Cost of Sales / Average Trade Payables
   (5) Average Inventory Turnover Days = 365 / Average Inventory Turnover
   (6) Fixed Assets Turnover = Net Sales / Average Net Fixed Assets
   (7) Total Assets Turnover = Net Sales / Average Total Assets
4. Profitability Analysis
   (1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate))/Average Total Assets
   (2) Return on Stockholders' Equity = Net Income / Average Shareholders' Equity
   (2) Return on Equity = Net Income / Average Shareholders' Equity
   (3) Net Margin = Net Income / Net Sales
   (4) Earnings Per Share = (Net Income - Preferred Stock Dividend) /Weighted Average Number of Shares Outstanding
5. Cash Flow
   (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
   (2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
   (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Fixed Assets + Long-term Investments + Other Assets + Working Capital)
6. Leverage
   (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
   (2) Financial Leverage = Income from Operations / (Income from Operations – Interest Expenses)

6.3 Audit Committee's Report for the Most Recent Year: As Appendix 1.2 (pages 136)

6.4 Consolidated Financial Statements for the Years Ended December 31, 2016 and 2015, and Independent Auditors' Report: As Appendix 1.4 (pages 138~266)

6.5 The Latest Individual Auditor's Report and Financial Statements Audited and Certified by CPAs: As Appendix 1.5 (pages 267~278)

6.6 The company or its affiliates have experienced financial difficulties in the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report: None.

7. Review of Financial Conditions, Financial Performance, and Risk Management

7.1 Analysis of Financial Status

Consolidated | Unit: NT$ thousands

Item / Year	Dec. 31, 2015	Dec. 31, 2016	Difference	%
Current Assets	30,885,730	24,798,264	(6,087,466)	(19.71)
Available-for-sale Financial Assets - Non-Current & Investments Accounted for Under Equity Method	5,699,898	4,894,403	(805,495)	(14.13)
Property, Plant and Equipment	34,396,105	27,286,631	(7,109,474)	(20.67)
Intangible Assets	7,994,637	8,007,219	12,582	0.16
Other Assets	4,155,554	4,110,917	(44,637)	(1.07)
Total Assets	83,131,924	69,097,434	(14,034,490)	(16.88)
Current Liabilities	22,001,168	10,214,070	(11,787,098)	(53.57)
Non-Current liabilities	5,485,999	7,899,368	2,413,369	43.99
Total Liabilities	27,487,167	18,113,438	(9,373,729)	(34.10)
Share Capital	10,998,443	10,915,492	(82,951)	(0.75)
Capital Surplus	42,810,893	43,016,259	205,366	0.48
Retained Earnings	241,512	(3,303,516)	(3,545,028)	(1,467.58)
Other Equity Interest	143,141	(505,370)	(648,511)	(453.06)
Treasury Stocks	(920,089)	(848,721)	71,368	(7.76)
Non-Controlling Interest	2,370,857	1,709,852	(661,005)	(27.88)
Total Equity	55,644,757	50,983,996	(4,660,761)	(8.38)

7.1.1 Analysis on main causes for the change by more than 20% and amounting to NT$10,000 thousand

1. Decrease in property, plant and equipment: Primarily as a result of decrease in capital expenditure by integration of the Group's resources, activation of assets, sale of idle assets and provision of loss of impairment on assets in 2016.
2. Decrease in current liabilities: Primarily as a result of the repurchase of convertible corporate bonds-current portion in 2016.
3. Increase in noncurrent liabilities: Primary as a result of the increase in long-term bank loans in 2016.
4. Decrease in retained earnings: Primarily as a result of the constant price competition in the market in 2016, resulting in loss in the current period and decrease in retained earnings.
5. Decrease in other equities: Primarily as a result of the fluctuation in foreign exchange rate in the market in 2016, resulting in foreign currency exchange adjustment in the financial statements of foreign subsidiaries invested by the Company.

7.1.2 Major Impact on Financial Position: The above deviations had no major impact on EPISTAR's financial position.

7.1.3 Future Plan on Financial Position: Not applicable.

7.2 Analysis of Financial Performance

Consolidated

Unit: NT$ thousands

Item \ Year	2015	2016	Difference	%
Net Revenue	25,509,789	25,539,163	29,374	0.12
Cost of Revenue	(25,390,483)	(23,626,125)	1,764,358	(6.95)
Unrealized gain from inter-affiliate accounts	4,193	2,972	(1,221)	(29.12)
Gross Profit	123,499	1,916,010	1,792,511	1451.44
Operating Expenses	(3,895,825)	(3,427,649)	468,176	(12.02)
Other Operating Income and Expenses	261,779	255,863	(5,916)	(2.26)
Operating (loss) Profit	(3,510,547)	(1,255,776)	2,254,771	(64.23)
Non-Operating Income and Expenses	(110,325)	(2,499,138)	(2,388,813)	2,165.25
(Loss) Profit before Income Tax	(3,620,872)	(3,754,914)	(134,042)	3.70
Income Tax Benefit (Expense)	303,290	(257,838)	(561,128)	(185.01)
(Loss) Profit	(3,317,582)	(4,012,752)	(695,170)	20.95
Other comprehensive (loss) income	(590,541)	(801,435)	(210,894)	35.71

7.2.1 Analysis of Deviation over 20%

1. Increase in net gross profit, decrease in operating loss and increase in net loss, et al.
   Primarily as a result of the Company’s strict control in 2016, resulting in a decrease in the production cost and integration of the Group’s resources, achieving the remarkable operating performance resulting in increase in net gross profit and decrease in operating loss; notwithstanding, the increase in non-operating expenses resulted in increase in net loss in the current period.
2. Increase in non-operating expenses
   Primarily as a result of recognition of the loss from redemption of overseas convertible corporate bonds and disposition of some old machine, resulting in an increase in loss from disposition of equipment and recognition of impairment on assets.
3. Increase in income tax expenses
   Primarily as a result of the merger of subsidiaries, HUGA Optotech Inc. and Formosa Epitaxy Incorporation on September 29, 2016, and failure of the surviving company (Epistar) to use the related deferred income tax assets upon expiration of the subsidiaries after the merger, resulting in increase in income tax expenses.
4. Increase in other comprehensive loss in current period
   Primarily as a result of devaluation of RMB resulting in the increase in exchange loss on translation of foreign financial statements in 2016.

7.2.2 To provide a sales volume forecast and the basis therefore, and describe the effect upon the company’s financial operations as well as measures to be taken in response.

The global economic situation is still in the doldrums and industry competition is fierce, but because of the global issues on energy-saving and environmental protection are critical. Those issues also goes along with luminous efficiency been gradually improved, allowing more and more new applications to be realized to bring out the LED market still contains potential opportunities for more development. This includes growth in applications of the LED lighting and automotive sectors with simultaneous rises in penetration rate, as well as in the growth of application area like LED plant lighting gradually being valued up and infrared (IR) LED been applied in the security control area or smart phone sensing. Therefore, the expected shipment of LED chips is 599,001 million pcs for 2017.

In view of the future demand from end-use application is toward to tendency of intelligent and cost-effective, therefore continuing to invest in Research and Development to improve technical ability and to reduce costs are vital.

In the third quarter of last year, the Company has completed a simple merger with HUGA Optotech Inc. and Formosa Epitaxy Incorporation who both were 100% owned subsidiary of the Company in order to consolidate Group's resources and to reduce operating costs. The above acts have gradually produced synergies within group. In addition to invest resource for engineer, research, and development, the Company may also strengthen patent portfolio. The total number of patent certificates has reached 3,186, and the Company cooperates with TOYOTA, GOSEI, and PHILIPS for Portfolio Cross-Licensing. The above acts should be able to acceleration of new products and key technology development. The company should be able to achieve the goal of turning losses into profits this year by promoting organizational changes, intensifying the efficiency of resource utilization, improving the added value of products and optimizing the product portfolio.

7.2.3 Analysis on changes of gross profit by 20%

Consolidated — Unit: NT$ thousands

Item	Increase/decrease in previous and current periods	Cause - advantageous (disadvantageous)			
		Difference in selling price	Difference in cost price	Difference in product portfolio	Difference in quantity
Gross Profit	1,792,511	(7,829,721)	8,969,386	0	652,846

Notes to cause of increase/decrease:
Response to the market demand by adequate adjustment of product portfolio; decrease in selling quantity of low-unit-price products and increase in sales of high-gross-profit four-element products resulting in increase in gross profit.

7.3 Analysis of Cash Flow

7.3.1 Analysis of cash flow changes

Consolidated — Unit: NT$ thousands

Item \ Year	2015	2016	Difference	%
From Operating Activities	6,645,083	6,947,002	301,919	4.54
From Investing Activities	(5,040,876)	(285,375)	4,755,501	(94.34)
From Financing Activities	(4,354,040)	(8,380,543)	(4,026,503)	92.48

Analysis of Cash Flow

1. Investing Activities
   Primarily as a result of disposition of plant and integration of the Group's resources, activation of idle assets and decrease in capital expenditure resulting in a decrease in the cash outflow from investing activities in 2016.
2. Financing Activities
   Primarily as a result of repurchase of the fourth overseas convertible corporate bonds resulting in increase in cash outflow from financing activities in 2016.

Remedial Actions for Liquidity Shortfall:
As a result of positive operating cash flows and cash on-hand, remedial actions are not required.

7.3.2 Liquidity Analysis for 2017

Consolidated Base Unit: NT$ thousands

Cash balance - beginning	Anticipated bet cash flow from operating activities in a year	Anticipated bet cash flow from investing and financing activities in a year	Anticipated Cash surplus(deficit)	Corrective actions against cash deficit	
(a)	(b)	(c)	(a)+(b)+(c)	Investing plan	Wealth management plan
6,001,430	6,090,000	(4,248,000)	7,843,430	－	－

Analysis of changes in cash flow for 2017

1. Operating Activities: Primarily as a result of a turn from loss to profit, resulting in net cash inflow.
2. Investing Activities: The cash outflow primarily resulted from the capital expenditure incurred by the plan to replace old machine with new one.
3. Investing Activities: The cash outflow primarily resulted from the repayment of loans.

7.4 Major Capital Expenditure Items and impact to finance and business

7.4.1 Major capital expenditures and capital sources of the Company and its subsidiaries in 2016:

Unit: NT$ thousands

Project	Capital sources	Total funding
Purchase belong to equipment for business use	Own fund	2,622,908

7.4.2 Impact on financial business

The Company's operations have recovered quarter by quarter in 2016. The principal business showed a turn from loss to profit in the second half of the year. The Company integrated the Group's resources and centralized the equipment to engage in production. Meanwhile, in order to deal with the expansion of LED lighting application market, upgrading of specifications and need for upgrading competitiveness, the Company added advanced production process and productivity, and also upgraded related machinery, and invested in facilities of environmental protection and labor safety. The Company has also carefully evaluated the funding need for purchase of machine and equipment, and planned the utilization of working fund adequately. The following table shows that various turnover ratios are maintained stably. Meanwhile, the Company's consolidated operating revenue sources are stable and sufficient, and the Company is free from the risk over insufficient fund resulting from purchase of machine and equipment. Therefore, no adverse effect is produced to the financial business of the Company and its subsidiaries.

Item / Year	2015	2016
Property, Plant and Equipment Turnover (Times)	0.72	0.83
Current Ratio (%)	140.38	242.79

7.5 Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year

7.5.1 Investment policies in the most recent year

The Company focuses its investment policies on the LED industry primarily. In order to reduce the production cost and expand applications and sale volume of the Company's products, the Company works with the upstream and downstream virtual vertical integration, continues to boost strategic cooperation and organizational reform, upgrades effective utilization of resources and increases the penetration rate of LED products in various application markets, and thereby upgrade the Company's entire competitiveness and improve the Company's profitability.

7.5.2 Analysis on investment income

The investment loss recognized by the Group in 2016 was NT$1.002 billion, primarily resulting from unbalanced supply and demand in the LED industry and the market price of some LED products less than cash costs, in which case the investees froze the productivity of some old machine which was of poor efficiency, sold idle assets, and recognized loss under equity method and upon test on impairment of fair value, thereby resulting loss.

7.5.3 Corrective actions against investment and investment plan for following year

The Company continues to work with investees to develop niche markets, adjust product portfolio and upgrade its own profitability. Transfer the investment evaluated to be need no strategic cooperation into financial investment, and take chance to withdraw the investment, if any, and look for strategic partners of excellent constitution and potential in development, and review adjustment of investment structure in a timely manner, in hopes of exerting the maximum efficiency of investment fund and making contribution to the Company's entire profitability.

7.6 Analysis of Risk Management

7.6.1 Risk Management Policies and Organizational Structure

The Group's capital management policy is established taking into account the industry characteristics, the Group's future development and changes in external environments. The Group plans the working capital, capital expenditures, investments and dividends required for the future based on the capital management policy, makes financial analysis, and examines its capital structure periodically and makes appropriate adjustments to ensure every company within the Group may grow and operate indefinitely.

The Group's activities expose it to a variety of financial risks: market risk which include (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Overall risk management programmer of the Group focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance. Risk management is carried out by a central treasury department (Group treasury). Group treasury identifies, evaluates and hedges financial risk closely with the Group's operating units.

1. Market risk

   (1) Foreign exchange risk

   We operates internationally and is exposed to foreign exchange risk arising from various currencies, primarily NTD, USD, JPY and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Entities in the Group use forward foreign exchange contracts and foreign-currency short-term loans to hedge their foreign exchange risk exposure arising from recognized assets that are denominated in foreign currency.

The Group keeps controlling foreign currency assets and liabilities, and hedges against the entire foreign exchange risk. Therefore, no material market risk is expected.

(2) Interest rate risk

The Group's interest rate risk arises from bank deposits and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk that is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's borrowings at variable rate were denominated in the USD and NTD.

The analysis on sensitivity of interest rate risk refers to stimulation of the maximum effect of changes in interest rate to net profit after tax. The stimulation is carried out per quarter in order to ensure that the maximum loss falls within the limit set by the management.

(3) Price Risk

The Group's investments in equity securities comprise domestic listed and unlisted stocks. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The prices of equity securities would change due to the change of the future value of investee companies. The Group is not exposed to commodity price risk.

2. Credit risk

When the Group sell products, we set up a credit policy, evaluate risk of individual client, and factors that will affect payment, including financial position, credit rating, historical transaction records and other, and monitor credit limits.

Credit risk also arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. For banks and financial institutions, the Group decides whether to transact with them and the transaction amount based on their credit rating and financial position.

3. Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and external regulatory or legal requirements.

Surplus cash is invested in interest bearing current accounts, time deposits, money market deposits, and marketable securities, with appropriate maturities or sufficient liquidity to provide sufficient headroom and meet the above-mentioned forecasts.

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

1. Interest rate

(1) For the Company's and its subsidiaries' net deposit, though the interest rate fluctuates under the government's policy, such fluctuation is still held acceptable. Therefore, the fluctuation in interest rate renders limited effect to the profitability.

(2) The Company and its subsidiaries will keep watching the trend of interest rate in the financial market, strictly control the deposit and loan subject to floating and fixed interest rates, solicit for high-yield investment portfolio insofar as it is considered safe, seek the market average interest rate when evaluating the interest on bank loans, and keep in touch with banks to strive for the most favorable loan interest rate, in hopes of mitigating the risk potentially resulting from the fluctuation in interest rate.

2. Foreign exchange rates

The Company's and its subsidiaries' consolidated exchange losses were NT$440,632 thousand and NT$379,057 thousand in 2015 and 2016. Based on the Company's and its subsidiaries' functional currency and the correspondent foreign currency, the Company judges the trend of foreign exchange rate and adopts adequate hedging strategies, and continues to strengthen the control over foreign currency position and adjust the exchange currency insofar as it is controllable, in order to reduce the Company's and its subsidiaries' foreign currency asset/liability difference and mitigate the effect of fluctuation in foreign exchange rate to the Company's income.

The Group keeps controlling foreign currency assets and liabilities, and hedges against the entire foreign exchange risk. Therefore, no material market risk is expected.

3. Inflation

The Company and its subsidiaries will keep watching the changes in supply & demand and price of raw materials and supplies, and adjust inventory in a timely manner, and seek to reduce the operating cost through research and development of low-cost alternative raw materials and upgrading of the product brightness, in hopes of mitigating the effect of fluctuation in foreign exchange rate to the Company's income.

7.6.3 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

1. Loans to others

The total facility of Epistar to other companies or firms should be limited to 30% of the net worth of Epistar; however, in the case of loans to other companies or firms with the necessity of short-term financing demand, Epistar should only approve loans up to 10% of Epistar's net worth. Epistar may loan to the foreign companies of which Epistar directly or indirectly holds shares for 100% voting rights, but the amount limits of loans shall not exceed forty percent (40%) of Epistar's net worth, and the duration of loans shall not be longer than three years.

The limit of loan made by the subsidiary indirectly owned by the Company, Episky Corporation (Xiamen) Ltd., shall be no more than 50% of the net worth in the latest financial statements of Episky Corporation (Xiamen) Ltd.. The limit of loan made by Episky Xiamen to any single counterpart shall be no more than 40% of the net worth in its latest financial.

December 31, 2016 Unit: NT$ thousands

Lender	Borrower	Balance of loan A	Actual drawdown	A to 2016 Q4 Net value ratio (%)
EPISTAR Corporation	Jiangsu Canyang Optoelectronics Ltd.	935,250	935,250	1.90

Lender	Borrower	Balance of loan A	Actual drawdown	A to 2016 Q4 Net value ratio (%)
EPISKY Corporation (Xiamen) Ltd.	United LED Shan Dong Corporation	278,940	37,192	10.90
EPISKY Corporation (Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	278,940	0	10.90
Total subsidiaries		1,493,130	972,442	3.03

Note: The net worth in the financial statements of the Company and Episky Xiamen 2016 was NT$49,274,444 thousand and RMB550,613 thousand respectively.

2. Provision of endorsements and guarantees to others

In accordance with the Company's Procedures for Provision of loans: the ceiling on total endorsements/guarantees is 20% of the Company's net assets, and the limit on endorsements/ guarantees to a single party is 10% of its net assets. In addition, the Company and subsidiaries the limit on total endorsements/guarantees is 30% of the Company's net assets.

December 31, 2016 Unit: NT$ thousands

Endorser/guarantor	Endorsee/guarantee	Balance of guaranty A	Actual drawdown	A to 2016 Q4 Net value ratio (%)
EPISTAR Corporation	EPISKY Corporation (Xiamen) Ltd.	1,895,210	64,500	3.85
EPISTAR Corporation	Jiangsu Canyang Optoelectronics Ltd.	903,000	678,863	1.83
EPISTAR Corporation	Yen-Rich Opto (Hong Kong) Limited	161,250	0	0.33
Total consolidated subjects		2,959,460	743,363	6.01

Note: The net worth in the financial statement 2016 was NT$49,274,144 thousand.

3. Trading of derivatives

The Company and Luxlite (Shenzhen) Corporation Limited are engaged in trading of derivatives primarily in order to hedge against risk, in accordance with the "Acquisition or Disposal Procedures of Asset" and regulations governing trading of financial derivatives. The maximum loss limits on total trading and for individual contracts are both 15% of the contract amount.

From the beginning of 2016 until the date of publication of the annual report, the Company did not engage in trading of derivatives; to meet the need for hedging foreign exchange rate risk, Luxlite (Shenzhen) Corporation Limited was only engaged in forward foreign exchanges, but was not engaged in other high-risk transactions.

7.6.4 Future Research & Development Projects and Corresponding Budget

The Company's and its subsidiaries' R&D subjects are based in Taiwan. The main R&D plan is led by the Company. The R&D expenditure scheduled to be invested in 2017 will remain growing stably. For details, please see Pages 78~79 herein.

7.6.5 The impact of material changes of local and foreign government policies and regulations in fiscal year 2016 and as of the publication date of the annual report on the Company's finance and business, and the responsive measures

The Company has taken adequate measures to deal with the changes in major domestic and foreign policies and laws in the most recent year. Therefore, the Company is considered able to respond to and control the changes in major domestic and foreign policies and laws effectively.

7.6.6 Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales

The global economic situation is still in the doldrums and industry competition is fierce, but because of the global issues on energy-saving and environmental protection are critical, along with luminous efficiency been gradually improved, that making more and more new applications to be realized to bring out the LED market still contains potential opportunities for more development. Such as the growth in applications of LED lighting and automotive when penetration rate continues to rise in both sector, or in the growth of application area like LED plant lighting gradually being valued up and infrared (IR) LED been applied in the security control area or smart phone sensing.

In view of the future demand from end-use application is toward to tendency of intelligent and cost-effective, therefore continuing to invest in Research and Development to improve technical ability and to reduce costs are vital.

In the third quarter of last year, the Company has completed a simple merger with HUGA Optotech Inc. and Formosa Epitaxy Incorporation who both were 100% owned subsidiary of the Company in order to consolidate Group's resources and to reduce operating costs. The above acts have gradually produced synergies within the group. The company should be able to achieve the goal of turning losses into profits in this year through promoting organizational changes, intensifying the efficiency of resource utilization, improving the added value of products and optimizing the product portfolio.

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

As one of the important members of the global LED supply chain, the Company's customers come from various major trading countries in the world, and the Company introduces the phased planning of AEO certification, and conducts the self-inspection and random check at least per year. The Company reviews and improves the current supply chain safety control procedures via the AEO guidance and certification procedure to well found the management of supply chain and logistic safety and to meet AEO international standards. The Company acquired the AEO certification on October 30, 2015 and, therefore, became the safe supply chain benchmarking of the optoelectronic industry in Taiwan. The Company also fulfills its corporate social responsibility.

7.6.8 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans

Effective integration of resources and integration of related technology to reduce costs, to promote the rational management and to play group synergy, on September 29, 2016, Epistar conducted short-form mergers with its 100%-owned subsidiary HUGA Optotech Inc. and Formosa Epitaxy Incorporation, pursuant to Article 19 of Enterprises Mergers and Acquisitions Act ("the M&A"). The purpose of the M&A is to realize the group synergy and shall not impact the rights of Shareholders.

7.6.9 Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans

According to the Company's expansion plan, the Company first evaluated the Group's entire productivity layout and then evaluated feasibility and effect based on the product development trend and customers' need. Therefore, the Company could control the business opportunities to mitigate the investment risk. Notwithstanding, upon multiple consolidations and mergers, the Company's fabs were dispersed. Therefore, the Company starts to integrate its fabs and centralize the Group's equipment to upgrade the business scale and management efficiency of each fab.

7.6.10 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

1. Purchase

In terms of the top ten suppliers identified in the consolidated financial statements, the purchase from any single main supplier of raw materials has never been more than 20% of the total purchase for the most recent two years. Therefore, there should be no risk associated with any consolidation of purchase. However, the Group purchased from Supplier B (the Group's stakeholder) the semi-finished goods for LED chip in 2016. The purchasing amount accounted for 22.07% of the net purchasing, primarily in order to be in line with the adjustment on the Group's production and marketing planning. Except this, there is no risk over consolidation of purchasing operations.

2. Sales

In terms of the top ten suppliers identified in the consolidated financial statements, the sales to any customer has never been more than 20% of the total operating revenue for the most recent two years. Therefore, there should be no risk associated with any consolidation of sales.

7.6.11 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%: None.

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

7.6.13 Litigation or Non-litigation Matters

Case	General issue	Amount of the dispute	Beginning date of the lawsuit	Litigant	Current progress
Civil action arising from accounts receivable & product defect	Disputes of accounts receivable & product defect between Epistar and Customer cannot be settled, both parties filed complaint.	Customer filed a complaint accusing the damage caused by the defect product and claimed NT 25,867 thousand dollars to Epistar; Epistar made a counterclaim to demand Customers pay NT 2,917 thousand dollars of late payment of products.	2015.01.09	Customer: Alder Optomechanical Corp.	On November 16, 2016, the written judgment of first instance from Hsin Chu District Court was received. Customer's claim for NT $ 25,867,489 was dismissed, and Customer shall pay Epistar NT $ 2,048,884. Both parties appealed against the judgment of first instance. The case is currently under trial by the Taiwan High Court.
Patent litigation	On October 12, 2012, Trustees of Boston University filed suit against the Company, alleging patent infringement of US5,686,738, which is related to a blue LED chip containing non-single crystalline GaN buffer.	Subject to the outcome of the proceeding	2012.10.12	Trustees of Boston University	In November 2015, the verdict of a Massachusetts federal jury for the first instance stated that the Company shall pay compensation of USD 930 million. On July 22, 2016, the U.S. District Judge concluded the evidence did not support such award, declined to award the school enhanced damages, and ordered another trial that capped the new damages amount at $1 million. Possible impact to the Company's financial statements and operations will be assessed based on the outcome of the proceeding. However, the Company believes the ongoing lawsuit will not have any significant impact on the Company's overall operations.
Patent litigation	The Company sued Epileds for patent infringement under four TW patents, which are TW141155, TW170789, TW202662, and TWI283031. The products at issue are IR LED BN-D4242J-A3 and BN-D4242E-A3.	subject to the outcome of court order	2016.01.08	Epileds	Pending in IP court.

Case	General issue	Amount of the dispute	Beginning date of the lawsuit	Litigant	Current progress
Patent litigation	The Company sued Adamax for patent infringement under 6 US patents, which are US6,346,771, US7,489,068, US7,560,738, US8,240,881, US8,791,467, US9,065,022. The product-at-issue is LED filament bulb.	According to the agreement	2016.08.30	Adamax	Entering settlement.

7.6.14 Other important risks, and mitigation measures being or to be taken: None.

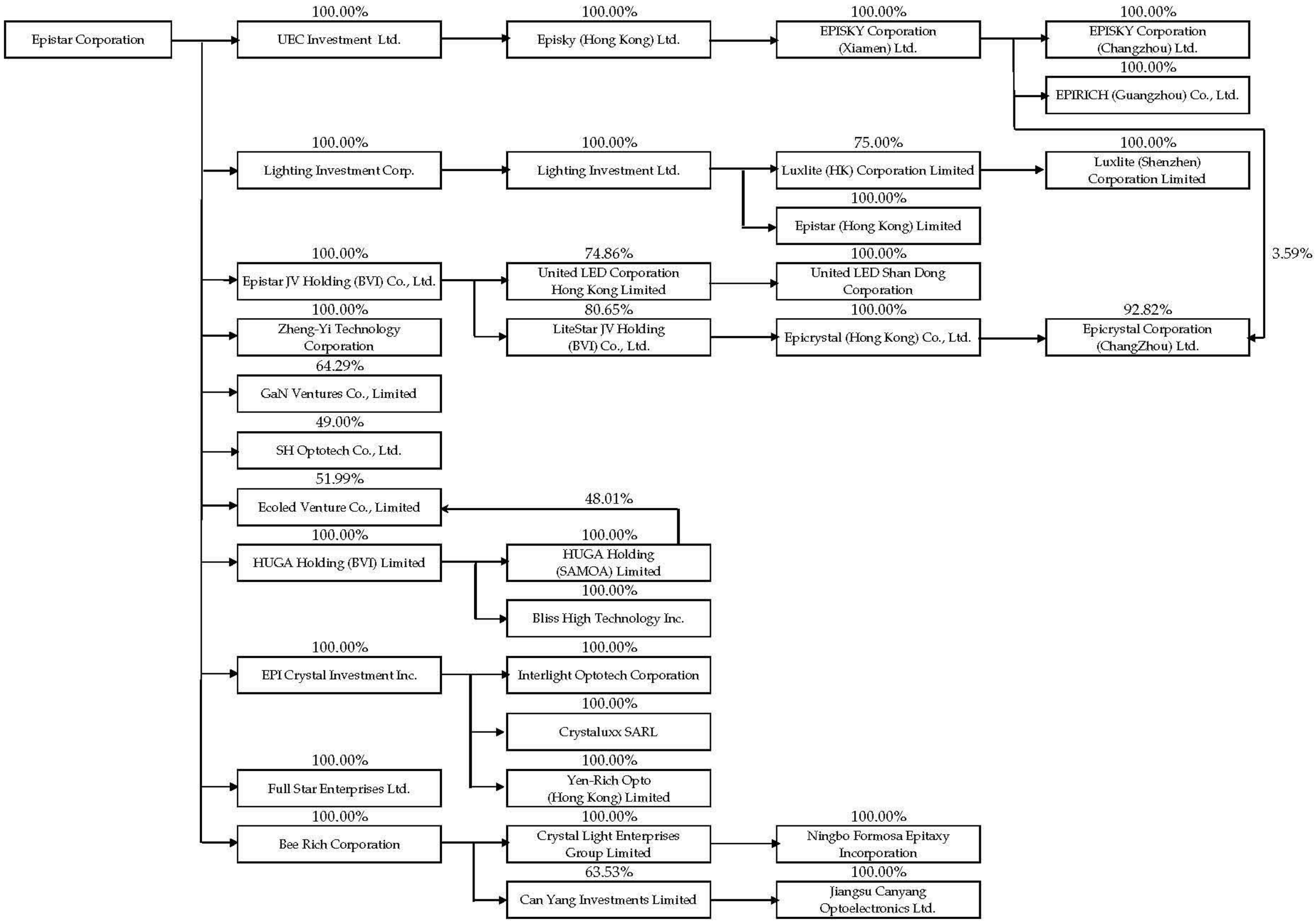
7.7 The other Important Item: None.

8. Special Disclosure

8.1 Summary of Affiliated Companies

8.1.1 Organization Chart of Epistar Corporation's Affiliated Companies (December 31, 2016)

晶元光電(股)公司關係企業圖 (105/12/31)



8.1.2 Basic Information of Affiliates

Unit: $ thousandsUSD, RMB and EUR

Company Name	Date of establishment	Address	Capital Stock		Major business
UEC Investment Ltd.	1999.10.20	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD	67,300	Professional investment.
Lighting Investment Corp.	2007.11.08	2F., No.62, Guanghua 2nd St., North Dist., Hsinchu City 300, Taiwan (R.O.C.)	NTD	1,352,971	Professional investment.
Epistar JV Holding (BVI) Co., Ltd.	2010.01.21	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD	234,160	Professional investment.
Zheng-Yi Technology Corporation	2009.12.11	22, Keya Rd., Central Taiwan Science Park, Taichung 42881, Taiwan	NTD	600,000	Manufacture & sales of LED products.
GaN Ventures Co., Limited	2016.08.04	Unit 1405-1406, Dominion Centre 43-59 Queen's Road East Wanchai, Hong Kong	USD	2,800	Sales of Smart Lighting prodcuts.
SH Optotech Co., Ltd.	2009.09.25	1F 22, Keya Rd., Central Taiwan Science Park, Taichung 42881, Taiwan	NTD	64,881	Manufacture & sales of LED products.
Ecoled Venture Co., Limited	2014.11.26	Unit 1405-1406, Dominion Centre 43-59 Queen's Road East Wanchai, Hong Kong	USD	3,313	Sales of Smart Lighting prodcuts.
HUGA Holding (BVI) Limited	2011.01.11	P.O.Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD	3	Professional investment.
EPI Crystal Investment Inc.	2012.06.14	3F., No.132, Gongyi Rd., West Dist., Taichung City 403, Taiwan	NTD	1,180,000	Professional investment.
Full Star Enterprises Limited	2008.10.03	Room 2702-03, CC Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong	USD	8,660	Professional investment.
Bee Rich Corporation	2001.08.01	Trust Net Chambers, P.O. Box 3444 Road Town, Tortola, British Virgin Islands	USD	109,473	Professional investment.
Episky (Hong Kong) Ltd.	2008.05.06	Unit 1405-1406, Dominion Centre 43-59 Queen's Road East Wanchai, Hong Kong	USD	68,000	Professional investment.
Lighting Investment Ltd.	2008.05.16	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD	4,564	Professional investment.
United LED Corporation Hong Kong Limited	2009.10.29	Room 2702-03, C.C.Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong	USD	89,500	Professional investment.

Unit: $ thousandsUSD, RMB and EUR

Company Name	Date of establishment	Address	Capital Stock		Major business
LiteStar JV Holding (BVI) Co., Ltd.	2010.02.22	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD	120,050	Professional investment.
HUGA Holding (Samoa) Limited	2011.01.13	Offshore Chambers, P.O.Box 217,Apia, Samoa	USD	12,451	Professional investment.
Bliss High Technology Inc.	2012.01.01	2nd Floor, Building B, SNPF Plaza, Savalalo, Apia, Samoa	USD	100	Sales of LED products.
Interlight Optotech Corporation	2007.06.14	2F., No.2-3, Gongye 10th Rd., Pingzhen Dist., Taoyuan City 324, Taiwan	NTD	24,751	Manufacture & sales of LED products.
Crystaluxx SARL	2013.02.28	40, avenue Monterey, L-2163 Luxembourg	EUR	3,250	Professional investment.
Yen-Rich Opto (Hong Kong) Limited	2013.03.22	Room 1501 15/F., SPA Centre, 53-55 Lockhart Road, Wanchai, Hong Kong	USD	8,010	Sales of LED products.
Crystal Light Enterprises Group Limited	2001.09.28	TrustNet Chambers, P.O. Box3444 Road Town, Tortola, British Virgin Islands	USD	200	Professional investment.
Can Yang Investments Limited	2009.11.24	Room 2702-03, CC Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong	USD	172,000	Professional investment.
EPISKY Corporation (Xiamen) Ltd.	2006.12.13	99, Xiang Xing Rd., Xiang'An Branch, Torch Hi-Tech Industrial Development Zone, Xiamen, China	USD	68,000	Manufacture & sales of LED products.
Luxlite (HK) Corporation Limited	2008.12.18	Unit 1405-1406, Dominion Centre 43-59 Queen's Road East Wanchai, Hong Kong	USD	3,800	Professional investment.
Epistar (Hong Kong) Limited	2013.04.25	Unit 1405-1406, Dominion Centre 43-59 Queen's Road East Wanchai, Hong Kong	USD	83	Professional investment.
United LED Shan Dong Corporation	2010.02.25	NO.6688 Chongwen Road Jining High & New Technology	USD	84,000	Manufacture & sales of LED products.
Epicrystal (Hong Kong) Co., Ltd.	2010.03.05	Unit 1405-1406, Dominion Centre 43-59 Queen's Road East Wanchai, Hong Kong	USD	134,600	Professional investment.
Ningbo Formosa Epitaxy Incorporation	2004.06.23	Room 5088-17, 5F, No.1558, Jiangnan Road Ningo, China	USD	200	Sales of LED products.
Jiangsu Canyang Optoelectronics Ltd.	2009.10.12	No.9, Zhouzhuanghe Road, Economic Development Zone, Yangzhou, Jiangsu Province, PRC, 225009	USD	160,000	Manufacture & sales of LED products.

Unit: $ thousandsUSD, RMB and EUR

Company Name	Date of establishment	Address	Capital Stock		Major business
EPISKY Corporation (Changzhou) Ltd.	2014.02.27	F1, Building 10, No.377 South Wuyi Road, Wujin National Hi-tech Industrial Zone	RMB	20,000	Manufacture & sales of LED products.
EPIRICH (Guangzhou) Co.,Ltd.	2015.05.18	Guangzhou zengcheng district Xiangshan road, 51st	RMB	8,000	Manufacture & sales of LED products.
Luxlite (Shenzhen) Corporation Limited	2009.02.16	21F,Sunshine Golf Building, Shennan Road, Futian District, Shenzhen	USD	3,000	Sales of LED products.
Epicrystal Corporation (ChangZhou) Ltd.	2010.04.07	No.66-8,Yanghu Rd. Wu Jin Hi-Tech Industrial Development Zone , Changzhou, Jiangsu	USD	145,000	Manufacture & sales of LED products.

8.1.3 Shareholders representing both holding companies and subordinates: None.

8.1.4 Industries Covered by all the Affiliates: Including optoelectronic industry and investment industry.

8.1.5 Name of each affiliated company's Director, Supervisor, and General Manager

As of December 31, 2016

Company Name	Title	Name or Representative		Shareholding	
		Name	Legal representative	Shares	%
UEC Investment Ltd.	Chairman	Biing-Jye Lee		0	0.00%
Lighting Investment Corp.	Chairman	Epistar Corporation	Ming-Jiunn Jou	135,297,086	100.00%
	Director	Epistar Corporation	Min-Hsun Hsieh		
	Director	Epistar Corporation	Tzu-Hsiang Tai		
	Supervisor	Epistar Corporation	Tao-jung Lin		
	General Manager	Shih-Shieh Chang		0	0.00%
Epistar JV Holding (BVI) Co., Ltd.	Chairman	Biing-Jye Lee		0	0.00%
Zheng-Yi Technology Corporation	Chairman	Epistar Corporation	Ming-Jiunn Jou	60,000,000	100.00%
	Director	Epistar Corporation	Min-Hsun Hsieh		
	Director	Epistar Corporation	Lin-Tien Yang		
	Supervisor	Epistar Corporation	Yung-Sheng Yu		
	General Manager	Lin-Tien Yang		0	0.00%
GaN Ventures Co., Limited	Chairman	DHAYAGUDE Tushar Heramb		0	0.00%
	Director	SHAH Ashok Deepak		0	0.00%
	Director	Ming-Jiunn Jou		0	0.00%

As of December 31, 2016

Company Name	Title	Name or Representative		Shareholding	
		Name	Legal representative	Shares	%
SH Optotech Co., Ltd.	Chairman	Seoul Optodevice Co., Ltd.	Yeo-Jin Yoon	2,725,007	42.00%
	Director	Seoul Optodevice Co., Ltd.	Jung Hak Myung		
	Director	Epistar Corporation	Lin-Tien Yang	3,179,176	49.00%
	Director	Epistar Corporation	Wen-Chung Lee		
	Supervisor	Tao-jung Lin		0	0.00%
	Supervisor	Seoul Semiconductor Co., Ltd.	Hyeon Jong Yu	583,928	9.00%
	General Manager	Lin-Tien Yang		0	0.00%
Ecoled Venture Co., Limited	Chairman	Ming-Jiunn Jou		0	0.00%
	Director	Alexander-Chan Wang		0	0.00%
	Director	Yung-Sheng Yu		0	0.00%
HUGA Holding (BVI) Limited	Director	Chin-Yung Fan		0	0.00%
EPI Crystal Investment Inc.	Chairman	Epistar Corporation	Ming-Jiunn Jou	118,000,000	100.00%
	Director	Epistar Corporation	Lin-Tien Yang		
	Director	Epistar Corporation	Yung-Sheng Yu		
	Supervisor	Epistar Corporation	Tao-jung Lin		
	General Manager	Tzu-Hsiang Tai		0	0.00%
Full Star Enterprises Limited	Director	Ming-Jiunn Jou		0	0.00%
Bee Rich Corporation	Director	Epistar Corporation	Chin-Yung Fan	109,472,700	100.00%
Episky(Hong Kong)Ltd.	Director	Chin-Yung Fan		0	0.00%
Lighting Investment Ltd.	Director	Ming-Jiunn Jou		0	0.00%
United LED Corporation Hong Kong Limited	Chairman	Jen-Chau Wu		0	0.00%
	Director	Lin-Tien Yang		0	0.00%
	Director	Chang Bao		0	0.00%
	Director	Chau-Shen Yu		0	0.00%
	Director	Jin-Hong Lin		0	0.00%
	Supervisor	Yung-Sheng Yu		0	0.00%
	Supervisor	Wei-ping Lien		0	0.00%
LiteStar JV Holding (BVI) Co., Ltd.	Director	Biing-Jye Lee		0	0.00%
	Director	Ming-Jiunn Jou		0	0.00%
	Director	Kuo-Yang Chang		0	0.00%
HUGA Holding (Samoa) Limited	Director	HUGA Holding (BVI) Limited	Chin-Yung Fan	12,451,035	100.00%
Bliss High Technology Inc.	Director	Tzu-Hsiang Tai		0	0.00%

As of December 31, 2016

Company Name	Title	Name or Representative		Shareholding	
		Name	Legal representative	Shares	%
Interlight Optotech Corporation	Chairman	EPI Crystal Investment Inc.	Hsiu-Jen Liu	2,475,099	100.00%
	Director	EPI Crystal Investment Inc.	Min-Hsun Hsieh		
	Director	EPI Crystal Investment Inc.	Shaoyou Deng		
	Supervisor	EPI Crystal Investment Inc.	Tao-jung Lin		
	General Manager	Justin Lin		0	0.00%
Crystaluxx SARL	Director	EPI Crystal Investment Inc.	Ming-Jiunn Jou	32,500	100.00%
	Director	EPI Crystal Investment Inc.	Chin-Yung Fan		
	Director	EPI Crystal Investment Inc.	Tzu-Hsiang Tai		
Yen-Rich Opto (Hong Kong) Limited	Chairman	Ming-Jiunn Jou		0	0.00%
Crystal Light Enterprises Group Limited	Director	Bee Rich Corporation	Ming-Jiunn Jou	200,000	100.00%
Can Yang Investments Limited	Chairman	Ming-Jiunn Jou		0	0.00%
	Director	Jen-Chau Wu		0	0.00%
	Director	Chin-Yung Fan		0	0.00%
	Director	Chia-Chen Chang		0	0.00%
	Director	LG Display Co. Ltd.	Nam Han-Yong	15,300,000	8.90%
	Director	Suntrap Corporation Limited	Ching-Huei Wu	10,472,700	6.09%
EPISKY Corporation (Xiamen) Ltd.	Chairman	Episky (Hong Kong) Ltd.	Jen-Chau Wu	NA (Note 1)	100.00%
	Director	Episky (Hong Kong) Ltd.	Chang Bao		
	Director	Episky (Hong Kong) Ltd.	Rong-Yih Hwang		
	Director	Episky (Hong Kong) Ltd.	Wen-Chieh Kuo		
	Supervisor	Episky (Hong Kong) Ltd.	Shih-Shieh Chang		
	General Manager	Wen-Chieh Kuo		NA (Note 1)	0.00%
Luxlite (HK) Corporation Limited	Director	Ming-Jiunn Jou		0	0.00%
	Director	Shih-Shieh Chang		0	0.00%
	Director	Wei-Kuo Su		0	0.00%
	Director	Rong-Yih Hwang		0	0.00%
	Director	Chin-Yung Fan		0	0.00%
	Director	Chang Bao		475,000	12.50%
	Director	Chen-Chen Liu		475,000	12.50%
Epistar (Hong Kong) Limited	Director	Chin-Yung Fan		0	0.00%
United LED Shan Dong Corporation	Executive Director	United LED Corporation Hong Kong Limited	Jen-Chau Wu	NA (Note 1)	100.00%
	Supervisor	United LED Corporation Hong Kong Limited	Rong-Chang Lin		
	General Manager	Hsien-Chun Weng		NA (Note 1)	0.00%

As of December 31, 2016

Company Name	Title	Name or Representative		Shareholding	
		Name	Legal representative	Shares	%
Epicrystal (Hong Kong) Co., Ltd.	Director	Biing-Jye Lee		0	0.00%
	Director	Ming-Jiunn Jou		0	0.00%
	Director	Lin-Tien Yang		0	0.00%
	Director	Jen-Chau Wu		0	0.00%
	Director	Kuang-Chung Chen		0	0.00%
	Director	Albert Chang		0	0.00%
Ningbo Formosa Epitaxy Incorporation	Chairman	Crystal Light Enterprises Group Limited	Jen-Chau Wu	NA (Note 1)	100.00%
	Director	Crystal Light Enterprises Group Limited	Jimbo Wang		
	Director	Crystal Light Enterprises Group Limited	Talung Ho		
Jiangsu Canyang Optoelectronics Ltd.	Chairman	Can Yang Investments Limited	Jen-Chau Wu	NA (Note 1)	100.00%
	Director	Can Yang Investments Limited	Ming-Jiunn Jou		
	Director	Can Yang Investments Limited	Chin-Yung Fan		
	Director	Can Yang Investments Limited	Chia-Chen Chang		
	Director	Can Yang Investments Limited	Nam Han-Yong		
	Director	Can Yang Investments Limited	Ching-Huei Wu		
	Supervisor	Can Yang Investments Limited	Talung Ho		
	General Manager	Cheng-Chi Chiang		NA (Note 1)	0.00%
EPISKY Corporation (Changzhou) Ltd.	Chairman	EPISKY Corporation (Xiamen) Ltd.	Li-Cheng Hung	NA (Note 1)	100.00%
	Director	EPISKY Corporation (Xiamen) Ltd.	Hsien-Chun Weng		
	Director	EPISKY Corporation (Xiamen) Ltd.	Jen-Chau Wu		
	Director	EPISKY Corporation (Xiamen) Ltd.	Chia-Chen Chang		
	Director	EPISKY Corporation (Xiamen) Ltd.	Talung Ho		
	Supervisor	EPISKY Corporation (Xiamen) Ltd.	Tzu-Hsiang Tai		
	General Manager	Liang-Sheng Chi		NA (Note 1)	0.00%
EPIRICH (Guangzhou) Co., Ltd.	Chairman	EPISKY Corporation (Xiamen) Ltd.	Chin-Yung Fan	NA (Note 1)	100.00%
	Director	EPISKY Corporation (Xiamen) Ltd.	Benson Liaw		
	Director	EPISKY Corporation (Xiamen) Ltd.	Yung-Sheng Yu		
	Supervisor	EPISKY Corporation (Xiamen) Ltd.	Talung Ho		

As of December 31, 2016

Company Name	Title	Name or Representative		Shareholding	
		Name	Legal representative	Shares	%
Luxlite (Shenzhen) Corporation Limited	Chairman	Luxlite (HK) Corporation Limited	Chang Bao	NA (Note 1)	100.00%
	Director	Luxlite (HK) Corporation Limited	Ming-Jiunn Jou		
	Director	Luxlite (HK) Corporation Limited	Shih-Shieh Chang		
	Director	Luxlite (HK) Corporation Limited	Tzu-Hsiang Tai		
	Director	Luxlite (HK) Corporation Limited	Rong-Yih Hwang		
	Director	Luxlite (HK) Corporation Limited	Chin-Yung Fan		
	Director	Luxlite (HK) Corporation Limited	Chen-Chen Liu		
	Supervisor	Luxlite (HK) Corporation Limited	Tao-jung Lin		
	General Manager	Lin-Tien Yang		NA (Note 1)	0.00%
Epicrystal Corporation (ChangZhou) Ltd.	Chairman	Epicrystal (Hong Kong) Co., Ltd.	Jen-Chau Wu	NA (Note 1)	92.82%
	Director	Epicrystal (Hong Kong) Co., Ltd.	Biing-Jye Lee		
	Director	Epicrystal (Hong Kong) Co., Ltd.	Chang Bao		
	Director	Epicrystal (Hong Kong) Co., Ltd.	Kuang-Chung Chen		
	Director	Epicrystal (Hong Kong) Co., Ltd.	Kuo-Yang Chang		
	Director	EPISKY Corporation (Xiamen) Ltd.	Lin-Tien Yang	NA (Note 1)	3.59%
	Supervisor	Epicrystal (Hong Kong) Co., Ltd., EPISKY Corporation (Xiamen) Ltd., Lite-On Electronics (Tianjin) Co., Ltd.	Tao-jung Lin	NA (Note 1)	100.00% (Note 2)
	General Manager	Cheng-Chi Chiang		NA (Note 1)	0.00%

Note 1: Given the type of limited company, the quantity of shares is not applicable.

Note 2: Appointed by shareholders jointly pursuant to PRC Company Law, and recorded by State Administration for Industry & Commerce for the People's Republic of China.

8.1.6 Affiliates' Operating Results

As of December 31, 2016 Unit: NT in thousands

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Revenues	Income (Loss) from Operation	Net Income (Loss)	Basic Earning (Loss) Per Share
UEC Investment Ltd.	2,094,138	2,603,316	8,590	2,594,726	333,702	(224)	98,414	NA
Lighting Investment Corp.	1,352,971	808,619	230	808,389	147,300	(87,475)	(86,018)	(0.65)
Epistar JV Holding (BVI) Co., Ltd.	7,282,982	5,657,229	26	5,657,203	0	(56)	(639,492)	NA
Zheng-Yi Technology Corporation	600,000	570,829	156,076	414,753	329,781	(147,379)	(146,421)	(2.44)
GaN Ventures Co., Limited	90,300	75,172	20,016	55,156	0	(35,210)	(35,158)	NA
SH Optotech Co., Ltd.	64,881	15,353	12,433	2,920	0	(1,781)	(1,888)	(0.29)
Ecoled Venture Co., Limited	106,844	141,043	93,238	47,805	104,405	(35,782)	(35,721)	NA
HUGA Holding (BVI) Limited	589,959	397,357	95	397,262	0	(155)	(47,452)	NA
EPI Crystal Investment Inc.	1,180,000	1,005,305	11,140	994,165	0	(354)	(23,051)	(0.20)
Full Star Enterprises Limited	262,991	240,598	85	240,513	0	(271)	64,757	NA
Bee Rich Corporation	3,331,416	834,871	0	834,871	0	0	(534,920)	NA
Episky (Hong Kong) Ltd.	2,124,096	2,589,525	0	2,589,525	0	56	97,444	NA
Lighting Investment Ltd.	152,701	494,918	87,534	407,384	268,968	(23,133)	(48,571)	NA
United LED Corporation Hong Kong Limited	2,689,036	1,008,320	3,159	1,005,161	0	(968)	(762,380)	NA
LiteStar JV Holding (BVI) Co., Ltd.	3,807,404	3,798,485	214	3,798,271	0	(272)	3,647	NA
HUGA Holding (Samoa) Limited	333,821	255,257	32	255,225	0	(255)	(23,809)	NA
Bliss High Technology Inc.	3,008	152,351	154,955	(2,604)	697,879	(2,298)	(2,257)	NA
Interlight Optotech Corporation	24,751	35,228	29,448	5,780	25,597	25,013	(1,447)	(0.58)
Crystaluxx SARL	110,175	18,640	0	18,640	0	(519)	(39,677)	NA
Yen-Rich Opto (Hong Kong) Limited	258,323	555,574	252,814	302,760	1,056,448	31,522	33,536	NA
Crystal Light Enterprises Group Limited	6,754	23,791	0	23,791	0	0	(46)	NA
Can Yang Investments Limited	5,306,728	1,276,822	147	1,276,675	0	(5,340)	(841,915)	NA
EPISKY Corporation (Xiamen) Ltd.	2,073,667	3,499,144	909,633	2,589,511	4,072,538	131,152	97,389	NA
Luxlite (HK) Corporation Limited	122,550	256,214	35	256,179	0	(49)	492	NA
Epistar (Hong Kong) Limited	2,556	2,460	70	2,390	0	(73)	109	NA
United LED Shan Dong Corporation	2,519,400	1,343,835	383,077	960,758	74,744	(272,263)	(778,859)	NA
Epicrystal (Hong Kong) Co., Ltd.	4,040,994	3,796,746	0	3,796,746	0	0	3,947	NA

As of December 31, 2016 Unit: NT in thousands

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Revenues	Income (Loss) from Operation	Net Income (Loss)	Basic Earning (Loss) Per Share
Ningbo Formosa Epitaxy Incorporation	6,754	23,798	7	23,791	0	(302)	(46)	NA
Jiangsu Canyang Optoelectronics Ltd.	4,898,607	3,501,734	2,172,951	1,328,783	1,390,304	(326,464)	(836,422)	NA
EPISKY Corporation (Changzhou) Ltd.	92,980	1,100,302	944,843	155,459	3,583,929	51,535	44,408	NA
EPIRICH (Guangzhou) Co.,Ltd.	37,192	21,881	288	21,593	2,457	(8,953)	(8,937)	NA
Luxlite (Shenzhen) Corporation Limited	94,781	3,213,343	2,983,479	229,864	6,393,440	282,077	318	NA
Epicrystal Corporation (ChangZhou) Ltd.	4,361,009	5,469,100	1,378,660	4,090,440	450,549	132,303	4,264	NA

8.1.7 Affiliates Consolidated Financial Statements: As Appendix 1.3 (pages 137)

8.1.8 Relationship Report: N.A.

8.1.9 Information about endorsement/guarantee to affiliates, loaning to others and trading of financial derivatives

1、Endorsement/guarantee for others: N/A

2、Loaning to others

The limit of total loan made by the subsidiary wholly owned by the Company directly, Episky Corporation (Xiamen) Ltd., and the limit of loan made by it any single counterpart shall be no more than 50% and 40% of the net worth in the latest financial statements of Episky Corporation (Xiamen) Ltd..

December 31, 2016 Unit: NT$ thousands

Lender	Borrower	Balance of loan A	Actual drawdown	A to 2016 Q4 Net value ratio (%)
EPISKY Corporation (Xiamen) Ltd.	United LED Shan Dong Corporation	278,940	37,192	10.90
EPISKY Corporation (Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	278,940	0	10.90
Total		557,880	37,192	21.80

Note: Episky Corporation (Xiamen) Ltd. The net worth in the financial statement 2016 was RMB550,613 thousand.

3、Trading of derivatives

According to the Regulations on engage derivative financial commodity trading of Luxlite (Shenzhen) Co., Ltd., operation on choosing derivative commodity is mainly to hedge the risk generated from foreign currency income, expenditure, assets or liabilities. The maximum lost for all and individual contracts is 15% of the contractual amount.

From the beginning of 2016 until the date of publication of the annual report, Luxlite (Shenzhen) Co., Ltd., under the necessity of hedge of foreign exchange rate volatility, only engaged in long-term forward of foreign exchange without conducting other high-risk transactions. It is mainly to hedge the risk of foreign currency volatility and the derivative commodity are chosen by highly degree of negative correlation with the fair value of the hedged items along with periodically assessment.

8.2 Private Placement Securities in the Most Recent Years

Title	Approved the motion for issuance of securities in private placement at the shareholders' meeting on June 17, 2016. (note)
Type of securities in private placement	Common shares of Epistar Corporation
Date on which the private placement was approved at a shareholders meeting and the amount thus approved	The issuance of new common shares in private placement and new common shares for cash to sponsor issuance of the global depository receipt shall total no more than 165 million shares. The motion was approved upon resolution made at the general shareholders' meeting on June 17, 2016.

<table>
<tr><td>Title</td><td colspan="5">Approved the motion for issuance of securities in private placement at the shareholders’ meeting on June 17, 2016. (note)</td></tr>
<tr><td>Basis for and reasonableness of the pricing</td><td colspan="5">The private placement price of the Company shall be no less than 80% of the higher of the following two calculation bases prior to the price determination date:
1. The simple average closing price of the common stock of either the one, three or five consecutive business day period immediately before the price determination date, after adjustment for any distribution of stock dividends, cash dividends, or capital reduction.
2. The simple average closing price of the common stock of the thirty consecutive business day period immediately before the price determination date, after adjustment for any distribution of stock dividends, cash dividends, or capital reduction.</td></tr>
<tr><td>Manner in which the specified persons were selected</td><td colspan="5">The specific investor shall be mainly defined in compliance with Article 43-6 of the Securities and Exchange Act and related letter by the Financial Supervisory Commission, R.O.C., and do not cause significant changes in the future under the premise of the right to operate the company and shall be a strategic investor who is able to promote the Company’s business.</td></tr>
<tr><td>Reasons why the private placement was necessary</td><td colspan="5">The Company’s major product, InGaN LED chip production, contributes to 75% of the total revenue of the Company for the Final Year of 2015. However, the LED chip market suffered from oversupply and it has affected our sales performance, which lead to negative gross margin ratio of the product category in 2015. It may worsen the Company’s financial position and consequently affect our shareholders’ value.
The Company has noticed the abovementioned situation and will make internal review and develop strategies to improve the situation, including but not limited to do vertical integration and form strategic cooperation with downstream industry players. The Company believes that the strategic plan will support the Company to develop new products and eventually improve the Company’s margin and financial position. As such, the Company requests shareholders’ approval on the mandate of issuing shares by private placement so as to introduce strategic investors who can bring synergies to our product development and overall corporate growth. We believe that it is in the best interest of the shareholders of the Company.
Based on the status of the capital market, timeliness, and feasibility of fundraising, issuance cost, and/or the development of the Company, the Company plans to adopt the strategic investors. Since the transfer limitation of privately placed securities can ensure the long-term cooperation between the Company and the strategic investors, and strengthen the stability of running the corporation, the Company shall process fundraising by private placement.</td></tr>
<tr><td>Date of completion of payment</td><td colspan="5">NA</td></tr>
<tr><td rowspan="2">Information about offerees</td><td>Targets of the private placement</td><td>Qualifications</td><td>Subscription amounts</td><td>Relationship with the Company</td><td>Participation in the operations of the Company</td></tr>
<tr><td colspan="5">No offerees have been arranged so far.</td></tr>
<tr><td>Actual subscription price</td><td colspan="5">NA</td></tr>
<tr><td>Difference between actual subscription price and reference price</td><td colspan="5">NA</td></tr>
<tr><td>Effect of the private placement to shareholders’ equity</td><td colspan="5">In the case of successful issuance of new common shares in private placement and new common shares for cash to sponsor issuance of the global depository receipt exactly totaling 165 million shares, the quantity of issued shares will account for 13.13% of the current paid-in capital upon the capital increase.</td></tr>
<tr><td>Status of use of the capital raised through the private placement of common shares and implementation progress of the plan</td><td colspan="5">NA</td></tr>
</table>

Title	Approved the motion for issuance of securities in private placement at the shareholders’ meeting on June 17, 2016. (note)
Realization of the benefits of the plan	NA

Note: The motion has not yet been executed as no adequate strategic investors were found before the date of publication of the annual report.

8.3 The Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years

Unit: NT$ thousands Shares; %

Company	Capital Stock	Capital sources	The Company's shareholdings	Date of acquisition or disposition	Quantity and amount of shares as acquired	Quantity and amount of shares as disposed of	Investment income	Quantity and amount of shares held until the date of publication of the annual report	Status of pledge	Amount of endorsement/guarantee made by the Company for its subsidiary (Note 5)	Amount of loan made by the Company to its subsidiary (Note 5)
Lighting Investment Corp. (Note 1)	1,352,971 NT$ thousand	NA	100.00%	December 28, 2012 (acquired)	2,564,755 shares NT$ 135,163 thousand	0 share NT$0 thousand	—	2,564,755 shares NT$ 59,374 thousand	None	0	0
HUGA Optotech Inc. (Extinguished upon the merger on September 29, 2016) (Note 1)	1,799,597 NT$ thousand	NA	100.00%	December 28, 2012 (acquired) January 31, 2015 (disposed of) April 12, 2016 (disposed of)	1,182,453 shares NT$65,459 thousand	1,182,453 shares NT$286 thousand	(474)	0 share NT$0 thousand	None	NA	NA
Formosa Epitaxy Incorporation (Extinguished upon the merger on September 29, 2016) (Note 2)	6,020,607 NT$ thousand	NA	100.00%	December 30, 2014 (acquired) November 8, 2015 (disposed of) September 29, 2016 (disposed of)	1,292,847 shares NT$81,320 thousand	1,292,847 shares NT$0 thousand	—	0 share NT$0 thousand	None	NA	NA
PERFECTLED investment corporation (Dissolved on September 23, 2016)	200,500 NT$ thousand	Own fund	47.38%	December 31, 2015 (acquired) September 23, 2016 (disposed of)	4,830,000 shares NT$105,062 thousand	4,830,000 shares NT$121,470 thousand	—	0 share NT$0 thousand	None	NA	NA
From 2016 until the date of publication of the annual report					9,870,055 shares NT$387,004 thousand	7,305,300 shares NT$121,756 thousand	—	2,564,755 shares NT$ 59,374 thousand		0	0

Note 1: Subject to the resolution made by the special shareholders' meeting on September 28, 2012, the Company swapped shares with HUGA Optotech Inc. according to Article 29 of the Business Mergers and Acquisitions Act. The record date for the share swap was set as December 28, 2012. Accordingly, HUGA Optotech Inc. held the Company's shares. After that, according to the official letter under Tai-Tsai-Cheng-3-Tze No. 0920124301 dated June 18, 2003, Article 28-2 of the Securities and Exchange Act and Article 13 of the Business Mergers and Acquisitions Act, The Company registered cancellation of shares or transferred the shares. Then, the Company merged HUGA Optotech Inc. on September 29, 2016.

Note 2: Subject to the resolution made by the special shareholders' meeting on September 1, 2014, the Company swapped shares with Formosa Epitaxy Incorporation according to Article 29 of the Business Mergers and Acquisitions Act. The record date for the share swap was set as December 30, 2014. Accordingly, Formosa Epitaxy Incorporation held the Company's shares. After that, according to Article 28-2 of the Securities and Exchange Act, the Company registered cancellation of shares. Then, the Company merged Formosa Epitaxy Incorporation on September 29, 2016. According to the official letter under Shang-Tze No. 88214353 dated July 26, 1999, the Company registered cancellation of shares on the same date of merger.

8.4 Other Necessary Supplement: None.

8.5 Any Events in 2016 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 3 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan

8.5.1 Upon multiple consolidations and mergers, the Company's fabs were dispersed. In order to activate assets, save expenditure, optimize productivity and boost the horizontal organization, Epistar board of directors resolved to dispose of the Company's Fab N5 in Hsinchu Science Park, and Pingchen Fab of the subsidiary, Formosa Epitaxy Incorporation, and to dispose of, merge and succeed to the fab and auxiliary facilities of CHIP STAR Ltd. to meet the Group's need for planning the future productivity and new business layout. Some machine of the fabs were transferred to the other fabs to replace old machine or to engage in centralized production, in hopes of reducing the production cost. Epistar Fab N5 in Hsinchu Science Park and Pingchen Fab of the subsidiary, Formosa Epitaxy Incorporation implemented the plan to suspend production and transfer machine. Notwithstanding, as the operating revenue generated by Epistar Fab N5 in Hsinchu Science Park and Pingchen Fab of the subsidiary, Formosa Epitaxy Incorporation accounted for no more than 5% of the Group's operating revenue, and some equipment has been transferred to the other fabs, the production suspension rendered no material effect to the Company's operations.

8.5.2 The Company's Fab N3 in Hsinchu Science Park suffered fire on March 28, 2016 and, therefore, the Fab was damaged in part and some machine & equipment, facilities and inventory were damaged too. The loss was estimated (at book value) to be about NT$463,846 thousand (stated as non-operating revenue and expenditure-loss in disaster). In consideration of sustainable business, said fixed assets and inventories were insured at the initial acquisition cost or production cost. The revenue from insurance benefits is recognized when the benefits are confirmed to be collectible. The insurance company's evaluation showed that the Company could receive the fire benefits totaling NT$1.2 billion, at least, (NT$300 million out of the benefits has been received by the Company) until December 31, 2016.

Appendix 1.1

Epistar Corporation
Statement of Internal Control System

March 16, 2017

Epistar Corporation has conducted a self-check for internal control for the year of 2016. The results are as follows:

1. Epistar acknowledges that the Board of Directors and management personnel are responsible for establishing, performing, and maintaining an Internal Control System. The said system has already been duly established at Epistar. The purposes of the Internal Control System are to provide a reasonable assurance for the Company's efficient and effective operations (including profit, performance, safeguard of assets, etc.), the reliability of financial reports, and the compliance with applicable laws and regulations.
2. Epistar also acknowledges that the Internal Control System possesses inherent constraints irrespective of the intended impeccability of the system design and therefore could only provide a reasonable assurance of the three goals referred to above. Due to the changes in environment and circumstances, the effectiveness of the internal control system may vary accordingly. Nevertheless, the Internal Control System is equipped with self-monitoring mechanisms. Should any flaws be recognized, the Company would enforce corrective measures immediately.
3. The company evaluates the effectiveness of the design and implementation of its Internal Control System in accordance with the "Guidelines for the Establishment of Internal Control System by Public Companies" (referred to as the "Guidelines" hereinafter). The evaluation of the internal control system adopted by the said Guidelines has the internal control system divided into the following five factors based on the process of the management control: (1) Environment control, (2) risk assessment, (3) control process, (4) information and communication, and (5) supervision. Each component comprises certain factors. Please refer to the Guidelines for preceding items.
4. Epistar has assessed and evaluated the effectiveness of the internal control system design and implementation in accordance with the internal control system criteria referred to above.
5. Based on the evaluation of the aforementioned system, Epistar considered the Internal Control System as of December 31, 2016 (including supervision and management of subsidiaries), which included the Design and performance of the known operation effectiveness and the degree of reaching the efficiency goals, reliability of financial reporting and obeying the related internal control system of the relevant laws, are all effective. It can ensure that the aforementioned goals will be reasonably reached.
6. This Statement of Internal Control System is the main content of the annual report and prospectus, and will be publicly disclosed. Upon any unlawful acts like pretense and concealment involved in the above-mentioned statement, Epistar will assume the legal responsibilities according to Article 20, 32, 171, and 174 of the Securities Exchange Act.
7. This Statement of Internal Control System had been approved by Epistar's Board of Directors at the meeting of March 16, 2017 with nine directors presented at the meeting and none disagreeing with this Statement of Internal Control System.

Epistar Corporation

Chairman Biing-Jye Lee

General Manager Ming-Jiunn Jou

Appendix 1.2

Audit Committee's Review Report

To: Epistar Corporation Annual General Shareholders' Meeting of 2017

The board of directors has prepared and submitted the Company's 2016 Business Report, Financial Statements, and Proposal for the 2016 Deficit Compensation. Fang-Yu Wen CPA and Ya-Huei Cheng CPA of PricewaterhouseCoopers have also audited the financial statements and issued the auditors' report. The Business Report, Financial Statements, and Proposal for the 2016 Deficit Compensation have been reviewed and determined to be correct and accurate by the Audit Committee members of Epistar Corporation. According to article 14-4 of the Securities and Exchange act and Article 219 of the Company Law, we hereby submit the report.

Epistar Corporation

Chairman of the Audit Committee: Mr. Wei-Min Sheng

Date: March 16, 2017

Appendix 1.3

Epistar Corporation
Affiliates Consolidated Financial Statements
Statement

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2016 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Accounting Standard 10 “Consolidated and Separate Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Epistar Corporation

Chairman Biing-Jye Lee

March 16, 2017

REPORT OF INDEPENDENT ACCOUNTANTS

PWCR16000267

To the Board of Directors and Shareholders of EPISTAR CORPORATION

Opinion

We have audited the accompanying consolidated balance sheets of Epistar Corporation and its subsidiaries (the "Epistar Group") as at December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other independent accountants, as described in the *Other matters* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Epistar Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China ("ROC GAAS"). Our responsibilities under those standards are further described in the Independent Accountant's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Epistar Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the report of the other independent accountants, 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Evaluation of Impairment Losses of Property, Plant and Equipment, and Goodwill

<u>Description</u>

Please refer to Note 6(11) of the consolidated financial statements for the explanations regarding impairment losses on non-financial assets. As of December 31, 2016, the balances of property, plant and equipment, and goodwill were NT$27,286,631 thousand and NT$6,324,659 thousand, respectively.

Epistar Group evaluates the recoverable amounts of idle property, plant and equipment through assessing the fair values after disposal the disposal costs, and of property, plant and equipment, and intangible assets through value in use. Epistar Group evaluates whether impairment losses will be provided for property, plant and equipment, and goodwill utilizing the aforementioned recoverable amounts. The evaluation of value in use for operational property, plant and equipment and intangible assets consists of the estimation of future cash flows and the determination of discount rates. Since the assumptions adopted in the estimation of future cash flows and the results of the estimation would have significant impact on value in use of operational property, plant, and equipment, and intangible assets, it was identified as one of the key audit matters.

<u>How our audit addressed the matter</u>

We have obtained the appraisal report of idle property, plant and equipment prepared by independent valuers from Epistar Group and assessed the reasonableness of evaluation methods and fair values utilized. For value in use of operational property, plant and equipment, and goodwill, the following procedures were conducted:

1. Interviewed with management and obtained an understanding of Epistar Group's operational procedures in estimating future cash flows and verified the consistency to operation plans approved by the Board of Directors.

2. Discussed operation plans with management to understand the product strategies and their respective executions status.
3. Assessed the reasonableness for assumptions utilized in estimating future cash flows, including projected sales volumes, unit prices and unit costs. Assessed the parameters adopted in determining discount rates, including calculating and comparing the weighted average cost of capital at risk-free rates, the industrial risk premium and the long-term rates of returns.

Evaluation of Inventories

Description

Please refer to Note 6(6) of the consolidated financial statements for the explanations regarding inventories. As of December 31, 2016, the balances of inventories and the allowance for valuation loss were NT$5,025,903 thousand and NT$671,066 thousand, respectively.

Epistar Group is primarily engaged in manufacturing and sales of LED wafers and chips. Due to rapid technological developments, short product lifespans and frequent fluctuations of market prices, the risk of decline in market value and obsolescence for inventories is high. Epistar Group evaluates net realized values for inventories which aged over a specific period of time and specific obsolete inventories in order to provide allowance for valuation loss. Since the identification of the above obsolete inventories and their respective net realizable values are subject to management's judgment, it was identified as one of the key audit matters.

How our audit addressed the matter

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

1. Obtained an understanding of Epistar Group's operations and the nature of its industry and interviewed with management to understand the probability of future sales for those out-of-date inventories and to evaluate the reasonableness of allowance for valuation loss.
2. Obtained and validated the accuracy of the detailed listings of inventories aged over a specific period of time and specific obsolete inventories. Validated information of historical sales and discounts for those obsolete inventories to assess the reasonableness of policies in providing allowance for inventory valuation loss.

Other matter – Audited by other Independent Accountants

We did not audit the financial statements of certain consolidated subsidiaries. Those financial statements were audited by other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements and the information on the consolidated subsidiaries disclosed in Note 13 was based solely on the reports of other independent accountants. Total assets of those consolidated subsidiaries amounted to NT$1,408,852 thousand and NT$2,817,507 thousand, constituting 2.04% and 3.39% of the consolidated total assets as at December 31, 2016 and 2015, respectively, and total operating revenues of NT$74,744 thousand and NT$562,703 thousand, constituting 0.29% and 2.21% of the consolidated total operating revenues for the years then ended. Furthermore, we did not audit the 2016 and 2015 financial statements of certain equity investments accounted for under the equity method. Those financial statements were audited by other independent accountants whose reports thereon were furnished to us and our opinion expressed herein, insofar as it relates to the amounts included in the consolidated financial statements and certain information disclosed in Note 13 relative to these investments, is based solely on the reports of the other independent accountants. These equity investments amounted to NT$650,836 thousand and NT$703,265 thousand, representing 0.94% and 0.85% of the consolidated total assets as of December 31, 2016 and 2015, respectively, and their comprehensive loss (including share of loss of associates and joint ventures accounted for under equity method and share of other comprehensive income/(loss) of associates and joint ventures accounted for under equity method) amounted to NT$525,096 thousand and NT$77,211 thousand, representing 10.91% and 1.98% of the consolidated comprehensive income for the years then ended.

We have also and expressed an unmodified opinion on the parent company only financial statements of Epistar Corporation (not presented herein) as of and for the years ended December 31, 2016 and 2015.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Epistar Group'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 Epistar Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee, are responsible for overseeing the Epistar Group's financial reporting process.

Independent accountant's responsibilities for the audit of the consolidated financial statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated 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 Epistar Group'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 Epistar Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated 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 report. However, future events or conditions may cause Epistar Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Epistar Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of Epistar group audit. We remain solely responsible for our audit opinion.

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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

Wen, Fang-Yu Cheng, Ya-Huei

for and on behalf of PricewaterhouseCoopers, Taiwan

March 16, 2017

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2016 AMOUNT	%	December 31, 2015 AMOUNT	%
Current assets					
Cash and cash equivalents	6(1)	$ 6,001,430	9	$ 7,563,131	9
Financial assets at fair value through profit or loss - current	6(2)	694,057	1	867,113	1
Available-for-sale financial assets - current	6(3)	-	-	13,958	-
Notes receivable, net	6(4) and 8	892,562	1	1,712,738	2
Accounts receivable, net	6(5)	6,831,210	10	6,851,228	8
Accounts receivable - related parties, net	7	2,753,269	4	2,737,360	3
Other receivables	6(20) and 10	1,137,658	2	581,806	1
Other receivables - related parties	7	62,821	-	55,228	-
Inventories, net	6(6)	4,354,837	6	6,572,783	8
Prepayments		1,277,849	2	1,666,213	2
Non-current assets held for sale - net	6(12)	627,398	1	1,074,073	1
Other current assets	8	165,173	-	1,190,099	2
Current Assets		24,798,264	36	30,885,730	37
Non-current assets					
Available-for-sale financial assets - non-current	6(3)	2,151,349	3	2,041,048	3
Investments accounted for under equity method	6(7)	2,743,054	4	3,658,850	4
Property, plant and equipment, net	6(8)(11) and 8	27,286,631	39	34,396,105	41
Intangible assets	6(9)(11)	8,007,219	12	7,994,637	10
Deferred income tax assets	6(31)	2,714,882	4	2,966,461	4
Other non-current assets	6(10) and 8	1,396,035	2	1,189,093	1
Non-current assets		44,299,170	64	52,246,194	63
Total assets		$ 69,097,434	100	$ 83,131,924	100

(Continued)

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2016 AMOUNT	%	December 31, 2015 AMOUNT	%
Current liabilities					
Short-term borrowings	6(13) and 8	$ 2,161,250	3	$ 3,799,123	5
Short-term notes and bills payable	6(14)	69,836	-	217,043	-
Financial liabilities at fair value through profit or loss - current	6(15)	-	-	179,684	-
Notes payable		35,185	-	34,592	-
Accounts payable		2,411,249	4	2,972,850	4
Accounts payable - related parties	7	735,181	1	417,195	-
Other payables		3,943,714	6	4,111,686	5
Current income tax liabilities		45,727	-	9,577	-
Long-term liabilities, current portion	6(16)(17) and 8	615,841	1	10,076,701	12
Other current liabilities - others		196,087	-	182,717	-
Current Liabilities		10,214,070	15	22,001,168	26
Non-current liabilities					
Long-term borrowings	6(17) and 8	5,737,866	8	2,820,137	4
Deferred income tax liabilities	6(31)	949,502	1	1,144,634	1
Other non-current liabilities	6(18)(20)	1,212,000	2	1,521,228	2
Non-current liabilities		7,899,368	11	5,485,999	7
Total Liabilities		18,113,438	26	27,487,167	33
Equity attributable to owners of parent company					
Share capital	6(21)				
Share capital - common stock		10,915,492	16	10,998,443	13
Capital surplus	6(22)				
Capital surplus		43,016,259	61	42,810,893	51
Retained earnings	6(23)				
Legal reserve		241,512	-	1,547,864	2
Accumulated deficit		(3,545,028)	(5)	(1,306,352)	(2)
Other equity interest	6(24)				
Other equity interest		(505,370)	-	143,141	1
Treasury stocks	6(21)	(848,721)	(1)	(920,089)	(1)
Equity attributable to owners of the parent		49,274,144	71	53,273,900	64
Non-controlling interest		1,709,852	3	2,370,857	3
Total equity		50,983,996	74	55,644,757	67
Total liabilities and equity		$ 69,097,434	100	$ 83,131,924	100

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

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars, except for loss per share amounts)

Items	Notes	2016 AMOUNT	2016 %	2015 AMOUNT	2015 %
Sales revenue	7	$ 25,539,163	100	$ 25,509,789	100
Operating costs	6(6) and 7	(23,626,125)	(93)	(25,390,483)	(100)
Operating margin		1,913,038	7	119,306	-
Unrealized loss (profit) from sales		2,409	-	(563)	-
Realized profit from sales		563	-	4,756	-
Net operating margin		1,916,010	7	123,499	-
Operating expenses	6(29)				
Selling expenses		(289,926)	(1)	(453,426)	(2)
General & administrative expenses		(1,604,835)	(6)	(1,903,685)	(7)
Research and development expenses		(1,532,888)	(6)	(1,538,714)	(6)
Total operating expenses		(3,427,649)	(13)	(3,895,825)	(15)
Other income and expenses - net	6(25)	255,863	1	261,779	1
Operating loss		(1,255,776)	(5)	(3,510,547)	(14)
Non-operating income and expenses					
Other income	6(26)	244,673	1	321,562	1
Disaster insurance compensation revenue	10	1,200,000	5	-	-
Other gains and losses	6(3)(11)(27)(33) and 7	(2,252,180)	(8)	246,333	1
Net gain on valuation of put options, call options and conversion rights of bonds	6(15)	56,931	-	1,043,176	4
Loss on call of corporate bobnds	6(16)	(199,386)	(1)	(65,631)	-
Disaster loss	10	(463,846)	(2)	-	-
Finance costs	6(28)	(403,915)	(2)	(1,155,038)	(4)
Share of loss of associates and joint ventures accounted for under equity method	6(7)	(681,415)	(3)	(500,727)	(2)
Total non-operating income and expenses		(2,499,138)	(10)	(110,325)	-
Loss before income tax		(3,754,914)	(15)	(3,620,872)	(14)
Income tax (expense)benefit	6(31)	(257,838)	(1)	303,290	1
Loss for the year		($ 4,012,752)	(16)	($ 3,317,582)	(13)

(Continued)

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars, except for loss per share amounts)

Items	Notes	2016 AMOUNT	2016 %	2015 AMOUNT	2015 %
Other comprehensive income					
Components of other comprehensive income that will not be reclassified to profit or loss					
Gains (losses) on remeasurements of defined benefit plans	6(18)	$ 1,968	-	($ 40,823)	-
Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	6(7)	(107)	-	(193)	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(31)	(335)	-	6,940	-
Components of other comprehensive income (loss) that will not be reclassified to profit or loss		1,526	-	(34,076)	-
Components of other comprehensive income that will be reclassified to profit or loss					
Cumulative translation differences of foreign operations		(853,572)	(3)	(376,377)	(1)
Unrealized gain (loss) on valuation of available-for-sale financial assets	6(3)	42,966	-	(137,261)	(1)
Share of other comprehensive loss of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	6(7)	(101,475)	-	(69,786)	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(31)	109,120	-	26,959	-
Components of other comprehensive loss that will be reclassified to profit or loss		(802,961)	(3)	(556,465)	(2)
Other comprehensive loss for the year		($ 801,435)	(3)	($ 590,541)	(2)
Total comprehensive loss for the year		($ 4,814,187)	(19)	($ 3,908,123)	(15)
Loss, attributable to:					
Equity holders of the parent company		($ 3,546,045)	(14)	($ 3,018,757)	(12)
Non-controlling interest		($ 466,707)	(2)	($ 298,825)	(1)
Comprehensive loss attributable to:					
Equity holders of the parent company		($ 4,193,030)	(17)	($ 3,400,444)	(13)
Non-controlling interest		($ 621,157)	(2)	($ 507,679)	(2)
Basic loss per share	6(32)	($ 3.33)		($ 2.81)	
Diluted loss per share	6(32)	($ 3.33)		($ 3.09)	

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

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

		Equity attributable to owners of the parent											
				Retained Earnings			Other equity interest						
	Notes	Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings (accumulated deficit)	Cumulative translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Other equity - others	Treasury stocks	Total	Non-controlling interest	Total
2015													
Balance at January 1, 2015		$ 11,031,787	$ 43,342,832	$ 1,366,831	$ 100,596	$ 2,737,708	$ 639,823	($ 149,071)	($ 346,915)	($ 461,200)	$ 58,262,391	$ 2,852,486	$ 61,114,877
Appropriations of 2014 earnings													
Legal reserve	6(23)	-	-	181,033	-	(181,033)	-	-	-	-	-	-	-
Reversal of special reserve	6(23)	-	-	-	(100,596)	100,596	-	-	-	-	-	-	-
Cash dividends	6(23)	-	-	-	-	(910,000)	-	-	-	-	(910,000)	-	(910,000)
Amortization of employee restricted shares compensation cost	6(24)	-	-	-	-	-	-	-	(204,664)	-	(204,664)	-	(204,664)
Change in investees interest accounted for under equity method	6(22)	-	187,470	-	-	-	-	-	-	-	187,470	-	187,470
Difference between consideration and carrying amount of subsidiaries acquired and disposed	6(22)	-	(86,051)	-	-	-	-	-	-	-	(86,051)	86,051	-
Retirement of restricted employee stock	6(21)(22)	(12,819)	12,819	-	-	-	-	-	-	-	-	-	-
Reversal of capital surplus from restricted stocks		-	(551,579)	-	-	-	-	-	551,579	-	-	-	-
Retirement of treasury shares	6(21)(22)	(21,320)	(100,062)	-	-	(790)	-	-	-	122,172	-	-	-
Conversion of corporate bonds of subsidiaries	6(21)	795	5,464	-	-	-	-	-	-	-	6,259	(43,972)	(37,713)
Purchase of treasury shares		-	-	-	-	-	-	-	-	(531,301)	(531,301)	-	(531,301)
Shares of parent company held by subsidiaries being transferred to treasury shares	6(21)	-	-	-	-	-	-	-	-	(49,760)	(49,760)	(55,261)	(105,021)
Increases in non-controlling interests		-	-	-	-	-	-	-	-	-	-	39,232	39,232
Loss for the year	6(23)	-	-	-	-	(3,018,757)	-	-	-	-	(3,018,757)	(298,825)	(3,317,582)
Other comprehensive loss for the year	6(23)(24)	-	-	-	-	(34,076)	(180,518)	(167,093)	-	-	(381,687)	(208,854)	(590,541)
Balance at December 31, 2015		$ 10,998,443	$ 42,810,893	$ 1,547,864	$ -	($ 1,306,352)	$ 459,305	($ 316,164)	$ -	($ 920,089)	$ 53,273,900	$ 2,370,857	$ 55,644,757

(Continued)

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

		Equity attributable to owners of the parent											
				Retained Earnings			Other equity interest						
	Notes	Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings (accumulated deficit)	Cumulative translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Other equity - others	Treasury stocks	Total	Non-controlling interest	Total
2016													
Balance at January 1, 2016		$ 10,998,443	$ 42,810,893	$ 1,547,864	$ -	($ 1,306,352)	$ 459,305	($ 316,164)	$ -	($ 920,089)	$ 53,273,900	$ 2,370,857	$ 55,644,757
Legal reserve used to offset accumulated deficit	6(23)	-	-	(1,306,352)	-	1,306,352	-	-	-	-	-	-	-
Change in investees interest accounted for under equity method	6(22)	-	135,972	-	-	-	-	-	-	-	135,972	-	135,972
Difference between consideration and carrying amount of subsidiaries acquired and disposed	6(22)	-	(323)	-	-	-	-	-	-	-	(323)	(5,076)	(5,399)
Retirement of restricted employee stock	6(22)	(79,642)	79,642	-	-	-	-	-	-	-	-	-	-
Retirement of treasury shares	6(21)(22)	(3,309)	(17,503)	-	-	-	-	-	-	20,812	-	-	-
Treasury stock sold by subsidiary company	6(21)(22)	-	7,578	-	-	(509)	-	-	-	50,556	57,625	63,718	121,343
Capital decrease of subsidiary company		-	-	-	-	-	-	-	-	-	-	(98,490)	(98,490)
Loss for the year	6(23)	-	-	-	-	(3,546,045)	-	-	-	-	(3,546,045)	(466,707)	(4,012,752)
Other comprehensive income (loss) for the year	6(23)(24)	-	-	-	-	1,526	(687,832)	39,321	-	-	(646,985)	(154,450)	(801,435)
Balance at December 31, 2016		$ 10,915,492	$ 43,016,259	$ 241,512	$ -	($ 3,545,028)	($ 228,527)	($ 276,843)	$ -	($ 848,721)	$ 49,274,144	$ 1,709,852	$ 50,983,996

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

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		($ 3,754,914)	($ 3,620,872)
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(8)(29)	5,373,296	5,680,667
Amortization(long-term prepaid rents)	6(9)(10)(29)	384,871	385,387
Provision for doubtful accounts		59,414	27,023
Net loss on financial assets at fair value through profit or loss	6(27)	13,427	104,381
Net gain on financial liabilities at fair value through profit or loss	6(27)	-	(4,589)
Net gain on valuation of put options, call options and conversion rights of bonds	6(15)	(56,931)	(1,043,176)
Interest expense	6(28)	392,302	468,192
Interest income	6(26)	(74,979)	(149,090)
Dividend income	6(26)	(11,685)	(13,083)
Compensation cost of share-based payment	6(19)	-	(204,664)
Effect of exchange rate on bonds payable and long-term loans		(178,176)	328,699
Share of loss of associates and joint ventures accounted for under the equity method	6(7)	681,415	500,727
Loss (gain) on disposal of property, plant and equipment	6(27)	501,237	(19,854)
Gain on disposal of intangible assets	6(27)	(849)	(366)
Gain on disposal of investments	6(27)	(74,492)	(38,320)
Other income from recognition of long-term deferred revenues	6(20)	(168,358)	(205,820)
Loss on call of corporate bonds	6(16)	199,386	65,631
Impairment loss of financial assets	6(27)	395,482	351,857
Impairment loss on non-financial assets	6(11)(27)	987,848	31,558
Intangible assets transferred to expenses	6(9)	2,074	-
Property, plant and equipment transferred to expenses	6(8)	10,636	57,736
Property, plant and equipment transferred to other income	6(8)	-	(12,816)
Non-current assets held for sale transferred to expenses		-	200
Gain on bargain purchase	6(27)(33)	-	(500,075)
Realized profit from sales		(563)	(4,756)
Unrealised (loss) profit from sales		(2,409)	563
Disaster loss		463,846	-
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets held for trading		159,630	285,481
Notes receivable		716,218	2,559,100
Accounts receivable		(427,427)	1,761,976
Other receivables		(755,235)	94,621
Inventories		1,956,706	(277,671)
Prepayments		388,364	(30,913)
Other non-current assets		210,278	489,676
Changes in operating liabilities			
Notes payable		(143,020)	33,069
Accounts payable		349,061	872
Other payables		(274,795)	(57,268)
Other current liabilities		(129,291)	(123,246)
Other non-current liabilities		(15,135)	(192,489)
Cash inflow generated from operations		7,177,232	6,728,348
Income tax paid		(40,593)	(36,339)
Interest received		95,528	158,026
Interest paid		(322,489)	(239,515)
Dividend received		37,324	34,563
Net cash flows from operating activities		6,947,002	6,645,083

(Continued)

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31 2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in other financial assets		$ 1,024,926	$ 657,868
Acquisition of available-for-sale financial assets		(390,953)	(674,733)
Proceeds from disposal of available-for-sale financial assets		208,166	159,543
Acquisition of investments accounted for under the equity method		(2,445)	(81,145)
Acquisition for property, plant and equipment	6(34)	(2,622,908)	(3,925,104)
Proceeds from disposal of property, plant and equipment	6(34)	1,930,988	270,238
Acquisition of intangible assets	6(34)	(492,787)	(479,145)
Net cash acquired (paid) in disposal of subsidiaries	6(34)	35,604	(95,911)
Decrease (increase) in refundable deposits paid		23,185	(49,625)
Proceeds from disposal of intangible assets		849	1,496
Net cash paid in acquisition of subsidiaries	6(34)	-	(824,358)
Net cash flows used in investing activities		(285,375)	(5,040,876)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in short-term loans		(1,495,211)	(2,138,006)
(Decrease)increase in short-term notes and bill payable		(135,631)	217,043
Repayment of long-term loans		(6,658,834)	(2,161,597)
Proceeds from long-term loans		7,776,673	2,730,000
Redemption of convertible bonds payable	6(16)	(7,667,042)	(925,850)
Reacquisition of convertible bonds payable	6(16)	(223,609)	(644,207)
Guarantee deposits received		258	9,399
Payment of cash dividends	6(23)	-	(910,000)
Purchase of treasury shares		-	(636,322)
Increase in non-controlling interests		-	105,500
Capital decrease of subsidiary company		(98,490)	-
Treasury stock sold by subsidiary company		121,343	-
Net cash flows used in financing activities		(8,380,543)	(4,354,040)
Effects of foreign currency exchange		157,215	(202,033)
Net decrease in cash and cash equivalents		(1,561,701)	(2,951,866)
Cash and cash equivalents at beginning of year		7,563,131	10,514,997
Cash and cash equivalents at end of year		$ 6,001,430	$ 7,563,131

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

EPISTAR CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars, Except as otherwise indicated)

1. HISTORY AND ORGANIZATION

Epistar Corporation (the “Company”) was incorporated on September 19, 1996 and commenced its operations in August 1997. The Company’s shares have been traded on the Taiwan Stock Exchange in the Republic of China since May 2001.

Effective October 1, 2003, Inforcomm Semiconductor Corporation was merged with the Company. The Company acquired United Epitaxy Company Ltd. on December 30, 2005, Epitech Technology Corporation and Highlink Technology Corporation on March 1, 2007, and CHIP STAR Ltd. on June 29, 2015, and the Group merged with Huga Optotech Inc. and Formosa Epitaxy Incorporation on September 29, 2016.

The Company and its subsidiaries (collectively referred herein as the “Group”) are engaged in the research and development, design, manufacturing and sales of EPI wafers and chips of A1GaInP, AlGaAs and InGaN.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 16, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

None.

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14,'Regulatory deferral accounts'	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Group's assessment.

A. Amendments to IAS 36, 'Recoverable amount disclosures for non-financial assets'
The amendments remove the requirement to disclose recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite lived intangible assets but there has been no impairment. When a material impairment loss has been recognised or reversed for an individual asset, including goodwill, or a CGU, it is required to disclose the recoverable amount of the asset or CGU. If the recoverable amount is fair value less costs of disposal, it is required to disclose the level of the fair value hierarchy, the valuation techniques(s) used and key assumptions.

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

A. IFRS 9, 'Financial instruments'

(a)Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

(b)The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

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

IFRS 15, 'Revenue from contracts with customers' replaces IAS 11 'Construction contracts', IAS 18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

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

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

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

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

C. Amendments to IFRS 15, 'Clarifications to IFRS 15 '

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

D. IFRS 16, 'Leases'

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

E. Amendments to IAS 7, 'Disclosure initiative'

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

4. <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

These consolidated financial statements of the Group have been prepared in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:

(a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

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

B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

(a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership December 31, 2016	Ownership December 31, 2015	Description
Epistar Corporation	Lighting Investment Corporation	Professional investment	100%	100%	
Epistar Corporation	UEC Investment Ltd.	Professional investment	100%	100%	
Epistar Corporation	Epistar JV Holding (B.V.I.) Co., Ltd.	Professional investment	100%	100%	
Epistar Corporation	Huga Optotech Inc. (Huga Inc.)	Manufacturing and sales of LED wafers and chips	-	100%	Note E
Epistar Corporation	Zheng-Yi Technology Corporation	Manufacturing and sales of LED wafers and chips	100%	100%	
Epistar Corporation	Formosa Epitaxy Incorporation (Formosa Inc.)	Manufacturing and sales of LED wafers and chips	-	100%	Note E
Epistar Corporation	GaN Ventures Co., Limited	Sales of LED lighting products	64.29%	-	Note A
Epistar Corporation	EPICryatal Investment Inc.,	Professional investment	100%	100%	Note F
Epistar Corporation	SH Optotech Co.,Ltd.	Manufacturing and sales of LED wafers and chips	49%	49%	Note D Note F
Epistar Corporation	HUGA Holding(BVI) Limited	Professional investment	100%	100%	Note F
Epistar Corporation	PERFECTLED Investment Corporation	Professional investment	-	47.38%	Note B Note C Note D Note F
Epistar Corporation	Ecoled Venture Co., Limited	Sales of LED lighting products	51.99%	-	Note F
Epistar Corporation	Bee Rich Corporation	Investment business	100%	100%	Note G
Epistar Corporation	Full Star Enterprises Limited	Investment business	100%	100%	Note G

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership December 31, 2016	Ownership December 31, 2015	Description
Epistar JV Holding (BVI) Co., Ltd.	LiteStar JV Holding (BVI) Co., Ltd.	Professional investment	80.65%	79.81%	
Epistar JV Holding (B.V.I) Co., Ltd.	United LED Corporation (Hong Kong) Limited	Professional investment	74.86%	74.86%	
LiteStar JV Holding	Epicrystal (Hong Kong) Co., Limited	Professional investment	100%	100%	
Epicrystal (Hong Kong) Co., Limited	Epicrystal Corporation (Changzhou) Ltd.	Manufacturing and sales of LED wafers and chips	92.82%	92.56%	
United LED Corporation (Hong Kong) Limited	United LED Shandong Corporation	Manufacturing and sales of LED wafers and chips	100%	100%	
UEC Investment Ltd.	Episky (Hong Kong) Limited	Professional investment	100%	100%	
Episky (Hong Kong) Limited	Episky Corporation (Xiamen) Ltd.	Manufacturing and sales of LED wafers and chips	100%	100%	
Episky Corporation (Xiamen) Ltd.	Epicrystal Corporation (Changzhou) Ltd.	Manufacturing and sales of LED wafers and chips	3.59%	3.72%	
Episky Corporation (Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	Manufacturing and sales of LED wafers and chips	100%	100%	
Episky Coporation (Xiamen)Ltd.	EPIRICH (Guangzhou) Co., Ltd	Manufacturing and sales of LED	100%	100%	
Lighting Investment Corporation	Lighting Investment Ltd.	Professional investment	100%	100%	
Lighting Investment Ltd.	Luxlite (Hong Kong) Corporation Limited	Professional investment	75%	75%	
Lighting Investment Ltd.	Epistar (Hong Kong) Limited	Professional investment	100%	100%	

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership December 31, 2016	Ownership December 31, 2015	Description
Luxlite (Hong Kong) Corporation Limited	Luxlite (Shenzhen) Corporation Limited	Sales of LED chips and LED lighting facilities	100%	100%	
HUGA Holding(B.V.I.) Limited	HUGA Holding(Samoa) Limited	Professional investment	100%	100%	
HUGA Holding(B.V.I.) Limited	Bliss High Technology Inc.	Sales of LED chips and LED lighting facilities	100%	100%	
HUGA Holding (Samoa) Limited	Ecoled Venture Co., Limited	Sales of LED lighting products	48.01%	100%	
EPI Crystal Investment Inc.	Interlight Optotech Corporation	Packaging and sales of LED chips and LED lighting	100%	100%	
EPI Crystal Investment Inc.	Crystaluxx SARL	Professional investment	100%	100%	
EPI Crystal Investment Inc.	Yen-Rich Opto (Hong Kong) Limited	Sales of LED lighting products	100%	100%	
Bee Rich Corporation	Crystal Light Enterprises Group Limited	Professional investment	100%	100%	
Bee Rich Corporation	Can Yang Investments Limited	Professional investment	63.53%	63.53%	
Crystal Light Enterprise Group Limited	Ningbo Formosa Epitaxy Incorporation	Trading of LED epitaxy and chips	100%	100%	
Can Yang Investments Limited	Jiangsu Canyang Optoelectronics Ltd.	Manufacturing and sales of LED wafers and chips	100%	100%	

Note A: Newly invested or established companies for the year ended December 31, 2016.

Note B: Newly invested or established companies for the year ended December 31, 2015.

Note C: Due to its intention not to continue to operate, on December 28, 2016 the company completed the liquidation.

Note D: Due to the control over the entity's financial and operational policies, this company is included in the consolidated financial statements.

Note E: On September 29, 2015, the Company conducted a simple merger with Huga Inc. and Formosa Inc.. Under the merger, the Company was the surviving company while Huga Inc. and Formosa Inc. were the dissolved companies.

Note F: On September 29, 2015, the Company conducted a simple merger with Huga Inc.. Under the merger, the Company was the surviving company while Huga Inc. was the dissolved company. The equity held by Huga Inc. was absorbed by the Company.

Note G: On September 29, 2015, the Company conducted a simple merger with Formosa Inc.. Under the merger, the Company was the surviving company while Formosa Inc. was the dissolved company. The equity held by Formosa Inc. was absorbed by the Company.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interest that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss as part of the fair value gain or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within "interest income or finance costs". All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within "other gains and losses".

B. Translation of foreign operations

(a) The operating results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii. Income and expenses for each statement of comprehensive income are translated at average exchange rate of that period; and

iii. All resulting exchange differences are recognized in other comprehensive income.

(b) When the foreign operation partially disposed of or sold is an associate or jointly controlled entity, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, even when the Group still retains partial interest in the former foreign associate or jointly controlled entity after losing significant influence over the former foreign associate, or losing joint control of the former jointly controlled entity, such transactions should be accounted for as disposal of all interest in these foreign operations.

(c) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group still retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(d) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at the balance sheet date.

(5) Classification of current and non-current items

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

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

(b) Assets held mainly for trading purposes;

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

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

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

(a) Liabilities that are expected to be settled within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settled within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets at fair value through profit or loss

A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.

B. On a regular way purchase or sale basis, financial assets held for trading are recognized and derecognized using trade date accounting if they are derivative instruments and using settlement date accounting if they are beneficiary certificates.

C. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(8) Available-for-sale financial assets

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

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

C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income.

D. Impairment of available-for-sale financial assets

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

(9) Accounts receivable

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

(10) Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

Available-for-sale financial assets

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

(11) Derecognition of financial assets

The Group derecognizes a financial asset when one of the following conditions is met:

A. The contractual rights to receive cash flows from the financial asset expire.

B. The contractual rights to receive cash flows from the financial assets have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial assets.

C. The Group neither retains nor transfers substantially all risks and rewards of ownership of the financial asset; however, it has not retained control of the financial asset.

(12) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average cost method. The cost of finished goods and work in progress comprise raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(14) Investments accounted for using the equity method / associates

A. Associates are all entities over which the Group has significant influence but no control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss arising through subsequent assessments.

B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

C. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associate and such changes does not affect the Group's ownership percentage of the associate, the Group recognizes change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.

D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.

F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognized in profit or loss.

G. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

H. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss. If it still retains significant influence over this associate, then the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss proportionately.

(15) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.

B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

D. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	20 ~ 50 years
Plant and construction	3 ~ 15 years
Machinery and equipment	2 ~ 20 years
Transportation equipment	6 ~ 7 years
Office equipment	2 ~ 20 years
Leasehold improvements	3 ~ 15 years

(16) Leased assets

Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(17) Intangible assets

A. Patents

Patents are stated at cost and amortized on a straight-line basis over their legal terms or economic service lives, whichever is shorter.

B. Technology know-how

Technology know-how is stated at cost and amortized on a straight-line basis over their economic service lives.

C. Computer software

Computer software is stated at cost and amortized on a straight-line basis over their estimated useful lives of 2 ~ 10 years.

D. Goodwill

Goodwill arising from a business combination is accounted for by applying the acquisition method.

E. Other intangible assets

Other intangible assets, mainly electricity facilities, are stated at cost and amortized using the straight-line method over 3 to 5 years.

(18) Impairment of non-financial assets

A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

B. The recoverable amounts of goodwill, intangible assets with an indefinite useful life and intangible assets that have not yet been available for use shall be evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognized in profit or loss shall not be reversed in the following years.

C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(19) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(20) Notes and accounts payable

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

(21) Financial liabilities at fair value through profit or loss

A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.

B. Financial liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss.

(22) Derecognition of financial liabilities

A. A financial liability is derecognized when the obligation under the liability specified in the contract is discharged, cancelled or expired.

B. The Group derecognizes an original financial liability and recognizes a new financial liability if the terms of an existing financial liability have substantially been modified and such modifications result in significant differences (10%) to the original terms. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

(23) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(24) Financial liabilities and equity instruments

A. Convertible corporate bonds issued by the Group contain conversion options (that is, the bondholders have the right to convert the bonds into the Group's common shares by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Group classifies the bonds payable and derivative features embedded in convertible corporate bonds on initial recognition as a financial asset, a financial liability or an equity instrument ('capital surplus—stock warrants') in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument. Convertible corporate bonds are accounted for as follows:

i. Call options and put options embedded in convertible corporate bonds are recognized initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognized as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.

ii. Bonds payable of convertible corporate bonds is initially recognized at fair value and subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortised in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.

iii. Conversion options embedded in convertible corporate bonds issued by the Group, which meet the definition of an equity instrument, are initially recognized in 'capital surplus—stock warrants' at the residual amount of total issue price less amounts of 'financial assets or financial liabilities at fair value through profit or loss' and 'bonds payable—net' as stated above. Conversion options are not subsequently remeasured.

iv. Any transaction costs directly attributable to the issuance of convertible corporate bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.

v. When bondholders exercise conversion options, the liability component of the bonds (including 'bonds payable' and 'financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The book value of common shares issued due to the conversion shall be based on the adjusted book value of the above-mentioned liability component plus the book value of capital surplus - stock warrants.

B. Convertible corporate bonds issued by the Group contain conversion options (that is, the bondholders have the right to convert the bonds into the Group's common shares, but not by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Group classifies the bonds payable and derivative features embedded in convertible corporate bonds on initial recognition as a financial asset or a financial liability in accordance with the substance of the contractual arrangement. Convertible corporate bonds are accounted for as follows:

i. Conversion options, call options and put options embedded in convertible corporate bonds are recognized initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognized as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.

ii. Bonds payable of convertible corporate bonds is initially recognized at the remaining value of total issue price less amount of 'financial assets or financial liabilities at fair value through profit or loss' as stated above, and subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortised in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.

iii. Any transaction costs directly attributable to the issuance of convertible corporate bonds are allocated to each liability component in proportion to the allocation of proceeds.

iv. When bondholders exercise conversion options, the liability component of the bonds (including 'bonds payable' and 'financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The book value of common shares issued due to the conversion shall be based on the adjusted book value of the above-mentioned liability component.

(25) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

ii. Remeasurement arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Past service costs are recognized immediately in profit or loss.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognises expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(26) Employee share-based payment

A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

B. Restricted stocks issued by the Group to employees:

(a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period.

(b) For restricted stocks where those stocks do not restrict distribution of dividends to employees but employees must return the dividends received if they resign during the vesting period, when the Group receives dividends from employees resigning during the vesting period, the Group credits related amounts that were previously debited from retained earnings, legal reserve or capital surplus at the date of dividends declared.

(c) For restricted stocks where employees do not need to pay to acquire those stocks, if the Group will pay the employees who resign during the vesting period to repurchase the stocks, the Group estimates such payments that will be made and recognizes such amounts as compensation cost and liability at the grant date, in accordance with the terms of restricted stocks.

(27) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year when the stockholders resolve to retain the earnings.

C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(28) Share capital

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

B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(29) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities.

(30) Revenue recognition

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

(31) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are recognized as non-current liabilities and are amortized to profit or loss over the estimated useful lives of the related assets using the straight-line method.

(32) Business combinations

A. The Group uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.

B. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date. If the total of consideration transferred, non-controlling interest in the acquire recognised and the fair value of previously held equity interest in the acquiree is less than the fair value of the identifiable assets acquired and the liabilities assumed, the difference is recognised directly in profit or loss on the acquisition date.

(33) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments.

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

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgments in applying the Group's accounting policies

Financial assets –impairment of available-for-sale financial assets

The Group follows the guidance of IAS 39 to determine whether a financial asset – equity investment is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. If the decline of the fair value of available-for-sale financial assets below cost was considered significant or prolonged, accumulated unrealised loss recognised in other comprehensive income will be transferred to profit or loss. As of December 31, 2016, the Group's unrealised loss on available-for-sale financial assets amounted to $299,961, and recognised impairment losses amounted to $179,976.

(2) Critical accounting estimates and assumptions

The Group makes estimates and assumptions based on the expectation of future events that are believed to be reasonable under the circumstances at the end of the reporting period. The resulting accounting estimates might be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

A. Impairment valuation of goodwill, property, plant and equipment

In assessing assets impairment valuation, the Group estimates useful lives of assets and possible income and expenses in the future based on the Group's subjective judgement, any changes in economic condition and strategy of the Group will affect the recoverable amount, please refer to Note 6(10).

As of December 31, 2016, the Group recognised impaired property, plant and equipment of $27,286,631 and goodwill of $6,324,659.

B. Realizability of deferred income tax assets

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

As of December 31, 2016, the Group recognized deferred income tax assets amounting to $2,714,882.

C. Evaluation of inventories

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

As of December 31, 2016, the carrying amount of inventories was $4,354,837.

D. Financial assets—fair value measurement of unlisted stocks without active market

The fair value of unlisted stocks held by the Group that are not traded in an active market is determined by considering those companies' recent funding raising activities and technical development status, fair value assessment of other companies of the same type, market conditions and other economic indicators existing on balance sheet date. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 12(3) for the financial instruments fair value information.

As of December 31, 2016, the carrying amount of unlisted stocks was $1,792,300.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand and petty cash	$ 441	$ 872
Checking accounts and demand deposits	3,176,267	2,543,861
Time deposits	1,614,512	4,667,829
Bonds sold under repurchase agreement	1,209,280	350,569
Cash in transit	930	-
	$ 6,001,430	$ 7,563,131

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

(2) Financial assets at fair value through profit or loss

Items	December 31, 2016	December 31, 2015
Current items:		
Financial assets held for trading		
Beneficiary certificates	$ 577,582	$ 729,202
Listed equity securities	480,862	467,430
Emerging stocks	1,775	1,775
	1,060,219	1,198,407
Valuation adjustment of financial assets held for trading	(366,162)	(331,294)
Total	$ 694,057	$ 867,113

The Group recognized net loss of $13,427 and $104,381 for the years ended December 31, 2016 and 2015, respectively.

(3) Available-for-sale financial assets

Items	December 31, 2016	December 31, 2015
Current items:		
Listed equity securities	$ -	$ 14,120
Valuation adjustment of available-for-sale financial assets	-	(162)
Total	$ -	$ 13,958
Non-current items:		
Listed equity securities	$ 655,373	$ 684,210
Emerging stocks	165,012	165,012
Unlisted equity securities	2,161,797	1,965,044
Beneficiary certificates	49,178	49,178
Subtotal	3,031,360	2,863,444
Valuation adjustment of available-for-sale financial assets	(299,961)	(333,851)
Accumulated impairment of available-for-sale financial assets	(580,050)	(488,545)
Total	$ 2,151,349	$ 2,041,048

The Group recognized $145,924 and $489,118 in other comprehensive loss for fair value change and reclassified $188,890 and $351,857 from equity to loss for the years ended December 31, 2016 and 2015, respectively.

(4) Notes receivable

	December 31, 2016	December 31, 2015
Notes receivable	$ 3,814,262	$ 4,195,912
Less: discounted notes receivable	(2,789,407)	(2,363,322)
Less: allowance for bad debts	(132,293)	(119,852)
	$ 892,562	$ 1,712,738

As of December 31, 2016 and 2015, the Group had outstanding discounted notes receivable amounting to $2,789,407 and $2,363,322, respectively. The Group has no payment obligations when the drawers of the notes refuse to pay for the notes at maturity. Those discounted notes receivable were presented as a deduction item to notes receivable.

(5) Accounts receivable

	December 31, 2016	December 31, 2015
Accounts receivable	$ 7,018,685	$ 7,006,346
Less: allowance for sales returns and discounts	(63,577)	(48,591)
Less: allowance for bad debts	(123,898)	(106,527)
	$ 6,831,210	$ 6,851,228

(6) Inventories

	December 31, 2016		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 544,535	($ 71,226)	$ 473,309
Work in process	1,662,358	(181,567)	1,480,791
Finished goods	2,819,010	(418,273)	2,400,737
Total	$ 5,025,903	($ 671,066)	$ 4,354,837

	December 31, 2015		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 713,355	($ 39,428)	$ 673,927
Work in process	2,463,870	(346,939)	2,116,931
Finished goods	4,553,985	(772,060)	3,781,925
Total	$ 7,731,210	($ 1,158,427)	$ 6,572,783

Expense and loss incurred on inventories for the years ended December 31, 2016 and 2015 were as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Cost of goods sold	$ 22,746,492	$ 24,023,056
Loss on decline in market value	271,751	1,037,904
Loss on idle capacity	617,769	339,809
	$ 23,636,012	$ 25,400,769

(7) Investments accounted for using the equity method

	December 31, 2016	December 31, 2015
Associates:		
Nan Ya Photonics Incorporation	$ 240,630	$ 703,265
Tekcore Co., Ltd.	81,694	377,720
TE Opto Corporation	45,992	52,448
KAISTAR Lighting (Xiamen) Co., Ltd.	1,480,358	1,522,939
Country Lighting (B.V.I.) Co., Ltd.	98,745	100,532
ProLight Opto Technology Corporation	259,406	257,467
Cosmoled Lighting Ltd.	142,505	176,998
LEDOULUX Sp.zo.o	17,779	59,716
Interelight Optotech (Hong Kong) Ltd.	13,040	13,192
Very Optoelectronic (HUI ZHOU)Co., Ltd.	208,291	208,922
SF Light Co., Ltd.	14,571	14,549
Tops Electrical Technology Co., Ltd.	3,717	6,147
ES-LEDRU LLC.	2,445	1,853
Play Nitride Inc.	69,106	100,036
LEDAZ CO., Ltd.	64,775	63,066
	$ 2,743,054	$ 3,658,850

A. The basic information of the associates that are material to the Group is as follows:

		Shareholding ratio			
Company name	Principal place of business	December 31, 2016	December 31, 2015	Nature of relationship	Methods of measurement
Nan Ya Photonics Incorporation	Taiwan	43.27%	43.16%	Associates	Equity method
Tekcore Co., Ltd	Taiwan	21.05%	21.05%	Associates	Equity method
KAISTAR Lighting (Xiamen) Co., Ltd.	Mainland China	27.13%	35.15%	Associates	Equity method

B. The summarized financial information of the associates that are material to the Group is as follows:

(a) Balance sheet

	Nan Ya Photonics Incorporation	
	December 31, 2016	December 31, 2015
Current assets	$ 497,298	$ 912,992
Non-current assets	97,859	1,164,431
Current liabilities	(81,425)	(483,502)
Non-current liabilities	(5,762)	(4,744)
Total net assets	$ 507,970	$ 1,589,177
Share in associate's net assets	$ 219,746	$ 685,833
Goodwill	20,884	20,318
Realized (unrealized) gross profit from sales	-	(2,886)
Carrying amount of the associate	$ 240,630	$ 703,265

	Tekcore Co., Ltd.	
	December 31, 2016	December 31, 2015
Current assets	$ 677,081	$ 666,422
Non-current assets	1,088,990	1,690,438
Current liabilities	(1,122,921)	(389,104)
Non-current liabilities	(4,062)	(946,188)
Total net assets	$ 639,088	$ 1,021,568
Share in associate's net assets	$ 134,541	$ 215,060
Goodwill	162,660	162,660
Accumulated impairment loss	(215,506)	-
Carrying amount of the associate	$ 81,695	$ 377,720

	KAISTAR Lighting (Xiamen) Co., Ltd.	
	December 31, 2016	December 31, 2015
Current assets	$ 2,911,724	$ 3,800,944
Non-current assets	8,179,287	6,398,767
Current liabilities	(4,344,141)	(4,255,300)
Non-current liabilities	(1,290,335)	(1,611,724)
Total net assets	$ 5,456,535	$ 4,332,687
Share in associate's net assets	$ 1,480,358	$ 1,522,939
Goodwill	-	-
Carrying amount of the associate	$ 1,480,358	$ 1,522,939

(b) Statement of comprehensive income

	Nan Ya Photonics Incorporation	
	Year ended December 31, 2016	Year ended December 31, 2015
Revenue	$ 564,593	$ 1,073,723
Loss for the period from continuing operations	($ 1,132,855)	($ 125,296)
Other comprehensive income (loss)	52,432	(49,304)
Total comprehensive loss	($ 1,080,423)	($ 174,600)
Dividends received from associates	$ -	$ -

	Tekcore Co., Ltd.	
	Year ended December 31, 2016	Year ended December 31, 2015
Revenue	$ 922,696	$ 1,089,091
Loss for the period from continuing operations	($ 387,419)	($ 998,264)
Other comprehensive income	166	-
Total comprehensive loss	($ 387,253)	($ 998,264)
Dividends received from associates	$ -	$ -

	KAISTAR Lighting (Xiamen) Co., Ltd.	
	Year ended December 31, 2016	Year ended December 31, 2015
Revenue	$ 3,971,358	$ 3,375,995
Loss for the period from continuing operations	($ 209,997)	($ 514,498)
Other comprehensive income	-	-
Total comprehensive loss	($ 209,997)	($ 514,498)
Dividends received from associates	$ -	$ -

C The carrying amount of the Group's interests in all individually immaterial associates and the Group's share of the operating results are summarized as follows:

As of December 31, 2016 and 2015, the carrying amount of the Group's individually immaterial associates amounted to $940,372 and $1,054,926, respectively.

	Year ended December 31, 2016	Year ended December 31, 2015
Loss for the year from continuing operations	($ 161,288)	($ 112,091)
Other comprehensive loss	(311)	-
Total comprehensive loss	($ 161,599)	($ 112,091)

D. The investment loss from equity method investees for the years ended December 31, 2016 and 2015 amounted to $681,415 and $500,727, respectively.

E. The other comprehensive income from equity method investees for the years ended December

31, 2016 and 2015 amounted to $101,582 and $69,979, respectively.

F. The Group's investment in Tekcore Co., Ltd. has quoted market price. The fair value of Tekcore Co., Ltd. as of December 31, 2016 and 2015 was $119,057 and $211,541, respectively.

G. The Group assessed that the investment in Tekcore Co., Ltd. has been impaired, and the possibility of recovery is remote. Thus, the Group recognised impairment loss of $215,506.

(8) Property, plant and equipment

	Land	Buildings and structures	Machinery	Office equipment	Leasehold improvements	Others	Construction in progress and equipment to be inspected	Total
At January 1, 2016								
Cost	$ 263,185	$ 14,627,062	$ 40,702,853	$ 432,287	$ 270,246	$ 439,929	$ 2,751,589	$ 59,487,151
Accumulated depreciation and impairment	-	(5,174,677)	(19,248,984)	(301,006)	(144,572)	(221,807)	-	(25,091,046)
	$ 263,185	$ 9,452,385	$ 21,453,869	$ 131,281	$ 125,674	$ 218,122	$ 2,751,589	$ 34,396,105
2016								
Opening net book amount	$ 263,185	$ 9,452,385	$ 21,453,869	$ 131,281	$ 125,674	$ 218,122	$ 2,751,589	$ 34,396,105
Additions	-	1,446,717	887,809	8,812	12,626	20,626	(99,928)	2,276,662
Disposals	-	(83,766)	(897,928)	(58)	-	(25,686)	-	(1,007,438)
Reclassified to non-current assets held for sale	(138,524)	(880,356)	(26,033)	(721)	(18,210)	-	(32,868)	(1,096,712)
Reclassifications	-	4,941	31,163	(383)	-	(173)	(4,632)	30,916
Depreciation charge	-	(1,001,445)	(4,217,316)	(61,387)	(25,829)	(67,319)	-	(5,373,296)
Disaster loss	-	(85,358)	(258,494)	(2,021)	(613)	-	-	(346,486)
Impairment loss	-	(119,686)	(782,100)	(100)	-	(6,404)	-	(908,290)
Net exchange differences	-	(161,306)	(307,889)	(2,173)	(2,192)	35,520	(246,790)	(684,830)
Closing net book amount	$ 124,661	$ 8,572,126	$ 15,883,081	$ 73,250	$ 91,456	$ 174,686	$ 2,367,371	$ 27,286,631
At December 31, 2016								
Cost	$ 124,661	$ 14,849,715	$ 40,221,921	$ 387,169	$ 184,821	$ 410,503	$ 2,367,371	$ 58,546,161
Accumulated depreciation and impairment	-	(6,277,589)	(24,338,840)	(313,919)	(93,365)	(235,817)	-	(31,259,530)
	$ 124,661	$ 8,572,126	$ 15,883,081	$ 73,250	$ 91,456	$ 174,686	$ 2,367,371	$ 27,286,631

	Land	Buildings and structures	Machinery	Office equipment	Leasehold improvements	Others	Construction in progress and equipment to be inspected	Total
At January 1, 2015								
Cost	$ 263,185	$ 13,853,038	$ 40,473,350	$ 474,125	$ 261,192	$ 398,587	$ 1,929,143	$ 57,652,620
Accumulated depreciation and impairment	-	(3,935,824)	(16,828,745)	(286,241)	(124,845)	(162,270)	-	(21,337,925)
	$ 263,185	$ 9,917,214	$ 23,644,605	$ 187,884	$ 136,347	$ 236,317	$ 1,929,143	$ 36,314,695
2015								
Opening net book amount	$ 263,185	$ 9,917,214	$ 23,644,605	$ 187,884	$ 136,347	$ 236,317	$ 1,929,143	$ 36,314,695
Additions	-	1,016,824	1,954,380	33,419	16,776	54,375	855,976	3,931,750
Acquired through business combination	-	550,727	689,205	22,316	-	-	14,117	1,276,365
Disposals	-	(2,399)	(141,415)	-	(140)	(588)	-	(144,542)
Reclassified to non-current assets held for sale	-	(812,484)	(199,693)	(26)	-	-	-	(1,012,203)
Reclassifications (note)	-	9,611	(3,405)	(16,039)	-	(8)	(40,978)	(50,819)
Depreciation charge	-	(1,168,674)	(4,324,136)	(94,703)	(26,684)	(66,470)	-	(5,680,667)
Reversal of impairment loss recognised in profit or loss	-	1,820	5,801	-	-	-	-	7,621
Reduction due to loss of control in consolidated entity	-	(681)	(7,642)	(302)	-	-	-	(8,625)
Net exchange differences	-	(59,573)	(163,831)	(1,268)	(625)	(5,504)	(6,669)	(237,470)
Closing net book amount	$ 263,185	$ 9,452,385	$ 21,453,869	$ 131,281	$ 125,674	$ 218,122	$ 2,751,589	$ 34,396,105
At December 31, 2015								
Cost	$ 263,185	$ 14,627,062	$ 40,702,853	$ 432,287	$ 270,246	$ 439,929	$ 2,751,589	$ 59,487,151
Accumulated depreciation and impairment	-	(5,174,677)	(19,248,984)	(301,006)	(144,572)	(221,807)	-	(25,091,046)
	$ 263,185	$ 9,452,385	$ 21,453,869	$ 131,281	$ 125,674	$ 218,122	$ 2,751,589	$ 34,396,105

(9) Intangible assets

	Patents	Goodwill	Software	Others	Total
At January 1, 2016					
Cost	$ 2,191,236	$ 6,324,659	$ 273,285	$ 140,508	$ 8,929,688
Accumulated amortisation and impairment	(656,207)	-	(160,785)	(118,059)	(935,051)
	$ 1,535,029	$ 6,324,659	$ 112,500	$ 22,449	$ 7,994,637
2016					
Opening net book amount	$ 1,535,029	$ 6,324,659	$ 112,500	$ 22,449	$ 7,994,637
Additions－acquired separately	351,532	-	47,381	(1,919)	396,994
Transferred to expense	-	-	-	(2,074)	(2,074)
Amortisation charge	(325,634)	-	(40,493)	(11,053)	(377,180)
Net exchange differences	(2,911)	-	(2,247)	-	(5,158)
Closing net book amount	$ 1,558,016	$ 6,324,659	$ 117,141	$ 7,403	$ 8,007,219
At December 31, 2016					
Cost	$ 2,218,363	$ 6,324,659	$ 240,868	$ 89,569	$ 8,873,459
Accumulated amortisation and impairment	(660,347)	-	(123,727)	(82,166)	(866,240)
	$ 1,558,016	$ 6,324,659	$ 117,141	$ 7,403	$ 8,007,219

	Patents	Goodwill	Software	Others	Total
At January 1, 2015					
Cost	$ 1,472,583	$ 6,324,659	$ 237,818	$ 159,287	$ 8,194,347
Accumulated amortisation and impairment	(401,321)	-	(142,546)	(120,902)	(664,769)
	$ 1,071,262	$ 6,324,659	$ 95,272	$ 38,385	$ 7,529,578
2015					
Opening net book amount	$ 1,071,262	$ 6,324,659	$ 95,272	$ 38,385	$ 7,529,578
Additions－acquired separately	749,363	-	57,570	7,121	814,054
Acquired through business combination	39,340	-	7,007	-	46,347
Disposal	-	-	(1,130)	-	(1,130)
Reclassification	(36,489)	-	2,177	4,863	(29,449)
Amortisation charge	(300,353)	-	(47,977)	(27,920)	(376,250)
Net exchange differences	11,906	-	(419)	-	11,487
Closing net book amount	$ 1,535,029	$ 6,324,659	$ 112,500	$ 22,449	$ 7,994,637
At December 31, 2015					
Cost	$ 2,191,236	$ 6,324,659	$ 273,285	$ 140,508	$ 8,929,688
Accumulated amortisation and impairment	(656,207)	-	(160,785)	(118,059)	(935,051)
	$ 1,535,029	$ 6,324,659	$ 112,500	$ 22,449	$ 7,994,637

Details of amortisation on intangible assets are as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Operating costs	$ 255,251	$ 239,871
Selling expenses	6,423	5,590
Administrative expenses	48,302	48,389
Research and development expenses	67,204	82,400
	$ 377,180	$ 376,250

(10) Long-term prepaid rents (shown under "Other non-current assets")

	Year ended December 31, 2016	Year ended December 31, 2015
Land use right	$ 271,129	$ 301,690

In December 2006, and May, June and July 2010, the Group signed a land use right contract with Xiamen Municipal Bureau of Land, Resources And Housing Administration, Yangzhou National Territory Resources Bureau, Changzhou Land and Resource Bureau and Jining Municipal Bureau of State Land for use of the land in Xiamen Torch High-tech Industrial Development Zone of the People's Republic of China, Yangzhou Economic & Technological Development Zone, Wujin, Changzhou,Jiangsu, China and Jining National High-tech Industrial Development Zone with term of 50 years. All rentals had been paid on the contract date. The Group recognised rental expenses of $7,691 and $9,137 for the years ended December 31, 2016 and 2015, respectively.

(11) Impairment of non-financial assets

A. The Group assessed that the future recoverable amount for some of the machinery equipment and other equipment is lower than or will reverse higher than the carrying amount. The recognized impairment loss for the years ended December 31, 2016 and 2015 are $987,848 and $31,558, respectively. Details are as follows:

	Year ended December 31, 2016 Recognised in profit or loss	Year ended December 31, 2015 Recognised in profit or loss
Impairment loss - Buildings and structures	($ 119,686)	$ 3,450
Impairment loss - machinery	(782,100)	4,171
Impairment loss - non-current assets held for sale	(79,558)	(39,179)
Impairment loss - office quipment	(100)	-
Impairment loss - office facilities	(6,404)	-
	($ 987,848)	($ 31,558)

B. Goodwill is allocated to the Group's cash-generating units identified according to operating segment.

The recoverable amount of all cash-generating units has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The recoverable amount of all cash-generating units calculated using the value-in-use exceeded their carrying amount, therefore goodwill was not impaired. The key assumptions used for value-in-use calculations are as follows:

	Year ended December 31, 2016			Year ended December 31, 2015		
	1st year	2~5 years	After 6th year	1st year	2~5 years	After 6th year
Revenue growth rate	9.7%	1.02%~ 50.86%	0%	40%	11%~ 24%	0%
Gross margin rate	15.4%	19.6%~ 33.6%	33.6%	14.98%	15.54%~ 26.86%	26.86%
Discount rate	9.66%	9.66%	9.66%	10.94%	10.94%	10.94%

a) Revenue growth rate: Estimation refers to relevant market information and relevant operating and sales plan.

b) Gross margin rate: Estimation refers to historical data and relevant operating and sales plan.

c) Discount rate: The rate before tax and reflecting specific risk of relevant operating segment.

C. On March 28, 2016, the N3 plant incurred losses from fire, please refer to Note 10 for details.

(12) Non-current assets held for sale

A. Assets of disposal group classified as held for sale:

	December 31, 2016	December 31, 2015
Property, plant and equipment	$ 588,899	$ 1,035,574
Patents	38,499	38,499
Total	$ 627,398	$ 1,074,073

B. The assets and liabilities related to plant and equipment of CHIP STAR plant building, Taoyuan Pingzhen plant building and equipment and Duxing plant building have been reclassified as held for sale for the years ended December 31, 2016 and 2015. The completion date for the transaction is February 1, 2016 for Duxing plant building and August 31, 2016 for CHIP STAR plant building.

(13) Short-term loans

	December 31, 2016	December 31, 2015
Bank borrowings		
Unsecurred borrowings	$ 2,161,250	$ 848,530
Secured borrowings	-	2,950,593
	$ 2,161,250	$ 3,799,123
Interest rate range	0.92%~2.63%	1.34%~2.60%

As of December 31, 2016 and 2015, the Group has endorsements to Episky Corporation (Xiamen)

Ltd., Lighting Investment Ltd.、Jiangsu Canyang Optoelectronics Ltd, and Yen-Rich Opto (Hong Kong) Limited of $2,959,460 and $3,676,400, respectively.

(14) Short-term notes and bills payable

	December 31, 2016			
	Rate (%)	Amount	Name of bank	Collaterals
Payables for bankers' acceptance	-	$ 69,836	BANK OF COMMUNICATIONS	Note 8

	December 31, 2015			
	Rate (%)	Amount	Name of bank	Collaterals
Payables for bankers' acceptance	-	$ 217,043	INDUSTRIAL AND COMMERCIAL BANK OF CHINA、BANK OF COMMUNICATIONS	Note 8

(15) Financial liabilities at fair value through profit or loss - current

Items	December 31, 2016	December 31, 2015
Financial liabilities held for trading		
Call options, put options and conversion options	$ -	$ 718,855
Valuation adjustment of financial liabilities held	-	(539,171)
	$ -	$ 179,684

The Group recognized profit of $56,931and $1,047,765 on financial liabilities held for trading for the years ended December 31, 2016 and 2015, respectively.

(16) Bonds payable

	December 31, 2016	December 31, 2015
Domestic unsecured convertible bonds payable		
Initial amount of issuance	$ -	$ 1,500,000
Less: Converted amount	-	(120,400)
Redemption of bonds payable	-	(467,500)
Amounts sold	-	(912,100)
Discount on bonds payable	-	-
	$ -	$ -

	December 31, 2016	December 31, 2015
Overseas unsecured covertible bonds payable		
Initial amount of issuance	$ 15,773,242	$ 15,773,242
Less: Redemption of bonds payable	(1,037,420)	(813,811)
Amounts sold	(15,049,400)	(7,788,960)
Redemption amount on due	(459,550)	-
Discount on bonds payable	-	(471,083)
Effect of exchange rate changes	773,128	933,955
	-	7,633,343
Less: Expiring within one year	-	(458,306)
Less: Current portion	-	(7,175,037)
	$ -	$ -

A. On December 23, 2010, the Board of Directors adopted a resolution to issue the third overseas unsecured convertible bonds. The convertible bonds had been issued on January 27, 2011, as approved by the Financial Supervisory Commission, Executive Yuan. Major terms of the convertible bonds are as follows:

(a) Amount: US$280 million

(b) Issue price: Issued at 100% of par value; US$100,000 (in dollars), or its integral multiples

(c) Issue period: Five years; from January 27, 2011 to January 27, 2016

(d) Coupon rate: 0%

(e) Repayment date and method: The bonds will be redeemed at par at maturity if the bonds are not converted into common stocks at maturity, or redeemed early by the Company, or resold early to the Company by the bondholders.

(f) Conversion period: The conversion right can be exercised at any time from February 27, 2011 through December 28, 2015 except that the bonds are in the lock-up period, or redeemed early by the Company, or resold early to the Company by the bondholders in accordance with the terms of the bonds and relevant regulations.

(g) Conversion price and price reset: The conversion price was set at $132.60 (in dollars) per share on the issue date. The conversion price is subject to adjustments on the ex-right day of new shares issuance based on the formula specified in the terms of the bonds, due to changes in the number of the Company's common shares and subsequently adjusted to $118.90 (in dollars) per share due to issuance of common stock.

(h) The converted shares have the same rights as common shares.

(i) Call options of the Company: The bonds may be called, in whole or in part, at the option of the Company after three years from the issue date at 100% of their principal amount, provided the closing price of the Company's common shares on the Taiwan Stock Exchange exceeds 130% (inclusive) of the then-current conversion price of the bonds over 20 (inclusive) trading days during 30 consecutive trading days, when over 90% (inclusive) of the bonds have been redeemed, converted, called and retired, the Company may call outstanding bonds at 100% of their principal amount. Additionally, in the instance when the R.O.C. Tax Law changes and it causes additional expenses for the Company, the Company may call the bonds early at 100% of their principal amount.

(j) Put options of the holders: The bondholders may request the Company to redeem the bonds, in whole or in part, at 100% of their principal amount, after three years from the issue date, or if the Company's common shares are unlisted from the Taiwan Stock Exchange or any change in the Company's controlling power as defined in the terms of the bonds.

The non-equity conversion options, call options, put options embedded in bonds payable were separated from their host contracts and were recognized in 'financial assets or liabilities at fair value through profit or loss' in net amount in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective interest rate of the bonds payable after such separation was 3.3%.

The Company has purchased back the Company's third overseas unsecured convertible bonds of US$6,800 thousand in October 2011. Furthermore, certain bondholders of the Company's third overseas unsecured convertible bonds have exercised put options in January 2014, the Company has redeemed bonds at the carrying amount at US$259,200 thousand, and loss on recovery was $440,123. The Company's third overseas unsecured convertible bonds have been fully paid on January 27, 2016 of USD 14,000 thousand. As of December 31, 2016 and 2015, the balances amounted to $0 and $458,306, respectively.

B. On June 20, 2013, the Board of Directors adopted a resolution to issue the fourth overseas unsecured convertible bonds. The convertible bonds had been issued on August 7, 2013, as approved by the Financial Supervisory Commission, Executive Yuan. Major terms of the convertible bonds are as follows:

(a) Amount: US$250 million

(b) Issue price: Issued at 100% of par value; US$100,000 (in dollars), or its integral multiples

(c) Issue period: Five years; from August 7, 2013 to August 7, 2018

(d) Coupon rate: 0%

(e) Repayment date and method: Except for the Company's bonds that were redeemed early, repurchased and retired or had their conversion rights exercised, the issuing company shall redeem the Company's bonds at the maturity date at the carrying amount plus 0.25% per annum (compounded semiannually) which is equivalent with an effective yield of 101.26% (redemption amount) of the carrying amount.

(f) Conversion period: Except for the bond redeemed early, repurchased and retired, or bonds that were converted by their bondholders and bonds during the non-conversion period (41 days after the issuance and 10 days prior to the maturity date), the bondholders may request the issuing company to convert the Company's convertible bonds to the issuing company's newly issued ordinary shares.

(g) Conversion price and price reset: The conversion price was set at $65.13 (in dollars) per share on the issue date. The conversion price is subject to adjustments on the ex-right day of new shares issuance based on the formula specified in the terms of the bonds.

The conversion price was therefore adjusted as NT$63.43 per share.

(h) The converted shares have the same rights as common shares.

(i) The Company's repurchase right: for the period starting 3 years from the issue date until the maturity date, if the closing price of the issuing company's ordinary shares converted to USD using the currency exchange rate of the day (fixing currency exchange rate at 11 A.M. shown on Taipei Forex Inc.'s charts) on the Taiwan Stock Exchange reaches 125% of the total amount of the redemption price divided by the conversion rate (ratio calculated by the corporate bond's carrying amount divided by that day's conversion price (using the fixed currency exchange rate on the price settlement date to convert to USD)) for 20 transacting days within 30 consecutive business days, the issuing company has the right to redeem all or part of the corporate bonds at the early redemption price; when over 90% of the outstanding corporate bond's carrying amount is redeemed, repurchased and retired or had their conversion rights exercised by the their bondholders, the issuing company can repurchase all of the corporate bonds that are still outstanding at the early redemption price, however, partial redemption is not allowed; if changes to the R.O.C.'s tax regulations occur after the issue date and cause the issuing company to bear more tax or to pay extra interest expenses or increase in costs for the corporate bonds, the issuing company can redeem all the corporate bonds at the early redemption price in accordance with the agreed-upon contract, and cannot redeem partial amounts of the bonds outstanding.

(j) Put options of the holders: The bondholders may request the Company to redeem the bonds, in whole or in part, with an added interest rate of 0.25% per annum (compounded semi-annually) on the carrying amount as the premium which is equivalent to 100.75% of the carrying amount, after three years from the issue date. Furthermore, if the Company's common shares are unlisted from the Taiwan Stock Exchange, the bondholders may request the issuing company to redeem early the Company's bonds with an added interest rate of 0.25% per annum (compounded semi-annually) for the effective yield ("early redemption price"), in whole or in part; if any changes occurs to the Company's controlling power as defined in the terms of the bond, the bondholders may request the issuing company to redeem early, in whole or in part, the bonds at a suitable early redemption price.

For the year ended December 31, 2016, the Company repurchased certain fourth overseas unsecured convertible bonds of US$6,900 thousand. In August 2016, some of the 4th oversea convertible bondholders exercised the put option, the Company redeemed the bonds at face value of US$223,100 thousand. For the year ended December 31, 2016, the Company recognised loss on recovery was $199,386. As of December 31, 2016 and 2015, the balances amounted to $0 and $7,175,037, respectively.

The non-equity conversion options, call options, put options embedded in bonds payable were separated from their host contracts and were recognized in 'financial assets or liabilities at fair value through profit or loss' in net amount in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective interest rate of the bonds payable after such separation was 2.39%.

C. On April 9, 2012, the Formosa Inc. Board of Directors adopted a resolution to issue the fourth domestic unsecured convertible bonds (“Formosa fourth”). The issuance was approved by Financial Supervisory Commission (FSC) and executed on July 31, 2012. Details of terms are as follows:

(a) Issuance amount: Total amount of $1,500,000.

(b) Issuance price: Face value of NT$100,000 and bonds were fully issued at par value.

(c) Issuance period: 5 years, from July 31, 2012 to July 31, 2017

(d) Coupon rate: 0% per annum

(e) Repayment date and method: Except for bonds that are converted as Formosa Inc.’s ordinary shares at maturity, redeemed early by Formosa Inc., or sold early by creditors, other bonds are repayable in full amount by cash at maturity.

(f) Conversion period: The conversion right can be exercised after one month from issue date and 10 days prior to maturity date subject to redemption, repurchase, conversion, or any lock-up period in accordance with laws and regulations.

(g) Conversion price and adjustment: Conversion price was $20.8 per share. However, the conversion price of the corporate bonds is adjusted when there are ex-rights or ex-dividend. As Formosa Inc. has raised additional cash through private placement in 2013, starting from October 29, 2013, the conversion price was adjusted to $20.6 per share.

(h) The converted shares have the same rights as Formosa Inc.’s ordinary shares.

(i) Call option of Formosa Inc.: The bonds may be called, in whole or in part, at the option of Formosa Inc. at any time on or after one month from issue date through 40 days prior to maturity date, at 10% of their principal amount, provided the closing price of Formosa Inc.’s common shares on the Taiwan Stock Exchange exceed 30% (inclusive) of the then-current conversion price of the bonds over 30 consecutive trading days.

(j) Put options of the holders: The date when the bondholders can exercise their put options is July 31, 2014 and 2015 (the second and third anniversary of the issue date). Formosa Inc. shall notify the holders 30 days prior to this date that Formosa Inc. will process the requests to exercise the put options. Formosa Inc. shall redeem the bond at 101.0025% and 101.5075% of the fair value within 5 business days, respectively.

(k) In accordance with rule for issuance and conversion, all bonds that are purchased back (including purchased by the Taiwan Over-The-Counter Securities Exchange), redeemed or converted shall be retired. Rights embedded in the bonds are eliminated at the same time and bonds are not issued.

D. Formosa fourth amounting to $120,400 was converted to Formosa’s ordinary share of 5,505 thousand shares and the Company’s ordinary share of 79 thousand shares, and Formosa fourth amounting to $1,379,600 was bought back by Formosa Inc. through the Taipei Exchange. For the year ended December 31, 2015, Formosa Inc. recognised loss on recovery was $51,333.

(17) Long-term borrowings

Type of borrowings	Borrowing period and repayment term		December 31, 2016
Bank borrowings			
Secured borrowings	Before October 29, 2022	$	364,580
Secured borrowings	Before May 30, 2019		1,500,000
Secured borrowings	May 30, 2019 Repay fully at maturity		2,200,000
Unsecured borrowings	Before May 30, 2019		582,115
Unsecured borrowings	Before December 31, 2019		454,285
Unsecured borrowings	June 29, 2018 Repay fully at maturity		450,000
Unsecured borrowings	Before September 16, 2018		320,000
Unsecured borrowings	Before September 3, 2018		500,000
			6,370,980
Less: Current portion		(	615,841)
Less: Syndicate bank cost		(	17,273)
		$	5,737,866
Interest rate range			1.26%~2.33%

Type of borrowings	Borrowing period and repayment term		December 31, 2015
Bank borrowings			
Secured borrowings	Before October 29, 2022	$	427,080
Secured borrowings	Before September 20, 2017		794,767
Secured borrowings	Before June 21, 2017		225,000
Secured borrowings	Redraw before September 20, 2017		250,000
Secured borrowings	Before April 6, 2016		73,856
Secured borrowings	Redraw before June 2, 2018		600,000
Secured borrowings	Before July 15, 2016		820,629
Unsecured borrowings	Before September 16, 2018		400,000
Unsecured borrowings	Before September 3, 2018		500,000
Unsecured borrowings	Before December 30, 2019		595,650
Unsecured borrowings	December 29, 2017 Repay fully at maturity		450,000
Unsecured borrowings	Before May 23, 2016		126,513
			5,263,495
Less: Current portion		(	2,048,591)
Less: Long-term borrowings that violate the special conditions and are reclassified as current portion of long-term borrowings		(	394,767)
		$	2,820,137
Interest rate range			1.24%~2.30%

A. On March 23, 2012, the subsidiary － Formosa Inc. has signed a syndicated contract for credit line of $3,500,000 with 11 financial institutions including Bank of Taiwan. The leading banks are Bank of Taiwan and Land Bank of Taiwan. The credit granting period is 5 years from the first drawing date, September 20, 2012. As of June 20, 2016, the entire borrowings had been repaid.

(a) Credit lines:

i. Tranche (A): Funds for repaying all Formosa Inc.'s bank borrowings. Limit is $1,800,000 and cannot be redrawn within the granting period.

ii. Tranche (B): Funds for repaying Formosa Inc.'s operational needs. The limit is adjusted to $250,000 from $1,700,000 and can be redrawn within the granting period.

(b) Formosa Inc. has promised to maintain the following financial ratios and conditions that are based on the audited consolidated financial statements within the credit granting period:

i. Current ratio more than or equal to 100%;

ii. Debt ratio (total liabilities / tangible net worth) less or equal to 150%;

iii. Times interest earned ratio no less than 300%;

iv. Tangible net worth (shareholders' equity – intangible assets) not less than $9,500,000 (inclusive).

(c) Formosa Inc.'s current ratio, times interest earned ratio and tangible net worth based on 2015 audited consolidated financial statements did not meet the above special conditions. As of December 31, 2015, the book value of the borrowing was $394,767 (not including current portion). As the management noticed the violation, the management has notified and negotiated with the leading banks. The leading banks have not excluded the rights to collect the repayment as of the balance sheet date. Therefore, Formosa Inc. has classified the borrowing as current liabilities as of December 31, 2015.

B. Formosa Inc. has signed a syndicated contract for credit line of $1,600,000 with 6 financial institutions including Land Bank of Taiwan. The leading bank is Land Bank of Taiwan. The credit granting period is 3 years from the first drawing date, June 2, 2015. Before the maturity, the granting period can be extended for 2 years upon application. As of May 30, 2016, the entire borrowing had been repaid.

(a) Credit lines are as follows. Total credit balance cannot exceed $1,600,000:

i. Tranche (A): Funds for fulfilling Formosa Inc.'s mid-term operational needs. Credit line is $1,600,000 and can be redrawn within the granting period.

ii. Tranche (B): Funds for repaying Formosa Inc.'s convertible bonds. Credit line is $1,225,000 and cannot be redrawn within the granting period.

(b) Formosa Inc. has promised to maintain the following financial ratios and conditions as stated in the audited consolidated financial statements within the credit granting period:

i. Current ratio more than or equal to 100%;

ii. Debt ratio (total liabilities / tangible net worth) less or equal to 150%;

iii. Times interest earned ratio at least 2 times;

iv. Tangible net worth (shareholders' equity – intangible assets) not less than $10,000,000 (inclusive).

(c) Formosa Inc.'s current ratio, times interest earned ratio and tangible net worth based on 2015 audited consolidated financial statements did not meet the above requirements. According to Article 19 of the syndicated contract, Formosa Inc. shall improve the financial ratios within 5 months starting from April 1, 2016 if it fails to meet any covenant. During the improvement period, the Company's failure to meet any covenant is not regarded as a violation.

C. Formosa Inc.'s subsidiary – Jiangsu Canyang Optoelectronics Ltd. has signed a syndicated contract for credit line of US$50,000 thousand with 8 financial institutions including Bank SinoPac. Formosa Inc. is the guarantor. The credit granting period is 5 years from the first drawing date, July 15, 2011. As of June 20, 2016, the entire borrowings had been repaid.

Formosa Inc. has promised to maintain the following financial ratios and conditions that are based on the audited consolidated financial statements within the credit granting period:

i. Current ratio more than or equal to 100%;

ii. Debt ratio less or equal to 150%;

iii. Times interest earned ratio no less than 300%;

D. The company, Formosa Inc. and Jiangsu Canyang Optoelectronics Ltd have signed a syndicated contract with 7 financial institutions including Land Bank of Taiwan. The leading banks is Land

Bank of Taiwan. The credit granting period is 3 years from the first drawing date, May 30, 2016. Before the maturity, the granting period can be extended for 2 years upon application.

a) Credit lines are as follows:

i. Tranche (A): Credit line is $4,000,000. Details of Tranche A are as follows：

i) Tranche (A-1): To redeem the 2nd overseas convertible bond and the former facility of Tranche (B) of Formosa Inc., the credit line is $1,500,000 which can be drawn separately but cannot be redrawn.

ii) Tranche (A-2): Funds for fulfilling the Company's mid-term operational needs. Credit line is $2,500,000 and can be redrawn.

ii. Tranche (B): Credit line is $1,600,000. Details of Tranche B are as follows

i) Tranche (B-1): To repay former financial debt of Formosa Inc., the credit line is $600,000 and cannot be redrawn.

ii) Tranche (B-2): To fulfil midterm operating capital, the credit line is $1,000,000 and can be redrawn.

iii. The balance of Tranche (A) and Tranche (B) cannot exceed the total credit line.

iv. Tranche (C): Credit line is US$19,000 thousand. Details of Tranche C are as follows：

i) Tranche (C-1): To repay financial debt of Jiangsu Canyang Optoelectronics Ltd., the credit line is USD 19,000 thousand and can be drawn at lump sum but cannot be redrawn.

b) The Company has promised to maintain the following financial ratios and conditions that are based on the audited consolidated financial statements within the credit granting period (if violating following financial rates, annual rates of 0.125% should be added in accordance with contract):

i. Current ratio more than or equal to 100%;

ii. Debt ratio less or equal to 100%;

iii. Times interest earned ratio no less than 400%;

iv. Tangible net worth (shareholders' equity - intangible assets) not less than $45,000,000 (inclusive).

c) Due to the combination of the Group and Formosa Inc. on September 29, 2016, the aforementioned Tranche (B), Tranche (B-1) and Tranche (B-2) are not applicable to the contract.

(18) Pensions

A. (a) The Company and the subsidiary, Huga Optotech, have defined benefit pension plans in accordance with the Labor Standards Law, covering all regular employees for services provided prior to July 1, 2005, and employees who choose to remain in the defined benefit pension plan subsequent to the enforcement of the Labor Pension Act on July 1, 2005. Under the defined benefit pension plan, employees are entitled to two base points for every year of service for the first 15 years and one base point for each additional year thereafter, up to a maximum of 45 base points. The pension payment to employees is computed based on years of service and average salaries or wages of the last six months prior to approved retirement.

The Company contributes an amount equal to 2% of salaries and wages paid each month to a pension fund. The pension fund is administered by a pension fund monitoring committee (the "Committee") and deposited under the Committee's name in the Bank of Taiwan. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

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

	December 31, 2016	December 31, 2015
Present value of defined benefit obligations	($ 332,180)	($ 335,766)
Fair value of plan assets	223,785	216,981
Net defined benefit liability	($ 108,395)	($ 118,785)

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
2016			
Balance at January 1	($ 335,766)	$ 216,981	($ 118,785)
Current service cost	(1,326)	-	(1,326)
Interest (expense) income	(6,111)	3,589	(2,522)
	(343,203)	220,570	(122,633)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(1,990)	(1,990)
Change in demographic assumptions	1,727	-	1,727
Experience adjustments	2,231	-	2,231
	3,958	(1,990)	1,968
Pension fund contribution	-	12,270	12,270
Paid pension	7,065	(7,065)	-
Balance at December 31	($ 332,180)	$ 223,785	($ 108,395)

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
2015			
Balance at January 1	($ 305,796)	$ 206,862	($ 98,934)
Current service cost	(1,247)	-	(1,247)
Interest (expense) income	(6,845)	4,789	(2,056)
Past service cost	13,456	-	13,456
	(300,432)	211,651	(88,781)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	693	693
Change in demographic assumptions	(8,973)	-	(8,973)
Change in financial assumptions	(26,459)	-	(26,459)
Experience adjustments	(6,409)	-	(6,409)
	(41,841)	693	(41,148)
Pension fund contribution	-	13,666	13,666
Paid pension	9,029	(9,029)	-
Effect of business combination	(2,522)	-	(2,522)
Balance at December 31	($ 335,766)	$ 216,981	($ 118,785)

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

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

Epistar Corporation:

	Year ended December 31, 2016	Year ended December 31, 2015
Discount rate	1.75%	1.75%
Future salary increases	2.00%	2.00%

Huga Optotech Inc.:

	Year ended December 31, 2015
Discount rate	1.75%
Future salary increases	2.00%

Formosa Epitaxy Incorporation:

	Year ended December 31, 2015
Discount rate	1.90%
Future salary increases	1.75%

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

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

Epistar Corporation:

	Discount rate		Future salary increases	
	Increase 25%	Decrease 25%	Increase 25%	Decrease 25%
December 31, 2016				
Effect on present value of defined benefit obligation	$ 13,130	($ 13,818)	($ 13,748)	$ 13,130
December 31, 2015				
Effect on present value of defined benefit obligation	$ 13,098	($ 13,808)	($ 13,739)	$ 13,098

Huga Optotech Inc.:

	Discount rate		Future salary increases	
	Increase 25%	Decrease 25%	Increase 25%	Decrease 25%
December 31, 2015				
Effect on present value of defined benefit obligation	$ 501	($ 530)	($ 527)	$ 501

Formosa Epitaxy Incorporation:

	Discount rate		Future salary increases	
	Increase 25%	Decrease 25%	Increase 100%	Decrease 100%
December 31, 2015				
Effect on present value of defined benefit obligation	$ 449	($ 477)	($ 2,080)	$ 1,659

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

The method and assumptions used for the preparation of sensitivity analysis during 2016 and during 2015 are the same.

(f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2017 amounts to $13,934.

(g) As of December 31, 2016, the weighted average duration of that retirement plan is 16 years.

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

(b) Episky Corporation (Xiamen) Ltd., Luxlite (Shenzhen) Corporation Limited, Epicrystal Corporation (Changzhou) Ltd., United LED Shandong Corporation, Crystalrich (Guangzhou) Co., Limited, Jiangsu Canyang Optoelectronics Ltd. and Ningbo Formosa Epitaxy Incorporation have funded defined contribution plans. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on a certain percentage stipulated by the government. Other than the monthly contributions, these companies do not have further obligations.

(c) The pension costs under the defined contribution pension plans of the Group for the years ended December 31, 2016 and 2015 were $194,938 and $232,040, respectively.

(19) Share-based payment-employee compensation plan

A. Share-based payment - employee compensation plan are as follows:

(a)The Company's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted (thousand shares)	Contract period	Vesting conditions
First employee restricted shares	2012.08.09	13,500	3 years	(Note 1)
Second employee restricted shares	2013.03.25	1,500	3 years	(Note 1)
First employee restricted shares assumed from Huga Optotech Inc.	2012.11.01	1,031 (Note 2)	3 years	(Note 3)

Note 1: (a) Vested 30% at maximum if the employee is still in service upon one-year and achieves the Company's overall financial performance requirements and personal performance requirements.

(b) Vested cumulative 60% at maximum if the employee is still in service upon two years and achieves the Company's overall financial performance requirements and personal performance requirements.

(c) Vested cumulative 100% at maximum if the employee is still in service upon three years and achieves the Company's overall financial performance requirements and personal performance requirements.

The restricted shares above cannot be transferred during the vesting period except for those acquired through inheritance, but are entitled to voting rights and dividends. If employees resign during the vesting period, they should return the shares and dividends received.

Note 2: The number of shares calculated is based on the ratio of share swaps between the Company and Huga Optotech Inc.

Note 3: (a) Vested 70% at maximum if the employee is still in service upon two years and achieves Huga Optotech Inc.'s overall financial performance requirements and personal performance requirements.

(b) Vested cumulative 100% at maximum if the employee is still in service upon three years and achieves Huga Optotech Inc.'s overall financial performance requirements and personal performance requirements.

On January 2, 2013, after the share swaps between the Company and Huga Optotech Inc., vesting conditions were modified and resolved by the Board of Directors of Huga Optotech Inc.

(a) Vested 30% at maximum if the employee is still in service upon one year and achieves Huga Optotech Inc.'s overall financial performance requirements and personal performance requirements.

(b) Vested cumulative 60% at maximum if the employee is still in service upon two years and achieves Huga Optotech Inc.'s overall financial performance requirements and personal performance requirements.

(c) Vested cumulative 100% at maximum if the employee is still in service upon three years and achieves Huga Optotech Inc.'s overall financial performance requirements and personal performance requirements.

The first restricted shares assumed from Huga Optotech Inc. as stated above cannot be transferred during the vesting period except for those acquired through inheritance, but are entitled to voting rights and dividends. If employees resign during the vesting period, they should return the shares and dividends received.

(b) The first restricted shares granted by the Company are entitled to voting rights and dividends. The fair value of those shares was measured at the closing price of $61.5 of the Company's common stock on the grant date. The weighted-average share price of the Company on the measurement date was $61.21.

(c) The second restricted shares granted by the Company are entitled to voting rights and dividends. The fair value of those shares was measured at the closing price of $56.0 of the Company's common stock on the grant date. The weighted-average share price of the Company on the measurement date was $56.25.

(d) The first restricted shares granted by Huga Optotech Inc. are entitled to voting rights and dividends. The fair value of those shares was measured at the closing price of $9.76 of Huga Optotech Inc.'s common stock on the grant date. The weighted-average share price of Huga Optotech Inc. on the measurement date was $9.67. After the share swap transaction, the closing price of $51.9 of the Company's shares on the date of amending the vesting conditions was used to measure the fair value of the restricted shares while the weighted-average share price of the Company was $52.36.

(e) Details of the employee restricted shares are as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
	No. of options (in thousands)	No. of options (in thousands)
Employee restricted shares outstanding at beginning of the period	7,930	15,241
Shares granted	-	(6,445)
Shares forfeited	(7,930)	(866)
Employee restricted shares outstanding at end of the period	-	7,930

B. Information on share-based payment – employee compensation plan of the Company's subsidiary –United LED Corporation Hong Kong Limited is set forth below:

(a) United LED Corporation Hong Kong Limited's share-based payment transactions are set forth below:

Type of arrangement	Grant date	Quantity granted (thousand shares)	Vesting conditions
Employee stock option	2010.8.1	1,500,000	Note A

Note A: 30% upon completion of 1 year' service; 60% upon completion of 2 years' service; 100% upon completion of 3 years' service.

(b) Details of the employee stock options are set forth below:

	Year ended December 31, 2016		Year ended December 31, 2015	
	No.of shares (in thousands)	Weighted-average exercise price (in US dollars)	No.of shares (in thousands)	Weighted-average exercise price (in US dollars)
Options outstanding at beginning of the period	1,048,700	$ 0.0001	1,048,700	$ 0.0001
Options outstanding at end of the period	1,048,700	$ 0.0001	1,048,700	$ 0.0001
Options exercisable at end of the period	1,048,700		1,048,700	

(c) For the stock options granted by United LED Corporation (Hong Kong) Limited, the fair value of those stock options on the grant date is estimated under the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Share Price (US dollars)	Weighted average excecise price (US dollars)	Expected exercise volatility	Expected terms	Risk free interest rate	Weighted average fair value (US dollars) per share
Employee stock option	2010.08.01	$ 0.872	$ 0.0001	49.89~ 59.39%	1~3 years	0.29%~ 0.84%	$ 0.8719

C. Expenses incurred relating to share-based payment:

	Year ended December 31, 2016	Year ended December 31, 2015
Equity settled	$ -	($ 204,664)

For the year ended December 31, 2016, the Group's estimated vested equity instruments were less than the previous estimation. The Group has revised the previous estimation and reversed expenses recognised in prior years.

(20) Long-term deferred revenue (shown under "Other non-current liabilities")

	December 31, 2016	December 31, 2015
Government grants revenue	$ 901,492	$ 1,131,324
Deferred technical services revenue	7,768	10,717
	$ 909,260	$ 1,142,041

A. The Company's subsidiaries obtained government grants for acquisitions of equipment and technology investments and recognized such grants as revenue over the economic lives of those assets. Government grants revenue recognized for the years ended December 31, 2016 and 2015 were $165,410 and $202,967 (shown under "Other revenue"), respectively. As of December 31, 2016 and 2015, government grants that were receivable but not received yet amounted to $0 and $278,025, respectively.

B. In 2009 and 2015, the Company signed a technical permission and technical support contract with Litefield Corporation (Dalian) LTD. and LEEDARSON LIGHTING CO., LTD., respectively, and recognises technical services revenue over the contract periods. Technical services revenue recognised for the years ended December 31, 2016 and 2015 were $2,948 and $2,853, respectively. As of December 31, 2016 and 2015, long-term deferred revenue amounted to $7,768 and $10,717, respectively.

(21) Share capital

A. As of December 31, 2016, the Company's authorized capital was $13,000,000, consisting of 1,300,000 thousand shares of ordinary stock (including 35,000 thousand shares reserved for employee stock options), and the paid-in capital was $10,915,492 with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected.

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

	2016	2015
At January 1	$ 1,071,800	$ 1,095,291
Reacquired shares	-	(22,288)
Convertible bonds	-	79
Treasury stock sold by subsidiary company	2,300	-
Cancelled employee restricted shares	(7,964)	(1,282)
At December 31	$ 1,066,136	$ 1,071,800

B. Pursuant to the issuance of global depositary receipts (GDRs), the Company issued 135 million shares of common stocks for $1,350,000. On September 22, 2009, the issuance of GDRs was completed and the GDRs are traded on the Luxembourg Stock Exchange. The total GDRs issued were 27,000,000 units, each represented 5 common shares and U.S. $13 (in dollars) per unit, amounting to U.S.$351 million.

C. Treasury shares

(a) The movements of the Company's treasury shares are as follows:

	Year ended December 31, 2016			
Reason for reacquisition	Beginning balance	Increase	Decrease	Ending balance
Held by subsidiaries	5,196 thousand shares	-	2,631 thousand shares	2,565 thousand shares
Purchase of treasury shares	2,848 thousand shares	-	-	2,848 thousand shares
To be reissued to employees	20,000 thousand shares	-	-	20,000 thousand shares

The decrease of current period are shares sold by former Huga Optotech Inc. and PERFECTLED Investment Corporation and cancelled stock for the Group merger with Formosa Epitaxy Incorporation.

	Year ended December 31, 2015			
Reason for reacquisition	Beginning balance	Increase	Decrease	Ending balance
Held by subsidiaries	5,040 thousand shares	2,288 thousand shares	2,132 thousand shares	5,196 thousand shares
Purchase of treasury shares	2,848 thousand shares	-	-	2,848 thousand shares
To be reissued to employees	-	20,000 thousand shares	-	20,000 thousand shares

Decrease was caused by reacquisition by Huga Optotech Inc. and Formosa Epitaxy Incorporation for transfer to employees. The reacquired shares are considered as unissued shares if they are not transferred within 3 years from the reacquisition date. The Company has completed the registration of retirement of shares in January and November 2015, respectively.

(b) Information of the Company's shares held by subsidiaries – Formosa Epitaxy Incorporation, Lighting Investment Corporation, Huga Optotech Inc. and PERFECTLED Investment Corporation is as follows:

	December 31, 2016
	Lighting Investment Corporation
Shares	2,565 thousand shares
Book value	$ 135,163
Fair value	$ 59,374

	December 31, 2015			
	Formosa Epitaxy Incorporation	Lighting Investment Corporation	Huga Optotech Inc.	PERFECTLED Investment Corporation
Shares	331 thousand shares	2,565 thousand shares	12 thousand shares	2,288 thousand shares
Book value	$ 20,812	$ 135,163	$ 760	$ 49,760
Fair value	$ 8,437	$ 65,401	$ 315	$ 58,357

(c) The Company indirectly invested in PERFECTLED Investment Corporation through subsidiaries. Though the Company held less than half of the voting rights in PERFECTLED Investment Corporation, the Company assessed that it still had control over PERFECTLED Investment Corporation and thus PERFECTLED Investment Corporation was considered as a subsidiary. And the shares held by PERFECTLED Investment Corporation in the Company were recorded as treasury share according to related regulations. December 31, 2015, the total number of the Company's shares held by PERFECTLED Investment Corporation was 4,830 thousand shares with an average book value of $21.74 (in dollars) per share, and fair value of $25.5 (in dollars) per share. Cost of reclassifying shares as treasury shares was calculated based on the book value of the Company's shares held by PERFECTLED Investment Corporation at the Company's indirect shareholding ratio.

(22) Capital surplus

	Share premium	Treasury share transactions	Changes in ownership interests in subsidiaries	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Change in net equity of associates and joint ventures accounted for under equity method	Employee stock warrants	Employee restricted shares
At January 1, 2016	$41,809,822	$ -	$ 836,965	$ 13,997	$ 218,785	$ 10,966	($ 79,642)
Cancelled employee restricted shares	-	-	-	-	-	-	79,642
Treasury stock sold by subsidiary company	-	7,578	-	-	-	-	-
Retirement of treasury shares	(11,510)	(5,993)	-	-	-	-	-
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	(323)	-	-	-
Net change in the equity of associates	-	-	(622)	-	136,594	-	-
At December 31, 2016	$41,798,312	$ 1,585	$ 836,343	$ 13,674	$ 355,379	$ 10,966	$ -

	Share premium	Treasury share transactions	Changes in ownership interests in subsidiaries	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Change in net equity of associates and joint ventures accounted for under equity method	Employee stock warrants	Employee restricted shares
At January 1, 2015	$41,575,477	$ 27,091	$ 923,016	$ -	$ 43,172	$ 10,966	($ 762,570)
Vested restricted stocks	303,452	-	-	-	-	-	(303,452)
Cancelled employee restricted shares	-	-	-	-	-	-	12,819
Reversal of capital surplus from restricted stocks	-	-	-	-	-	-	(551,579)
Retirement of treasury shares	(72,971)	(27,091)	-	-	-	-	-
Conversion of convertible bonds	3,864	-	-	1,600	-	-	-
Net change in the equity of associates	-	-	-	12,397	175,073	-	-
Non-proportional subscription for new shares issued by subsidiaries	-	-	(86,051)	-	-	-	-
At December 31, 2015	$41,809,822	$ -	$ 836,965	$ 13,997	$ 218,785	$ 10,966	($ 79,642)

Pursuant to the Company Act, capital surplus, including additional paid-in capital in excess of par and donation, shall be exclusively used to cover accumulated deficit or to issue new stock or cash to shareholders in proportion to their ownership when the Company has no accumulated deficit. However, pursuant to the R.O.C. Securities and Exchange Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stock and donations can be capitalized once a year, provided that the Company has no accumulated deficit and the amount to be capitalized does not exceed 10% of the paid-in capital.

(23) Accumulated deficit

	2016	2015
At January 1	$ 241,512	$ 4,205,135
Loss for the year	(3,546,045)	(3,018,757)
Remeasurement of defined benefit obligations	1,526	(34,076)
Appropriation of earnings	-	(910,000)
Treasury stock sold by subsidiary company	(509)	-
Retirement of treaury shares	-	(790)
At December 31	($ 3,303,516)	$ 241,512

A. In accordance with the Company's Articles of Incorporation, 10% of current year's earnings, after paying all taxes and dues and covering prior years' losses, shall be appropriated as legal reserve until the total equals the issued share capital. Special reserve shall be appropriated or reversed when needed. The remaining earnings along with the prior years' accumulated unappropriated earnings are considered as distributable earnings, and shall be retained and appropriated in proportion to the number of shares held by each shareholder accordingly.

B. The Company appropriates earnings based on the factors such as current and future investment environment, capital needs, domestic and overseas competition and capital budget, along with the consideration of shareholders' interest and capital adequacy. The appropriation of cash dividends shall not be lower than 10% of the total dividend appropriated to shareholders.

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

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

E. On June 17, 2016, the shareholders in the annual meeting have resolved offset the deficits of 2015 with legal reserve of $1,306,352.

F. On June 29, 2015, the shareholders in the annual meeting have resolved the appropriations of 2014 earnings.

Details are summarized below:

	Year ended December 31, 2014	
	Amount	Dividends per share
Legal reserve	$ 181,033	
Reversal of special reserve	(100,596)	
Cash dividends	910,000	$ 0.829421
	$ 990,437	

G. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(30).

(24) Other equity items

	Currency translation differences	Unrealized gain or loss on available-for-sale financial assets	Unearned compensation of employees	Total
At January 1, 2016	$ 459,305	($ 316,164)	$ -	$ 143,141
Fair value adjustment - Group	-	16,207	-	16,207
Fair value adjustment - Associates	-	23,114	-	23,114
Currency translation differences:				
–Group	(584,423)	-	-	(584,423)
–Associates	(103,409)	-	-	(103,409)
At December 31, 2016	($ 228,527)	($ 276,843)	$ -	($ 505,370)

	Currency translation differences		Unrealized gain or loss on available-for-sale financial assets		Unearned compensation of employees		Total	
At January 1, 2015	$	639,823	($	149,071)	($	346,915)	$	143,837
Fair value adjustment - Group		-	(	146,625)		-	(	146,625)
Fair value adjustment - Associates		-	(	20,468)		-	(	20,468)
Amortization of employee restricted shares compensations cost		-		-	(	204,664)	(	204,664)
Cancelled employee restricted shares		-		-		551,579		551,579
Currency translation differences:								
–Group	(	137,666)		-		-	(	137,666)
–Associates	(	42,852)		-		-	(	42,852)
At December 31, 2015	$	459,305	($	316,164)	$	-	$	143,141

(25) Other income and expenses– net

	Year ended December 31, 2016		Year ended December 31, 2015	
Other income				
Royalty revenue	$	80,713	$	58,812
Government grants revenue		175,150		202,967
Total	$	255,863	$	261,779

(26) Other income

	Year ended December 31, 2016		Year ended December 31, 2015	
Rental revenue	$	10,897	$	24,306
Dividend income		11,685		13,083
Interest income:				
Interest income from bank deposits		65,292		144,376
Net currency exchange gains		14,638		23,607
Other interest income		9,687		4,714
Miscellaneous income		132,474		111,476
Total	$	244,673	$	321,562

(27) Other gains and losses

	Year ended December 31, 2016	Year ended December 31, 2015
Net losses on financial assets at fair value through profit or loss	($ 13,427)	($ 104,381)
Net gains on financial liabilities at fair value through profit or loss	-	4,589
Net currency exchange (loss)gains	(382,082)	222,607
(Losses)gains on disposal of property, plant and equipment	(501,237)	19,854
Gains on disposal of intangible assets	849	366
Gains on disposal of investments	74,492	38,320
Impairment loss on non-financial assets	(987,848)	(31,558)
Impairment losses on financial assets	(395,482)	(351,857)
Bargain purchase gain	-	500,075
Miscellaneous losses	(47,445)	(51,682)
Total	($ 2,252,180)	$ 246,333

(28) Finance costs

	Year ended December 31, 2016	Year ended December 31, 2015
Interest expense:		
Bank borrowings	$ 266,010	$ 266,621
Convertible bonds	112,500	200,644
Net currency exchange losses	11,613	686,846
Other interest expense	18,107	14,276
	408,230	1,168,387
Less: capitalisation of qualifying assets	(4,315)	(13,349)
Finance costs	$ 403,915	$ 1,155,038

(29) Expenses by nature

	Year ended December 31, 2016	Year ended December 31, 2015
Employee benefit expenses	$ 4,475,371	$ 4,895,944
Depreciation charges on property, plant and equipment (Note)	5,361,813	5,662,761
Amortisation charges on intangible assets	377,180	376,250
Total	$ 10,214,364	$ 10,934,955

Note : Depreciation amounting to $11,483 and $17,906 were recognized as a deduction of rental revenue for the years ended December 31, 2016 and 2015, respectively.

(30) Employee benefit expenses

	Year ended December 31, 2016	Year ended December 31, 2015
Wages and salaries	$ 3,722,309	$ 4,227,317
Share-based payments	-	(204,665)
Labor and health insurance expenses	311,723	369,833
Pension costs	198,786	221,887
Other personnel expenses	242,553	281,572
	$ 4,475,371	$ 4,895,944

A. According to the Articles of Incorporation of the Company, the Company shall distribute employees' compensation and directors' remuneration based on 10%~20% and 2% of the distributable profit of the current year, respectively. If the Company has accumulated deficit, earnings should be reserved to cover losses.
The abovementioned distributable profit of the current year refers to the current year's income before tax (excluding put option, call option, conversion right and reacquisition of corporate bonds on overseas convertible bond that are recorded in other gains and losses) less the profit prior to the appropriation of employees' compensation and directors' remuneration.

B. For the years ended December 31, 2016 and 2015, the Company incurred loss and thus did not accrue employees' compensation and directors' and supervisors' remuneration.
Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(31) Income tax

A. Income tax expense

(a)Components of income tax expense:

		Year ended December 31, 2016		Year ended December 31, 2015
Current tax:				
Current tax on profits for the period	$	55,689	$	24,890
Tax of foreign source income withheld at source		12,414		23,576
Prior year income tax underestimation		24,503		10,305
Total current tax		92,606		58,771
Deferred tax:				
Origination and reversal of temporary differences - parent company	(	343,664)	(	83,006)
Effect of income tax from loss carryforward - parent company	(	477,055)	(	283,771)
Origination and reversal of temporary differences - subsidiary company (Note)		489,877		92,130
Effect of income tax from loss carryforward - subsidiary company (Note)		469,428	(	126,645)
Origination and reversal of investment tax credits		26,646		39,231
Total deferred tax		165,232	(	362,061)
Income tax expense (benefit)	$	257,838	($	303,290)

Note: Mainly are simple mergers of the Group with subsidiaries, Huga Optotech Inc. and Formosa Epitaxy Incorporation, as the aforementioned subsidiaries were dissolved after merger, the Group decreased relevant deferred tax assets for insufficient taxable profit.

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

		Year ended December 31, 2016		Year ended December 31, 2015
Currency translation differences	$	136,224	$	36,709
Fair value unrealized gains/losses on available-for-sale financial assets	(	27,104)	(	9,750)
Remeasurement of defined benefit obligations	(	335)		6,940
Total	$	108,785	$	33,899

B. Reconciliation between income tax expense and accounting profit:

	Year ended December 31, 2016	Year ended December 31, 2015
Tax calculated based on profit before tax and statutory tax rate	($ 565,589)	($ 476,916)
Tax of foreign source income withheld at source	12,414	23,576
Effects from items expenses disallowed and tax exempted income by tax regulation	49,842	189,993
Effect from investment tax credit	246,656	-
Change in assessment of realisation of deferred tax assets	26,646	55,623
Effect of income tax from loss carryforward	463,366	(105,871)
Prior year income tax underestimation	24,503	10,305
Income tax expense (benefit)	$ 257,838	($ 303,290)

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

	2016			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
—Deferred tax assets:				
Allowance for obsolescence and decline in market value of inventory	$ 204,186	$ (133,711)	$ -	$ 70,475
Unrealized exchange loss	87,758	(87,758)	-	-
Unrealized sales returns and discounts	12,333	(1,442)	-	10,891
Bad debt expense	87,909	(76,375)	-	11,534
Unrealized loss from sales	-	4,778	-	4,778
Investment loss under equity method	573,926	(75,814)	-	498,112
Impairment loss for non-financial assets	7,623	121,515	-	129,138
Loss on valuation of financial assets	28,591	-	31,026	59,617
Impairment loss for financial assets	4,774	(4,476)	-	298
Deferred revenue	3,044	(978)	-	2,066
Currency translation differences	130,868	-	252,081	382,949
Unrealized pension	16,132	(1,109)	(335)	14,688
Others	260,251	(259,962)	-	289
Tax losses	1,505,465	7,627	-	1,513,092
Investment tax credit	43,601	(26,646)	-	16,955
Subtotal	$ 2,966,461	($ 534,351)	$ 282,772	$ 2,714,882
—Deferred tax liabilities:				
Bonds payable	($ 80,084)	$ 80,084	$ -	$ -
Unrealized foreign exchange gain	(4,984)	(37,489)	-	(42,473)
Unrealized gross profit	(7,624)	(3,294)	-	(10,918)
Bargain purchase gain	(70,844)	17,569	-	(53,275)
Investment gain under equity method	(758,179)	384,805	-	(373,374)
Gain on valuation of financial assets	-	-	(58,130)	(58,130)
Currency translation differences	(182,827)	-	(115,857)	(298,684)
Disaster insurance compensation income	-	(74,147)	-	(74,147)
Others	(40,092)	1,591	-	(38,501)
Subtotal	($ 1,144,634)	$ 369,119	($ 173,987)	($ 949,502)
Total	$ 1,821,827	($ 165,232)	$ 108,785	$ 1,765,380

	2015			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
—Deferred tax assets:				
Allowance for obsolescence and decline in market value of inventory	$ 117,340	$ 86,846	$ -	$ 204,186
Unrealized exchange loss	1,815	85,943	-	87,758
Unrealized sales returns and discounts	5,030	7,303	-	12,333
Bad debt expense	109,736	(21,827)	-	87,909
Unrealized gross profit	13,692	(13,692)	-	-
Investment loss under equity method	522,558	51,368	-	573,926
Impairment loss for non-financial assets	37,719	(30,096)	-	7,623
Loss on valuation of financial assets	38,341	-	(9,750)	28,591
Impairment loss for financial assets	4,774	-	-	4,774
Deferred revenue	3,099	(55)	-	3,044
Currency translation differences	-	-	130,868	130,868
Unrealized pension	17,735	(8,543)	6,940	16,132
Others	403,055	(142,804)	-	260,251
Tax losses	1,095,049	410,416	-	1,505,465
Investment tax credit	82,832	(39,231)	-	43,601
Subtotal	$ 2,452,775	$ 385,628	$ 128,058	$ 2,966,461
—Deferred tax liabilities:				
Bonds payable	($ 116,656)	$ 36,572	$ -	($ 80,084)
Unrealized foreign exchange gain	(13,367)	8,383	-	(4,984)
Unrealized gross profit	-	(7,624)	-	(7,624)
Bargain purchase gain	-	(70,844)	-	(70,844)
Investment gain under equity method	(750,397)	(7,782)	-	(758,179)
Currency translation differences	(88,668)	-	(94,159)	(182,827)
Others	(57,820)	17,728	-	(40,092)
Subtotal	($ 1,026,908)	($ 23,567)	($ 94,159)	($ 1,144,634)
Total	$ 1,425,867	$ 362,061	$ 33,899	$ 1,821,827

D. According to Act for Industrial Innovation and Statute for Upgrading Industries (before its abolishment), details of the amount the Company is entitled as investment tax credit and unrecognized deferred tax assets are as follows:

December 31, 2016			
Qualifying items	Unused tax credits	Unrecognised deferred tax assets	Expiry year
Investment credit for stockholder	$ 144,480	$ 144,480	2016
Investment credit for stockholder	43,861	26,906	2017

December 31, 2015			
Qualifying items	Unused tax credits	Unrecognised deferred tax assets	Expiry year
Machinery and equipment	$ 110,665	$ 110,665	2015
Investment credit for stockholder	144,480	132,126	2016
Investment credit for stockholder	43,861	12,614	2017

E. Expiration dates of unused tax losses and amounts of unrecognized deferred tax assets are as follows:

Unutilized tax losses from the parent company are as follows:

December 31, 2016				
Year incurred	Amount filed / assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2014	Assessed	$ 3,997,567	$ -	2024
2015	Filed	918,309	-	2025
2016	Filed	3,542,932	-	2026

December 31, 2015				
Year incurred	Amount filed / assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2014	Assessed	$ 3,997,567	$ -	2024
2015	Filed	918,309	-	2025

Unutilized tax losses from the subsidiary is as follows:

December 31, 2016				
Year incurred	Amount filed / assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2010	Assessed	$ 45,387	$ 45,387	2020
2011	Assessed	402,159	402,159	2016
2011	Assessed	22,015	22,015	2021
2012	Assessed	580,830	580,830	2017
2012	Assessed	75,120	75,120	2022
2013	Filed	964,499	964,499	2018
2013	Assessed	149,866	149,866	2023
2014	Filed	1,443,109	1,443,109	2019
2014	Assessed	20,247	20,247	2024
2015	Filed	2,308,921	2,008,539	2020
2015	Filed	2,392	2,392	2025
2016	Filed	2,804,572	2,804,572	2021
2016	Filed	6,049	6,049	2026

December 31, 2015				
Year incurred	Amount filed / assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2005	Assessed	$ 274,652	$ 274,652	2015
2006	Assessed	392,396	392,396	2016
2007	Assessed	359,652	359,652	2017
2010	Assessed	45,387	45,387	2020
2011	Assessed	437,280	437,280	2016
2011	Assessed	327,237	17,540	2021
2012	Assessed	631,555	631,555	2017
2012	Assessed	2,122,942	448,614	2022
2013	Filed	1,048,729	1,048,729	2018
2013	Filed	1,948,797	1,228,244	2023
2014	Filed	1,569,136	1,569,136	2019
2014	Filed	2,324,066	2,324,066	2024
2015	Filed	2,522,923	2,183,946	2020
2015	Filed	1,535,326	1,535,326	2025

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

	December 31, 2016	December 31, 2015
Deductible temporary differences	$ -	$ 513,115

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

H. The Company's products qualify for "Regulations for Encouraging Manufacturing Enterprises and Technical Service Enterprises in the Newly Emerging, Important and Strategic Industries" and the Company is entitled to the income tax exemption for five consecutive years. The duration has been set to start from January 1, 2017.

I. Unappropriated retained earnings (accumulated deficit):

	December 31, 2016	December 31, 2015
Earnings (deficit) generated in and after 1998	($ 3,545,028)	($ 1,306,352)

J. As of December 31, 2016 and 2015, the balance of the imputation tax credit account was $303,480and $294,483, respectively. For the years ended December 31, 2016 and 2015, the Company incurred accumulated deficit, thus the creditable tax rate are both estimated to be 0%.

(32) Losses per share

	Year ended December 31, 2016		
	Amount after tax	Weighted average number of outstanding ordinary shares (share in thousands)	Losses per share (in dollars)
Basic losses per share			
Losses attributable to the parent	($ 3,546,045)	1,064,989	($ 3.33)

	Year ended December 31, 2015		
	Amount after tax	Weighted average number of outstanding ordinary shares (share in thousands)	Losses per share (in dollars)
Basic losses per share			
Losses attributable to the parent	($ 3,018,757)	1,075,626	($ 2.81)
Diluted losses per share			
Convertible bonds	(703,518)	128,512	
Losses attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	($ 3,722,275)	1,204,138	($ 3.09)

(a) The impact of treasury stocks have been accounted for when the Company calculates weighted-average outstanding common shares.

(b) The third domestic unsecured convertible bonds issued by the Company results in anti-dilutive effect, thus, they are not included in the calculation of the diluted EPS.

(c) The fourth domestic unsecured convertible bonds issued by the Company results in anti-dilutive effect, thus, they are not included in the calculation of the diluted EPS in 2016.

(d) The fourth domestic unsecured convertible bonds issued by Formosa Epitaxy Incorporation results in anti-dilutive effect, thus, they are not included in the calculation of the diluted EPS in 2015.

(33) Business combinations

The Group has acquired 97.29% share capital of CHIP STAR Ltd. by cash in February 2015 and obtained control over CHIP STAR Ltd. CHIP STAR Ltd. is engaged in the development of light emitting components of LED and lighting application module, so the Group expects to acquire plants qualified for LED manufacturing, facilities and production lines in good condition, and to increase the pace of innovation by CHIP STAR Ltd.'s versatile talents and management system for processing of wafer after the acquisition.

A. The following table summarizes the consideration paid for CHIP STAR Ltd. and the fair values of the assets acquired and liabilities assumed at the acquisition date, as well as the fair value of the non-controlling interest at the acquisition date:

	February 17, 2015
Purchase consideration	
Cash	$ 852,797
Non-controlling interest	37,684
	890,481
Fair value of the identifiable assets acquired and liabilities assumed	
Cash	28,439
Notes/accounts receivable	4,881
Other receivables	7,015
Other assets	77,044
Property, plant and equipment	1,276,365
Intangible assets	46,347
Other non-current assets	23,013
Notes/accounts payable	(3,575)
Other payables	(43,299)
Other current liabilities	(2,070)
Deferred income tax liabilities	(21,837)
Other non-current liabilities	(1,767)
Total net identifiable assets	1,390,556
Bargain purchase gain	($ 500,075)

Non-controlling interest was measured at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

B. The operating revenue and loss before income tax included in the consolidated statement of comprehensive income since February, 2015 contributed by CHIP STAR Ltd. were $1,517 and $2,355, respectively. Had CHIP STAR Ltd. been consolidated from January 1, 2015, the consolidated statement of comprehensive income would show operating revenue of $25,520,633 and loss before income tax of $3,734,069.

(34) Supplemental cash flow information

A. Investing activities with partial cash payments

Property, plant and equipment:

	Year ended December 31, 2016	Year ended December 31, 2015
Purchase of property, plant and equipment	$ 2,276,662	$ 3,931,750
Add: opening balance of payable on equipment	977,294	1,021,598
Add: ending balance of prepayment for equipment	719,074	246,090
Less: ending balance of payable on equipment	(1,104,032)	(977,294)
Less: opening balance of prepayment for equipment	(246,090)	(297,040)
Cash paid during the year	$ 2,622,908	$ 3,925,104

Intangible assets:

	Year ended December 31, 2016	Year ended December 31, 2015
Purchase of intangible assets	$ 396,994	$ 814,054
Add: opening balance of payables	334,909	-
Less: ending balance of payables	(239,116)	(334,909)
Cash paid during the year	$ 492,787	$ 479,145

B. Partial cash investing activities

	Year ended December 31, 2016	Year ended December 31, 2015
Sale of property, plant and equipment	$ 1,921,513	$ 289,927
Add: opening balance of receivable	53,980	34,291
Less: ending balance of receivable	(44,505)	(53,980)
Cash collected in the period	$ 1,930,988	$ 270,238

C. Cash received from acquisition of subsidiaries

	Year ended December 31, 2016	Year ended December 31, 2015
Acquisition of subsidiaries	$ -	$ 852,797
Non-cash assets acquired	-	(1,434,665)
Liabilities assumed	-	72,548
Bargain purchase gain	-	500,075
Non-controlling interests	-	37,684
Cash received from acquisition of subsidiaries	$ -	$ 28,439

D. Cash received from disposal of ownership interests in subsidiaries

	Year ended December 31, 2016	Year ended December 31, 2015
Disposal proceeds	$ -	$ 187,188
Less: cash of subsidiaries at beginning of year	-	(170,095)
Add: opening balance of receivables	113,004	-
Less: ending balance of receivables	(77,400)	(113,004)
Net cash provided by (used in) disposal of subsidiaries	$ 35,604	($ 95,911)

7. RELATED PARTY TRANSACTIONS

(1) Significant related party transactions and balances

A. Operating revenue:

	Year ended December 31, 2016	Year ended December 31, 2015
Sales of goods:		
-Other related parties	$ 4,224,753	$ 4,239,438
-Associates	1,154,547	501,756
Total	$ 5,379,300	$ 4,741,194

The sales price and collection terms to related parties are generally comparable to those of third parties which is 150 days after month-end closing. Additionally, the sales price offered to certain related parties is not comparable to third parties since there is no such transaction with third parties. All other sales prices to related parties are the same as those to third parties.

B. Purchases:

	Year ended December 31, 2016	Year ended December 31, 2015
Associates	$ 2,523,125	$ 2,105,636

Due to the product variety, the purchase price from the above related parties was not comparable to other suppliers while other products have no difference with market price.

C. Receivables from related parties:

	December 31, 2016	December 31, 2015
-Other related parties	$ 2,234,982	$ 2,406,013
-Associates	518,774	357,076
Less: Allowance for sales returns and discounts	(487)	(25,729)
Total	$ 2,753,269	$ 2,737,360

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

D. Payables from related parties:

	December 31, 2016	December 31, 2015
Associates	$ 735,181	$ 417,195

The payables to related parties arise mainly from purchase transactions. The payables bear no interest.

E. Other receivables from related parties:

	December 31, 2016	December 31, 2015
Associates	$ 62,821	$ 55,228

The other receivables from related parties arise mainly from sales of machinery and equipment and patent licensing transactions.

F. Property transactions:

(a) Purchase of machinery and equipment

	Year ended December 31, 2016		Year ended December 31, 2015	
Purchase of machinery and equipment	Purchase price	Payables	Purchase price	Payables
-Other related parties	$ 2,260	$ 1,258	$ 729	$ 95
-Associates	138,866	94,364	37,255	-
	$ 141,126	$ 95,622	$ 37,984	$ 95

(b) Disposal of property, plant and equipment

	Year ended December 31, 2016		Year ended December 31, 2015	
Disposal of equipment	Sales price	Gain of disposal	Sales price	Gain of disposal
-Other related parties	$ -	$ -	$ 3,019	$ 181
-Associates	1,260	183	4,462	348
	$ 1,260	$ 183	$ 7,481	$ 529

(2) Key management compensation

	Year ended December 31, 2016	Year ended December 31, 2015
Salaries and other short-term employee benefits	$ 71,302	$ 72,934
Post-employment benefits	1,688	2,056
Termination benefits	21	
Share-based payment	-	(47,366)
Total	$ 73,011	$ 27,624

8. PLEDGED ASSETS

The Group’s assets pledged as collateral are as follows: (The time deposits described below are recognized as other current assets - non-cash equivalents)

Item	Book value December 31, 2016	Book value December 31, 2015	Purpose of pledge
Time deposits (Note) (shown in "Other current assets")	$ -	$ 1,055,785	Lease deposits, short-term loans and payables for bankers' acceptance (Note 1)
Time deposits (shown in "Other assets-other")	138,053	19,471	Customs deposit, construction deposits, guarantee research plan, lease deposits and payables for bankers' acceptance.
Notes receivable	-	1,340,032	Short-term loans and guarantees for letters of credit
Land	-	151,483	Long-term loans
Buildings	2,174,677	1,558,151	Long-term loans
Machinery and equipment and office equipment	201,407	4,201,049	Long-term loans (Note 2)
Refundable deposits (shown in "Other assets-other")	-	10,717	Construction deposits, lease deposits and Customs deposit
	$ 2,514,137	$ 8,336,688	

Note 1: Pledged time deposits are time deposits with higher interest rates that are pledged by the Company's Mainland China subsidiaries for offshore borrowings with lower interest rates in order to decrease borrowing cost.

Note 2: On December 28, 2016, the long-term loan has been repaid in advance, the cancellation registration has been completed on January 18, 2017.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

A. Capital commitments are as follows:

	December 31, 2016	December 31, 2015
Contracted but not provided		
Property, plant and equipment	$ 1,508,923	$ 1,635,529

B. Operating lease commitments

The Group's operating lease contracts for lands, factories, dorms and automobiles are irrevocable and most of them can be renewed at market price at the end of the lease term.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2016	December 31, 2015
Not later than one year	$ 66,853	$ 86,171
Later than one year but not later than five years	122,861	185,784
Later than five years	88,403	95,886
Total	$ 278,117	$ 367,841

C. On October 12, 2012, the Trustees of Boston University filed a lawsuit against the Company, alleging patent infringement. In November 2015, the verdict of a Massachusetts federal jury for the first instance stated that the Company shall pay compensation of US$ 930 million. On July 22, 2016, the United States District Court of District of Massachusetts judged the Group did not infringe. The relevant compensation was US$ 1 million, the case can be further appealed. However, the Company believes the ongoing lawsuit will not have any significant impact on the Company's overall operations.

10. SIGNIFICANT DISASTER LOSS

On March 28, 2016, the plant had a fire disaster and part of the plant was impaired, some machinery, working facility and inventories were damaged, and the expected damaged amount (carrying value) was $463,846 thousand (shown as non-operating income and expenses- disaster losses). Based on continuing operations, the insurance was based on acquisition cost and manufacturing cost of relevant assets and inventories. The Group recognises insurance compensation revenue when the compensation can be received with certainty. As of December 31, 2016, the insurance company has assessed that the Group can receive compensation of $1,200,000 thousand (on which $300,000 has been received).

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital risk management

The Group's capital management policy is established taking into account the industry characteristics, the Group's future development and changes in external environments. The Group plans the working capital, capital expenditures, investments and dividends required for the future based on the capital management policy, makes financial analysis, and examines its capital structure periodically and makes appropriate adjustments to ensure every company within the Group may grow and operate indefinitely.

(2) Financial instruments

A. Fair value information of financial instruments

(a) Except for those listed in the table below, the carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payables, other payables and long-term borrowings (including expiring and puttable amount within one year) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

	December 31, 2016			
		Fair value		
	Book value	Level 1	Level 2	Level 3
Financial liabilities:				
Bonds payable	$ -	$ -	$ -	$ -

	December 31, 2015			
		Fair value		
	Book value	Level 1	Level 2	Level 3
Financial liabilities:				
Bonds payable (including expiring and puttable amount within one year)	$ 7,633,343	$ -	$ 7,814,241	$ -

(b) The methods and assumptions of fair value measurement are as follows:

Convertible bonds payable: Regarding the convertible bonds issued by the Group, the fair value is estimated using binary tree model for convertible bond pricing.

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk which include (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Overall risk management programmer of the Group focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance.

(b) Risk management is carried out by a central treasury department (Group treasury). Group treasury identifies, evaluates and hedges financial risk closely with the Group's operating units.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- The Group operates internationally and is exposed to foreign exchange risk arising from various currencies, primarily USD, JPY and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.
- Management has required group companies to manage their foreign exchange risks. The group companies are required to hedge their entire foreign exchange risk exposure after discussion with the Group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Group use forward foreign exchange contracts and foreign-currency short-term loans to hedge their foreign exchange risk exposure arising from recognized assets that are denominated in foreign currency. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.
- The Group's businesses involve some non-functional currency operations (the functional currency of the Company and certain subsidiaries is NTD while that of other subsidiaries are USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2016			
	Foreign currency amount (in Thousands)	Exchange rate		Book value (in Thousands of NTD)
(Foreign currency: functional currency)				
Financial assets				
Monetary items				
USD:NTD	$ 328,971	32.2500	$	10,609,316
USD:RMB	51,869	6.9370		1,672,766
RMB:NTD	688,631	4.6490		3,201,445
Non-monetary items				
RMB:NTD	393,881	4.6490		1,831,155
USD:NTD	43,199	32.2500		1,393,153
Financial liabilities				
Monetary items				
USD:NTD	125,951	32.2500		4,061,920
USD:RMB	95,086	6.9370		3,066,526
RMB:NTD	56,261	4.6490		261,557
JPY:NTD	440,430	0.2756		121,382

	December 31, 2015			
	Foreign currency amount (in Thousands)	Exchange rate		Book value (in Thousands of NTD)
(Foreign currency: functional currency)				
Financial assets				
Monetary items				
USD:NTD	$ 453,705	32.825	$	14,892,860
USD:RMB	88,134	6.4936		2,892,991
RMB:NTD	235,978	5.055		1,192,867
Non-monetary items				
RMB:NTD	377,618	5.055		1,908,859
USD:NTD	42,771	32.825		1,403,960
Financial liabilities				
Monetary items				
USD:NTD	392,258	32.825		12,875,865
USD:RMB	340,414	6.4936		11,174,102
RMB:NTD	45,711	5.055		231,069
JPY:NTD	685,970	0.2727		187,064

- The Group operates internationally and is exposed to foreign exchange risk arising from various currencies, primarily USD, JPY and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

- Please refer to the following table for the details of unrealized exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Group.

	Year ended December 31, 2016		
	Unrealized exchange gain (loss)		
	Foreign currency amount (in Thousands)	Exchange rate	Book value (in Thousands of NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ -	32.2500	$ 215,496
USD:RMB	5,985	6.9370	27,826
RMB:NTD	-	4.6490	(33,712)
Financial liabilities			
Monetary items			
USD:NTD	-	32.2500	(47,373)
USD:RMB	(49,967)	6.9370	(232,299)
RMB:NTD	-	4.6490	(1,022)
JPY:NTD	-	0.2756	3,521

	Year ended December 31, 2015		
	Unrealized exchange gain (loss)		
	Foreign currency amount (in Thousands)	Exchange rate	Book value (in Thousands of NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ -	32.825	$ 210,066
USD:RMB	2,745	6.4936	13,875
RMB:NTD	-	5.0550	14,305
Financial liabilities			
Monetary items			
USD:NTD	-	32.825	(714,654)
USD:RMB	52,559	6.4936	(265,686)
RMB:NTD	-	5.0550	(20,492)
JPY:NTD	-	0.2727	(798)

	Year ended December 31, 2016		
	Sensitivity analysis		
	Extent of variation	Effect on profit or loss	Effect on equity
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 106,093	$ -
USD:RMB	1%	16,728	-
RMB:NTD	1%	32,104	-
Non-monetary items			
RMB:NTD	1%	-	18,312
USD:NTD	1%	-	13,932
Financial liabilities			
Monetary items			
USD:NTD	1%	40,619	-
USD:RMB	1%	30,665	-
RMB:NTD	1%	2,616	-
JPY:NTD	1%	1,214	-

	Year ended December 31, 2015		
	Sensitivity analysis		
	Extent of variation	Effect on profit or loss	Effect on equity
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 148,929	$ -
USD:RMB	1%	28,930	-
RMB:NTD	1%	11,929	-
Non-monetary items			
RMB:NTD	1%	-	19,089
USD:NTD	1%	-	14,040
Financial liabilities			
Monetary items			
USD:NTD	1%	128,759	-
USD:RMB	1%	111,741	-
RMB:NTD	1%	2,311	-
JPY:NTD	1%	1,871	-

Price risk

- The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.
- The Group's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 10% with all other variables held constant, post-tax profit for the years ended December 31, 2016 and 2015 would have increased/decreased by $69,406 and $86,711, respectively, from equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by $215,135 and $205,501, respectively, from equity securities classified as available-for-sale.

Interest rate risk

- The Group's interest rate risk arises from bank deposits and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's borrowings at variable rate were denominated in the USD and NTD.
- Based on the simulations performed on sensitivity analysis for interest rate risk, the maximum impact on post-tax profit of a 0.1% shift would be increased/decreased of $6,855 and $4,230 for the years ended December 31, 2016 and 2015, respectively. The simulation is done on a quarterly basis to ensure that the potential maximum loss is within the limit set by the management.

(b) Credit risk

i. Credit risk is the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments. The Group sets up credit policy, evaluates risk of individual client and factors that will affect payment, including financial position, credit rating, historical transaction records and other, and monitors credit limits. Credit risk also arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. For banks and financial institutions, the Group decides whether to transact with them and the transaction amount based on their credit rating and financial position.

ii. No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from default by these counterparties.

iii. The credit quality information of financial assets that are neither past due nor impaired is as follows:

	December 31, 2016			
	Outstanding	Excellent	Good	Fair
Notes receivable	$ 863,072	$ 12,528	$ -	$ 11,972
Accounts receivable	1,477,126	3,508,868	2,673,641	877,075
Other receivables	116,699	6,453	26,812	980,415
Long-term accounts receivable	-	-	-	16,968
	$ 2,456,897	$ 3,527,849	$ 2,700,453	$ 1,886,430

	December 31, 2015			
	Outstanding	Excellent	Good	Fair
Notes receivable	$ 1,684,637	$ 11,852	$ -	$ 14,434
Accounts receivable	2,000,082	3,337,112	2,015,620	995,501
Other receivables	471,915	390	8,724	16,540
Long-term accounts receivable	-	-	-	53,980
	$ 4,156,634	$ 3,349,354	$ 2,024,344	$ 1,080,455

The Group sets and classifies the credit quality of its clients as outstanding, excellent, good or fair based on their industry status, financial condition and payment records or credit assessments.

iv. The ageing analysis of financial assets (notes receivable, accounts receivable and other receivables) that were past due but not impaired is as follows:

	December 31, 2016	December 31, 2015
Up to 30 days	$ 764,451	$ 404,534
31 to 90 days	285,009	400,136
91 to 180 days	60,274	426,236
Over 181 days	13,125	150,647
	$ 1,122,859	$ 1,381,553

v. The analysis of financial assets that had been impaired is as follows:

	2016		
Notes receivable	Individual provision	Group provision	Total
At January 1	$ 119,852	$ -	$ 119,852
Reversal of impairment	(822)	-	(822)
At December 31	$ 119,030	$ -	$ 119,030

	2016		
Accounts receivable	Individual provision	Group provision	Total
At January 1	$ 51,518	$ 55,009	$ 106,527
Reversal of impairment	-	(8)	(8)
Provision for impairment	9,334	34,841	44,175
Write-offs during the period	(12,489)	(949)	(13,438)
Effects of foreign exchange	-	(4,963)	(4,963)
At December 31	$ 48,363	$ 83,930	$ 132,293

	2015		
Notes receivable	Individual provision	Group provision	Total
At January 1	$ 119,030	$ -	$ 119,030
Reversal of impairment	(3,960)	-	(3,960)
Provision for impairment	4,782	-	4,782
At December 31	$ 119,852	$ -	$ 119,852

	2015		
Accounts receivable	Individual provision	Group provision	Total
At January 1	$ 49,108	$ 32,150	$ 81,258
Reversal of impairment	(4,783)	(31,351)	(36,134)
Provision for impairment	7,193	55,142	62,335
Write-offs during the period	-	(134)	(134)
Effects of foreign exchange	-	(798)	(798)
At December 31	$ 51,518	$ 55,009	$ 106,527

vi. The individual analysis of financial assets that had been impaired is provided in Note 6.

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and external regulatory or legal requirements.

ii. Surplus cash are invested in interest bearing current accounts, time deposits, money market deposits and marketable securities, with appropriate maturities or sufficient liquidity to provide sufficient headroom and meet the above-mentioned forecasts. As of December 31, 2016 and 2015, the Group held money market position of $6,695,487 and $8,430,244, respectively, and those are expected to readily generate cash inflows for managing liquidity risk.

iii. The table below shows analysis of the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:				
December 31, 2016	Less than 1 year	Between 1 and 5 years	Between 5 and 7 years	Over 7 years
Short-term borrowings	$ 2,161,250	$ -	$ -	$ -
Short-term notes and bills payable	69,836	-	-	-
Notes payable	35,185	-	-	-
Accounts payable	3,146,430	-	-	-
Other payables	3,943,714	-	-	-
Long-term borrowings (including current portion)	615,841	5,755,139	-	-
Long-term accounts payable (including current portion)	-	176,640	-	-
Other financial liabilities	-	-	-	-

Non-derivative financial liabilities:				
December 31, 2015	Less than 1 year	Between 1 and 5 years	Between 5 and 7 years	Over 7 years
Short-term borrowings	$ 3,799,123	$ -	$ -	$ -
Short-term notes and bills payable	217,043	-	-	-
Notes payable	30,811	3,781	-	-
Accounts payable	3,390,045	-	-	-
Other payables	4,060,966	50,720	-	-
Bonds payable (including expiring and puttable amount within one year)	7,633,343	-	-	-
Long-term borrowings (including current portion)	2,443,358	2,705,556	114,581	-
Long-term accounts payable (including current portion)	61,996	178,973	-	-
Other financial liabilities	1,592	1,650	-	-

iv. The Group does not expect the timing of the estimated cash outflows through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

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

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks and beneficiary certificates is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in corporate bonds, convertible bonds and most derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

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

December 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Equity securities	$ 115,483	$ -	$ -	$ 115,483
Beneficiary certificates	578,574	-	-	578,574
Available-for-sale financial assets				
Equity securities	272,296	42,295	1,792,300	2,106,891
Beneficiary certificates	-	-	44,458	44,458
Total	$ 966,353	$ 42,295	$ 1,836,758	$ 2,845,406

December 31, 2015	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Equity securities	$ 136,509	$ -	$ -	$ 136,509
Beneficiary certificates	730,604	-	-	730,604
Available-for-sale financial assets				
Equity securities	432,658	77,814	1,498,703	2,009,175
Beneficiary certificates	-	-	45,831	45,831
Total	$ 1,299,771	$ 77,814	$ 1,544,534	$ 2,922,119
Liabilities				
Recurring fair value measurements				
Financial liabilities at fair value through profit or loss				
Call options, put options and conversion options embedded in convertible bonds	$ -	$ 179,684	$ -	$ 179,684

D. The methods and assumptions the Group used to measure fair value are as follows:

(a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	Listed shares	Closed-end fund	Open-end fund
Market quoted price	Closing price	Closing price	Net asset value

(b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.

(c) When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market and foreign exchange swap contracts, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.

(d) For high-complexity financial instruments, the fair value is measured by using self-developed valuation model based on the valuation method and technique widely used within the same industry. The valuation model is normally applied to derivative financial instruments, debt instruments with embedded derivatives or securitised instruments. Certain inputs used in the valuation model are not observable at market, and the Group must make reasonable estimates based on its assumptions. The effect of unobservable inputs to the valuation of financial instruments is provided in Note 12(3)A.

(e) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate.

(f) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

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

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

	Equity securities
At January 1, 2016	$ 1,544,534
Gain recognised in other comprehensive income	175,303
Loss recognised in gain or loss	(175,458)
Acquired in the period	385,546
Disposal in the period	(86,427)
Effects of foreign exchange	(6,740)
At December 31, 2016	$ 1,836,758

	Equity securities
At January 1, 2015	$ 1,276,872
Gain recognised in other comprehensive income	134,177
Loss recognised in gain or loss	(351,857)
Acquired in the period	747,937
Disposal in the period	(204,837)
Transfers out from level 3	(57,758)
At December 31, 2015	$ 1,544,534

G. For the year ended December 31, 2016, there was no transfer into or out from Level 3.

H. Treasury department is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

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

	Fair value at December 31, 2016	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	$ 669,678	Market comparable companies	Price to earnings ratio multiple	0.69~3.34	The higher the multiple, the higher the fair value;
			Discount for lack of marketability	20%~30%	The higher the discount for lack of marketability, the lower the fair value;
	1,122,622	Market comparable companies	Enterprise value to operating income ratio multiple	0.38~45.48	The higher the multiple, the higher the fair value;
			Discount for lack of marketability	20%~40%	The higher the discount for lack of marketability, the lower the fair value;
Private equity fund investment	44,458	Net asset value	Net asset value	Not applicable	The higher thenet asset value, the higher the fair value;

		Fair value at December 31, 2015	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:						
Unlisted shares	$	533,422	Market comparable companies	Price to earnings ratio multiple	0.98~6.70	The higher the multiple, the higher the fair value;
				Discount for lack of marketability	40%	The higher the discount for lack of marketability, the lower the fair value;
		965,281	Market comparable companies	Enterprise value to operating income ratio	5.61~6.27	The higher the multiple, the higher the fair value;
				Discount for lack of marketability	20%	The higher the discount for lack of marketability, the lower the fair value;
Private equity fund investment		45,831	Net asset value	Net asset value	Not applicable	The higher thenet asset value, the higher the fair value;

			December 31, 2016			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Multiple	±1%	$ -	$ -	$ 17,923	($ 17,923)

			December 31, 2015			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Multiple	±1%	$ -	$ -	$ 14,976	($ 14,976)

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: Please refer to table 1.

B. Provision of endorsements and guarantees to others: Please refer to table 2.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company’ s paid-in capital: Please refer to table 4.

E. Acquisition of real estate reaching NT$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching NT$300 million or 20% of paid-in capital or more: Please refer to table 5.

G. Purchases or sales of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more: Please refer to table 6.

H. Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more: Please refer to table 7.

I. Trading in derivative instruments undertaken during the reporting periods: None.

J. Significant inter-company transactions during the reporting periods: Please refer to table 8.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China)：Please refer to table 9.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 10.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 11.

14. SEGMENT INFORMATION

(1) General information:

The Group operates business only in a single industry, primarily engaged in developing, manufacturing and sale of AlInGaP, aluminum gallium arsenide and indium gallium nitride and other epi-wafer chip and die. The Chief Operating Decision-Maker who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

(2) Information about segment profit or loss, assets and liabilities:

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

Years ended December 31, 2016 and 2015:

	2016	2015
Revenues from external customers	$ 25,539,163	$ 25,509,789
Segment profit (loss)	(4,012,752)	(3,317,582)
Segment profit (loss) including :		
Interest revenue	89,617	172,697
Interest expense	(403,915)	(1,155,038)
Depreciation and amortisation	5,758,167	(6,052,806)
Investment (loss) profit under equity method	(681,415)	(500,727)
Income tax (expense) benefit	(257,838)	303,290
Segment assets	69,097,434	83,131,924

(3) Information on products and services

	Year ended December 31, 2016	Year ended December 31, 2015
Sales revenue	$ 25,379,165	$ 25,419,709
Service revenue	6,968	11,745
OEM revenue	90,925	18,551
Other operating revenue	62,105	59,784
Total	$ 25,539,163	$ 25,509,789

(4) Geographical information

	Year ended December 31, 2016		Year ended December 31, 2015	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	$ 5,884,192	$ 29,320,695	$ 4,884,223	$ 36,731,832
China	11,728,241	7,702,303	11,933,100	5,771,081
HK	1,364,940	1,135,366	641,371	2,066,213
Korea	1,472,998	-	1,575,582	-
Others	5,088,792	341,546	6,475,513	144,413
Total	$ 25,539,163	$ 38,499,910	$ 25,509,789	$ 44,713,539

(5) Major customer information

	Years ended December 31,	
	2016	2015
	Revenue	Revenue
Customer A	$ 3,722,150	$ 3,178,994

EPISTAR CORPORATION AND SUBSIDIARIES
Loans to others
Year ended December 31, 2016

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

No.	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2016	Balance at December 31, 2016	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Item	Value	Limit on loans granted to a single party	Ceiling on total loans granted	Footnote
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd	Other receivables -related parties	Y	$ 1,830,480	$ 935,250	$ 935,250	2.09%	Short-term financing	$ -	Working capital	$ -	None	$ -	$ 4,927,414	$ 14,782,243	Note 1
1	Episky Corporation (Xiamen) Ltd.	United LED Shandong Corporation	Other receivables -related parties	Y	302,550	278,940	37,192	3.92%	Short-term financing	-	Working capital	-	None	-	1,023,920	1,279,900	Note 2
2	Episky Corporation (Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd	Other receivables -related parties	Y	297,444	278,940	-	3.92%	Short-term financing	-	Working capital	-	None	-	1,023,920	1,279,900	Note 2

Note 1: In accordance with Epistar Corporation's Procedures for Provision of Loans: the limit on loans granted to a single party is 10% of its net equity, and the ceiling on total loans granted is 30% of its net equity.
Note 2: In accordance with Episky Corporation (Xiamen) Ltd.'s Procedures for Provision of Loans: the limit on loans granted to a single party is 40% of its net equity, and the ceiling on total loans granted is 50% of its net equity.

EPISTAR CORPORATION AND SUBSIDIARIES
Provision of endorsements and guarantees to others
Year ended December 31, 2016

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed: Company name	Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of December 31, 2016	Outstanding endorsement/ guarantee amount at December 31, 2016	Actual amount drawn down	Amount of endorsements / guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
0	Epistar Corporation	Episky Corp.(Xiamen) Ltd.	3	$ 4,927,414	$ 2,089,966	$ 1,895,210	$ 64,500	$ -	3.85	$ 9,854,829	Y	N	Y	
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd	3	4,927,414	903,000	903,000	678,863	-	1.83	9,854,829	Y	N	Y	
0	Epistar Corporation	Yen-Rich Opto (Hong Kong) Limited	3	4,927,414	161,250	161,250	-	-	0.33	9,854,829	Y	N	N	

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:
(1) The Company is ‘0’.
(2) The subsidiaries are numbered in order starting from ‘1’.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following six categories; fill in the number of category each case belongs to:
(1) Having business relationship.
(2) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.
(3) The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.
(4) The endorsed/guaranteed parent company directly or indirectly owns more than 50% voting shares of the endorser/guarantor subsidiary.
(5) Mutual guarantee of the trade as required by the construction contract.
(6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

Note 3: In accordance with the Company’s Procedures for Provision of Loans: the ceiling on total endorsements/guarantees is 20% of the Company’s net assets, and the limit on endorsements/guarantees to a single party is 10% of its net assets.

EPISTAR CORPORATION AND SUBSIDIARIES

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2016

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

				As of December 31, 2016				
Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Epistar Corporation	E&E Japan Co.Ltd. (Stock)	None	Available-for-sale financial assets-non-current	140	$ 2,143	17.07	$ 2,143	
Epistar Corporation	NATEC CORPORATION (Stock)	None	Available-for-sale financial assets-non-current	120,000	1,748	6.00	1,748	
Epistar Corporation	Esleds Co.,Ltd. (Stock)	None	Available-for-sale financial assets-non-current	1,000	148	10.00	148	
Epistar Corporation	Lynk Labs (Stock)	None	Available-for-sale financial assets-non-current	92,523	66,701	7.45	66,701	
Epistar Corporation	Intematix Corportion (Stock)	None	Available-for-sale financial assets-non-current	5,000,000	21,930	2.82	21,930	
Epistar Corporation	Advanced Photoelectronic Technology Limited (Stock)	None	Available-for-sale financial assets-non-current	1,339,235	390,730	11.68	390,730	
Epistar Corporation	Brilliance Semiconductor Inc. (Stock)	None	Available-for-sale financial assets-non-current	208,333	-	0.78	-	
Epistar Corporation	Mentor Data Systems Inc. (Stock)	None	Available-for-sale financial assets-non-current	1,173,120	-	4.99	-	
Epistar Corporation	Limate Tech. Co., Ltd. (Stock)	None	Available-for-sale financial assets-non-current	900,000	-	3.33	-	
Epistar Corporation	Chi Lin Optoelectronics Co., Ltd. (Stock)	None	Available-for-sale financial assets-non-current	15,559,410	108,527	9.00	108,527	
Epistar Corporation	Dominant Opto Technologies Sdn. Bhd. (Stock)	None	Available-for-sale financial assets-non-current	11,000,000	465,083	10.00	465,083	
Epistar Corporation	POWERLIGHTEC CO., LTD (Stock)	None	Available-for-sale financial assets-non-current	9,832	-	1.22	-	
Epistar Corporation	POWERLIGHTEC CO., LTD (Stock)	None	Available-for-sale financial assets-non-current	131,898	-	16.31	-	Note 3

				As of December 31, 2016				
Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Epistar Corporation	Crystalwise Technology Inc. (Stock)	None	Available-for-sale financial assets-non-current	8,160,869	$ 65,858	3.85	$ 65,858	
Epistar Corporation	Nomura Taiwan Money Market (Beneficiary certificates)	None	Financial assets at fair value through profit or loss	3,093,677	50,003	N/A	50,003	
Epistar Corporation	Paradigm Pion Money Market Fund (Beneficiary certificates)	None	Financial assets at fair value through profit or loss	4,365,592	50,003	N/A	50,003	
Epistar Corporation	Yuanta De-Li Money Market Fund (Beneficiary certificates)	None	Financial assets at fair value through profit or loss	3,096,090	50,003	N/A	50,003	
Epistar Corporation	Edison Opto Corp. (Stock)	None	Available-for-sale financial assets-non-current	9,424,000	125,339	7.11	125,339	Note 2
Epistar Corporation	Phecda Technology Co., Ltd. (Stock)	None	Available-for-sale financial assets-non-current	600,000	6,240	2.11	6,240	Note 3
Epistar Corporation	Elit Fine Ceramics Co., Ltd. (Stock)	None	Available-for-sale financial assets-non-current	2,200,000	-	4.68	-	Note 3
Epistar Corporation	Nanocrystal Technology Inc. (Stock)	None	Available-for-sale financial assets-non-current	6,000,000	-	11.11	-	Note 3
Epistar Corporation	XENIO CORPORATION (Stock)	None	Available-for-sale financial assets-non-current	7,878	-	-	-	
Epistar JV Holding (B.V.I.) Co., Ltd.	Evertop (Fujian) Optoelectronics Co., Ltd. (Stock)	None	Available-for-sale financial assets-non-current	Cash USD2,500,000	43,299	10.00	43,299	
Full Star Enterprises Limited	Ufeco Technology Inc. (Stock)	None	Available-for-sale financial assets-non-current	Cash USD250,000	-	10.00	-	
HUGA Holding (SAMOA) Ltd.	China Crystal Technologies Co.,Ltd.(Stock)	None	Available-for-sale financial assets-non-current	17,741,935	219,317	8.97	219,317	
Lighting Investment Ltd.	Edison Opto Corp. (Stock)	None	Financial assets at fair value through profit or loss	1,006,000	13,380	0.76	13,380	
Lighting Investment Ltd.	LEDLITEK Co.,LTD. (Stock)	None	Available-for-sale financial assets-non-current	41,500	49,045	5.15	49,045	

				As of December 31, 2016				
Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Lighting Investment Ltd.	Verticle Inc. (Stock)	None	Available-for-sale financial assets-non-current	582,983	$ -	3.00	$ -	
Lighting Investment Ltd.	Achrolux Inc. (Stock)	None	Available-for-sale financial assets-non-current	987,500	-	6.91	-	
Cheng Yi Corporation	Jih Sun Money Market Fund (Beneficiary certificates)	None	Financial assets at fair value through profit or loss	1,023,527	15,011	N/A	15,011	
Cheng Yi Corporation	Franklin Templeton Sinoam Money Market Fund (Beneficiary certificates)	None	Financial assets at fair value through profit or loss	1,673,084	17,117	N/A	17,117	
Lighting Investment Corp.	Advanced Photoelectronic Technology Limited (Stock)	None	Available-for-sale financial assets-non-current	148,804	43,415	1.30	43,415	
Lighting Investment Corp.	Oree Advanced Illumination Solutions, Inc. (Stock)	None	Available-for-sale financial assets-non-current	79,407	-	5.00	-	
Lighting Investment Corp.	Lustrous Technology, Ltd. (Stock)	None	Available-for-sale financial assets-non-current	1,318,956	7,137	8.99	7,137	
Lighting Investment Corp.	TERA XTAL TECHNOLOGY CORPORATION (Stock)	None	Available-for-sale financial assets-non-current	795,000	1,463	0.42	1,463	
Lighting Investment Corp.	FormoLight Technologies Inc. (Stock)	None	Available-for-sale financial assets-non-current	2,038,230	12,046	10.00	12,046	
Lighting Investment Corp.	XENIO CORPORATION (Stock)	None	Available-for-sale financial assets-non-current	16,462	-	-	-	
Lighting Investment Corp.	Howtech Technology Co., Ltd. (Stock)	None	Financial assets at fair value through profit or loss	1,234,910	12,781	2.47	12,781	
Lighting Investment Corp.	Tekcore Co., Ltd. (Stock)	Investee company accounted for under the equity method of the Company	Financial assets at fair value through profit or loss	2,616,932	15,388	2.72	15,388	
Lighting Investment Corp.	Internet Properties Technology Limited (Stock)	None	Financial assets at fair value through profit or loss	281,243	2,270	0.14	2,270	
Lighting Investment Corp.	Edison Opto Corp. (Stock)	None	Financial assets at fair value through profit or loss	5,130,182	68,231	3.87	68,231	

				As of December 31, 2016				
Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Lighting Investment Corp.	Epistar Corporation (Stock)	Parent company	Financial assets at fair value through profit or loss	2,564,755	$ 59,374	0.23	$ 59,374	Note 1
Lighting Investment Corp.	Taiwan Surface Mounting Technology Corp.(Stock)	None	Financial assets at fair value through profit or loss	25,000	660	0.01	660	
Lighting Investment Corp.	Rigidtech Microelectronics Corp. (Stock)	None	Financial assets at fair value through profit or loss	17,753	289	0.02	289	
Lighting Investment Corp.	Taishin Ta-Chong Money Market Fund(Beneficiary certificates)	None	Financial assets at fair value through profit or loss	1,066,885	15,012	N/A	15,012	
Lighting Investment Corp.	Tashin 1699 Money Market Fund (Beneficiary certificates)	None	Financial assets at fair value through profit or loss	1,727,550	23,147	N/A	23,147	
United LED Corporation Hong Kong Limited.	PAMIRS FUND SEGREGATED PORTFOLIO II (Beneficiary certificates)	None	Available-for-sale financial assets-non-current	1,650	44,458	N/A	44,458	
Episky Corp.(Xiamen) Ltd.	China Firstar Optoelectronic Materials Co., Ltd. (Stock)	None	Available-for-sale financial assets-non-current	Cash RMB7,500,000	42,420	15.00	42,420	
Episky Corp.(Xiamen) Ltd.	APT Electronics Co., Ltd.(Stock)	None	Available-for-sale financial assets-non-current	4,678,240	72,642	1.47	72,642	
Episky Corp.(Xiamen) Ltd.	China Crystal Technologies Co.,Ltd.(Stock)	None	Available-for-sale financial assets-non-current	8,064,516	99,690	4.08	99,690	
EPI Crystal Investment Inc.	Edison Opto Corp. (Stock)	None	Available-for-sale financial assets-non-current	6,000,000	79,800	4.52	79,800	
EPI Crystal Investment Inc.	Crystalwise Technology Inc. (Stock)	None	Available-for-sale financial assets-non-current	160,872	1,298	0.08	1,298	
EPI Crystal Investment Inc.	Rigidtech Microelectronics Corp. (Stock)	None	Available-for-sale financial assets-non-current	1,687,500	27,456	2.34	27,456	
EPI Crystal Investment Inc.	Advanced Photoelectronic Technology Limited (Stock)	None	Available-for-sale financial assets-non-current	223,214	65,125	1.95	65,125	
EPI Crystal Investment Inc.	LeDiamond Opto Corporation (Stock)	None	Available-for-sale financial assets-non-current	1,100,000	8,550	16.92	8,550	

				As of December 31, 2016				
Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
EPI Crystal Investment Inc.	LEDITEK Co., Ltd. (Stock)	None	Available-for-sale financial assets-non-current	50,000	$ 59,091	6.20	$ 59,091	
EPI Crystal Investment Inc.	De-an Venture Capital Co., Ltd. (Stock)	None	Available-for-sale financial assets-non-current	2,000,000	20,650	10.77	20,650	
EPI Crystal Investment Inc.	Jih Sun Money Market Fund (Beneficiary certificates)	None	Financial assets at fair value through profit or loss	12,349,822	181,168	N/A	181,168	
EPI Crystal Investment Inc.	Eastspring Inv Well Pool Money Market Fund (Beneficiary certificates)	None	Financial assets at fair value through profit or loss	96,526	1,300	N/A	1,300	
EPI Crystal Investment Inc.	Nomura Taiwan Money Market (Beneficiary certificates)	None	Financial assets at fair value through profit or loss	10,877,358	175,810	N/A	175,810	
EPI Crystal Investment Inc.	Howtech Technology Co., Ltd. (Stock)	None	Financial assets at fair value through profit or loss	240,000	2,484	0.48	2,484	

Note 1: Shown as treasury stocks of Epistar Corporation.
Note 2: Originally invested by subsidiary company, Huga Optotech Inc., after Huga Optotech Inc. has been merged and dissolved on September 29, 2016, absorbed by the Group.
Note 3: Originally invested by subsidiary company, Formosa Epitaxy Incorporation, after Formosa Epitaxy Incorporation has been merged and dissolved on September 29, 2016, absorbed by the Group.

EPISTAR CORPORATION AND SUBSIDIARIES

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

Year ended December 31, 2016

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

			Balance as at January 1, 2016 (Note)		Addition		Disposal				Balance as at December 31, 2016 (Note)	
Investor	Marketable securities	General ledger account	Number of shares	Amount	Number of shares	Amount	Number of shares	Selling price	Book value	Gain (loss) on disposal	Number of shares	Amount
Epistar Corporation	CTBC Hwa-win Money Market Fund (Beneficiary certificates)	Financial assets at fair value through profit or loss	-	$ -	75,387,338	$ 822,000	75,387,338	$ 822,276	$ 822,000	$ 276	-	$ -
Epistar Corporation	Paradigm Pion Money Market Fund (Beneficiary certificates)	Financial assets at fair value through profit or loss	-	-	58,568,405	670,000	54,202,813	620,126	620,000	126	4,365,592	50,003
Epistar Corporation	Taishin Lucky Money Market (Beneficiary certificates)	Financial assets at fair value through profit or loss	8,643,076	95,000	54,946,815	605,000	63,589,891	700,113	700,000	113	-	-
Epistar Corporation	Allianz Global Investors Taiwan Money Market Fund (Beneficiary certificates)	Financial assets at fair value through profit or loss	8,085,447	100,000	33,496,260	415,000	41,581,707	515,275	515,000	275	-	-
EPISKY Corporation (Changzhou) LTD	CR Yuanta Money Market Fund B Class(Beneficiary certificates)	Financial assets at fair value through profit or loss	-	-	200,975,430	928,777	200,975,430	940,141	934,335	5,806	-	-
Epicrystal Corporation (Changzhou) Ltd.	CR Yuanta Money Market Fund B Class(Beneficiary certificates)	Financial assets at fair value through profit or loss	-	-	220,305,944	1,014,319	220,305,944	1,034,618	1,024,202	10,416	-	-

Note : Ending balances included gain (loss) on valuation of financial assets.

EPISTAR CORPORATION AND SUBSIDIARIES

Acquisition of real estate reaching NT$300 million or 20% of paid-in capital or more

Year ended December 31, 2016

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

Real estate acquired by	Real estate acquired	Date of the event	Acquisition date	Book value	Transaction amount	Status of payment	Gain(loss) on disposal	Counterparty	Relationship with the counterparty	Purpose	Basis or reference used in setting the price	Other commitments
Epistar Corporation	Duxing plant building located in the Hsinchu Science Park	2016/02/01	2014/08/21	$ 720,246	$ 736,512	Collected	$ 16,266	Mediatek Inc.	None	Activate assets and lower cost	Valuation result	None
Epistar Corporation	CHIP STAR Ltd.'s plant building	2016/05/05	2015/06/29	478,695	620,000	Collected	141,305	Powertech Technology Inc.	None	Activate assets and lower cost	Valuation result	None

EPISTAR CORPORATION AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more

Year ended December 31, 2016

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

			Transaction				Differences in transaction terms		Notes/accounts receivable (payable)		
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Epistar Corporation	Everlight Electronics Co., Ltd.	Director of the Company	Sales	($ 3,309,341)	14	150 days after month-end closing	N/A	Normal	$ 2,234,816	17	Note 2
Epistar Corporation	Lite-On Technology Corp.	Director of the Company (Note 4)	Sales	(443,421)	2	150 days after month-end closing	N/A	Normal	-	-	Note 2
Epistar Corporation	Episky Corp.(Xiamen) Ltd.	The Company's indirectly owned subsidiary	Sales	(768,442)	3	90 days after month-end closing	N/A	Normal	168,761	1	
Epistar Corporation	Epicrystal (Changzhou) Co., Limited	The Company's indirectly owned subsidiary	Sales	(489,063)	2	90 days after month-end closing	N/A	Normal	195,860	2	
Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	The Company's indirectly owned subsidiary	Sales	(5,536,359)	24	180 days after month-end closing	N/A	Normal	2,896,991	23	
Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd	The Company's indirectly owned subsidiary	Sales	(127,356)	1	90 days after month-end closing	N/A	Normal	56,287	-	
Epistar Corporation	Bliss High Technology Inc.	The Company's indirectly owned subsidiary	Sales	(556,126)	2	90 days after month-end closing	N/A	Normal	154,955	1	
Epistar Corporation	LEDAZ.CO.,LTD	Note 1	Sales	(237,026)	1	90 days after month-end closing	N/A	Normal	142,136	1	
Epistar Corporation	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 1	Sales	(211,477)	1	90 days after month-end closing	N/A	Normal	55,446	-	
Epistar Corporation	Huga Optotech Inc.	Subsidiary of the Company	Sales	(483,445)	2	90 days after month-end closing	N/A	Normal	-	-	Note 5
Epistar Corporation	Formosa Epitaxy Incorporation	Subsidiary of the Company	Sales	(150,332)	1	90 days after month-end closing	N/A	Normal	-	-	Note 5

			Transaction				Differences in transaction terms		Notes/accounts receivable (payable)		
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Epistar Corporation	ProLight Opto Technology Corporation	Note 1	Sales	($ 134,851)	1	120 days after month-end closing	N/A	Normal	$ 54,484	-	
Epistar Corporation	Episky Corp.(Xiamen) Ltd.	The Company's indirectly owned subsidiary	Purchases	2,695,976	20	60 days after next month-end closing	N/A	Normal	(359,584)	11	
Epistar Corporation	Epicrystal (Changzhou) Co., Limited	The Company's indirectly owned subsidiary	Purchases	1,393,843	10	90 days after month-end closing	N/A	Normal	(345,939)	10	
Epistar Corporation	Episky Corporation (Changzhou) Ltd.	The Company's indirectly owned subsidiary	Purchases	3,552,207	26	30 days after month-end closing	N/A	Normal	(432,563)	13	
Epistar Corporation	Cheng Yi Corporation	Subsidiary of the Company	Purchases	245,095	2	90 days after month-end closing	N/A	Normal	(95,757)	3	
Epistar Corporation	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 1	Purchases	1,086,319	8	90 days after month-end closing	N/A	Normal	(272,361)	8	
Epistar Corporation	Huga Optotech Inc.	Subsidiary of the Company	Purchases	391,312	3	120 days after month-end closing	N/A	Normal	-	-	Note 5
Epistar Corporation	Formosa Epitaxy Incorporation	Subsidiary of the Company	Purchases	154,863	1	90 days after month-end closing	N/A	Normal	-	-	Note 5
Cheng Yi Corporation	Epistar Corporation	Subsidiary of the Company	Sales	(245,095)	74	90 days after month-end closing	N/A	Normal	95,757	100	
Luxlite (Shenzhen) Corporation Limited	HUIZHOU VERY LIGHT SOURCE TECHNOLOGY CO.,LTD	Note 3	Sales	(179,868)	3	90 days after month-end closing	N/A	Normal	56,602	2	
Luxlite (Shenzhen) Corporation Limited	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 3	Sales	(118,173)	2	90 days after month-end closing	N/A	Normal	64,480	3	
Luxlite (Shenzhen) Corporation Limited	Nan Ya Photonics Incorporation	Note 3	Purchases	105,209	2	90 days after month-end closing	N/A	Normal	-	-	
Luxlite (Shenzhen) Corporation Limited	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	5,536,359	91	120 days after month-end closing	N/A	Normal	(2,896,991)	99	
Luxlite (Shenzhen) Corporation Limited	Episky Corp.(Xiamen) Ltd.	Note 3	Purchases	265,125	4	90 days after month-end closing	N/A	Normal	(36,289)	1	

			Transaction				Differences in transaction terms		Notes/accounts receivable (payable)		
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Luxlite (Shenzhen) Corporation Limited	Huga Optotech Inc.	Note 3	Purchases	$ 128,165	2	90 days after month-end closing	N/A	Normal	$ -	-	Note 5
Huga Optotech Inc.	Bliss High Technology Inc.	Note 3	Sales	(102,753)	4	90 days after month-end closing	N/A	Normal	-	-	Note 5
Huga Optotech Inc.	Epistar Corporation	Subsidiary of the Company	Sales	(2,038,044)	85	90 days after month-end closing	N/A	Normal	-	-	Note 5
Huga Optotech Inc.	Luxlite (Shenzhen) Corporation Limited	Note 3	Sales	(128,165)	5	90 days after month-end closing	N/A	Normal	-	-	Note 5
Huga Optotech Inc.	Episky Corp.(Xiamen) Ltd.	Note 3	Sales	(128,009)	5	90 days after month-end closing	N/A	Normal	-	-	Note 5
Huga Optotech Inc.	Epicrystal (Changzhou) Co., Limited	Note 3	Sales	(167,176)	7	90 days after month-end closing	N/A	Normal	-	-	Note 5
Huga Optotech Inc.	Epistar Corporation	Subsidiary of the Company	Purchases	438,301	37	90 days after month-end closing	N/A	Normal	-	-	Note 5
Bliss High Technology Inc.	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	556,126	80	90 days after month-end closing	N/A	Normal	(154,955)	100	
Bliss High Technology Inc.	Huga Optotech Inc.	Note 3	Purchases	102,753	15	90 days after month-end closing	N/A	Normal	-	-	Note 5
Yen-Rich Opto (Hong Kong) Limited	ProLight Opto Technology Corporation	Note 3	Purchases	164,254	82	60 days after month-end closing	N/A	Normal	(5,499)	48	
Lighting Investment Ltd.	Jiangsu Canyang Optoelectronics Ltd	Note 3	Sales	(120,754)	45	90 days after month-end closing	N/A	Normal	11,444	40	
Lighting Investment Ltd.	Episky Corp.(Xiamen) Ltd.	Note 3	Sales	(148,214)	55	60 days after month-end closing	N/A	Normal	25,327	88	
Lighting Investment Ltd.	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 3	Purchases	268,968	100	90 days after month-end closing	N/A	Normal	(87,383)	100	
Episky Corp.(Xiamen) Ltd.	Epistar Corporation	The Company's indirectly owned subsidiary	Sales	(2,695,976)	93	90 days after month-end closing	N/A	Normal	359,584	94	

			Transaction				Differences in transaction terms		Notes/accounts receivable (payable)		
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Episky Corp.(Xiamen) Ltd.	Luxlite (Shenzhen) Corporation Limited	Note 3	Sales	($ 265,125)	7	90 days after month-end closing	N/A	Normal	$ 36,289	6	
Episky Corp.(Xiamen) Ltd.	Lighting Investment Ltd.	Note 3	Purchases	148,214	6	60 days after month-end closing	N/A	Normal	(25,327)	4	
Episky Corp.(Xiamen) Ltd.	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	768,442	63	90 days after month-end closing	N/A	Normal	(168,761)	74	
Episky Corp.(Xiamen) Ltd.	Epicrystal (Changzhou) Co., Limited	Note 3	Purchases	118,105	5	90 days after month-end closing	N/A	Normal	(5,589)	1	
Episky Corp.(Xiamen) Ltd.	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 3	Purchases	170,581	7	90 days after month-end closing	N/A	Normal	(70,120)	12	
Episky Corp.(Xiamen) Ltd.	Huga Optotech Inc.	Note 3	Purchases	128,009	5	90 days after month-end closing	N/A	Normal	-	-	Note 5
Episky Corporation (Changzhou) Ltd.	Epistar Corporation	The Company's indirectly owned subsidiary	Sales	(3,552,207)	99	30 days after month-end closing	N/A	Normal	432,563	98	
Episky Corporation (Changzhou) Ltd.	UEC Investment Ltd.	Note 3	Purchases	323,394	10	90 days after month-end closing	N/A	Normal	(8,556)	1	
Episky Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd	Note 3	Purchases	935,873	30	90 days after month-end closing	N/A	Normal	(287,920)	40	
Episky Corporation (Changzhou) Ltd.	Epicrystal (Changzhou) Co., Limited	Note 3	Purchases	1,830,046	59	90 days after month-end closing	N/A	Normal	(422,450)	58	
Epicrystal (Changzhou) Co., Limited	Episky Corporation (Changzhou) Ltd.	Note 3	Sales	(1,830,046)	54	90 days after month-end closing	N/A	Normal	422,450	53	
Epicrystal (Changzhou) Co., Limited	Epistar Corporation	The Company's indirectly owned subsidiary	Sales	(1,393,843)	41	90 days after month-end closing	N/A	Normal	345,939	44	
Epicrystal (Changzhou) Co., Limited	Episky Corp.(Xiamen) Ltd.	Note 3	Sales	(118,105)	4	90 days after month-end closing	N/A	Normal	5,589	1	
Epicrystal (Changzhou) Co., Limited	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	489,063	23	90 days after month-end closing	N/A	Normal	(195,860)	39	

			Transaction				Differences in transaction terms		Notes/accounts receivable (payable)		
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Epicrystal (Changzhou) Co., Limited	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 3	Purchases	$ 401,358	19	90 days after month-end closing	N/A	Normal	($ 89,121)	18	
Epicrystal (Changzhou) Co., Limited	Huga Optotech Inc.	Note 3	Purchases	167,176	8	90 days after month-end closing	N/A	Normal	-	-	Note 5
Epicrystal (Changzhou) Co., Limited	Formosa Epitaxy Incorporation	Note 3	Purchases	392,274	18	90 days after month-end closing	N/A	Normal	-	-	Note 5
Formosa Epitaxy Incorporation	Epistar Corporation	Subsidiary of the Company	Sales	(158,267)	22	90 days after month-end closing	N/A	Normal	-	-	Note 5
Formosa Epitaxy Incorporation	Epicrystal (Changzhou) Co., Limited	Note 3	Sales	(392,274)	55	90 days after month-end closing	N/A	Normal	-	-	Note 5
Formosa Epitaxy Incorporation	Epistar Corporation	Subsidiary of the Company	Purchases	145,479	55	90 days after month-end closing	N/A	Normal	-	-	Note 5
UEC Investment Ltd.	Episky Corporation (Changzhou) Ltd.	Note 3	Sales	(323,394)	97	30 days after month-end closing	N/A	Normal	8,556	100	
UEC Investment Ltd.	Jiangsu Canyang Optoelectronics Ltd	Note 3	Purchases	333,702	100	30 days after month-end closing	N/A	Normal	(8,556)	100	
Jiangsu Canyang Optoelectronics Ltd	UEC Investment Ltd.	Note 3	Sales	(333,702)	24	90 days after month-end closing	N/A	Normal	8,556	3	
Jiangsu Canyang Optoelectronics Ltd	Episky Corporation (Changzhou) Ltd.	Note 3	Sales	(935,873)	67	90 days after month-end closing	N/A	Normal	287,920	87	
Jiangsu Canyang Optoelectronics Ltd	Lighting Investment Ltd.	Note 3	Purchases	120,754	15	90 days after month-end closing	N/A	Normal	(11,444)	11	
Jiangsu Canyang Optoelectronics Ltd	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	127,356	16	90 days after month-end closing	N/A	Normal	(56,287)	52	

			Transaction				Differences in transaction terms		Notes/accounts receivable (payable)		
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Ecoled Venture Co., Limited	ProLight Opto Technology Corporation	Note 3	Purchases	$ 135,241	100	90 days after month-end closing	N/A	Normal	($ 75,706)	100	

Note 1: Associates accounted for using equity method by the Company's subsidiary.
Note 2: The collection term for Everlight Electronics Co., Ltd. and Lite-On Technology Corp. is 150 days after month-end closing, taking into account that they are major customers of the Company.
Note 3: Investee company accounted for under the equity method directly and indirectly.
Note 4: Not one of the Group's directors from June 17, 2016.
Note 5: Subsidiaries, Huga Optotech Inc. and Formosa Epitaxy Incorporation, merged with the Group and dissolved on September 29, 2016.

EPISTAR CORPORATION AND SUBSIDIARIES

Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more

December 31, 2016

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2016: Accounts receivable	Balance as at December 31, 2016: Other receivable	Total	Turnover rate	Overdue receivables: Amount	Overdue receivables: Action taken	Amount collected subsequent to the balance sheet date	Allowance for doubtful debts
Epistar Corporation	Everlight Electronics Co., Ltd. And Subsidiares	Director of the Company	$ 2,234,816	-	$ 2,234,816	6.49	$ 321,348	Note 1	$ 730,236	$ -
Epistar Corporation	Bliss High Technology Inc.	The Company's indirectly owned subsidiary	154,955	-	154,955	4.77	13,800	Note 1	95,618	-
Epistar Corporation	LEDAZ Co., Ltd.	Investee company accounted for using equity method by the Group's subsidiary company	142,136	-	142,136	11.48	39,144	Note 1	85,768	-
Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	The Company's indirectly owned subsidiary	56,287	955,645	1,011,932	0.80	212	Note 1	25,741	-
Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	The Company's indirectly owned subsidiary	2,896,991	1,129	2,898,120	7.48	824,757	Note 1	108,054	-
Epistar Corporation	Episky Corporation (Xiamen) Ltd.	The Company's indirectly owned subsidiary	168,761	15,391	184,152	10.95	-		110,434	-
Epistar Corporation	Epicrystal (Changzhou) Co., Ltd.	The Company's indirectly owned subsidiary	195,860	64,559	260,419	7.62	-		179,906	-
Epistar Corporation	KAISTAR Lighting (Xiamen) Co., Ltd.	Investee company accounted for using equity method by the Group's subsidiary company	55,446	57,962	113,258	7.26	17,059	Note 1	77,386	-
Epicrystal (Changzhou) Co., Ltd.	Episky Corporation (Changzhou) Ltd.	Note 2	422,450	-	422,450	27.80	-		255,483	-
Epicrystal (Changzhou) Co., Ltd.	Epistar Corporation	The Company's indirectly owned subsidiary	345,939	-	345,939	12.21	-		201,749	-
Jiangsu Canyang Optoelectronics Ltd.	Episky Corporation (Changzhou) Ltd.	Note 2	287,920	-	287,920	16.71	-		177,338	-
Episky Corporation (Changzhou) Ltd.	Epistar Corporation	The Company's indirectly owned subsidiary	432,563	-	432,563	19.72	-		432,563	-

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2016: Accounts receivable	Other receivable	Total	Turnover rate	Overdue receivables: Amount	Action taken	Amount collected subsequent to the balance sheet date	Allowance for doubtful debts
Episky Corporation (Xiamen) Ltd.	Epistar Corporation	The Company's indirectly owned subsidiary	$ 359,584	16,541	$ 376,125	9.60	$ -		$ 359,854	$ -

Note 1: Overdue receivables are being actively pursued. For the subsequent collection, Epistar has recovered amounts of $178,455, $12,203, $39,144, $212, $106,927 and $17,059 from Everlight, Bliss, LEDAZ, Jiangsu Canyang, LUXLITE and KAISTAR LIGHTING, respectively.

Note 2: Investee company accounted for under the equity method directly and indirectly.

EPISTAR CORPORATION AND SUBSIDIARIES

Significant inter-company transactions during the reporting periods

Year ended December 31, 2016

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

				Transaction			
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	Epistar Corporation	Formosa Epitaxy Incorporation	1	Sales	$ 150,332	Conducted in the ordinary course of business with terms similar to those with third parties	0.59
0	Epistar Corporation	Formosa Epitaxy Incorporation	1	Cost of goods sold	154,863	Conducted in the ordinary course of business with terms similar to those with third parties	0.61
0	Epistar Corporation	Formosa Epitaxy Incorporation	1	Fixed assets	278,620	Conducted in the ordinary course of business with terms similar to those with third parties	0.40
0	Epistar Corporation	Huga Optotech Inc.	1	Sales	483,445	Conducted in the ordinary course of business with terms similar to those with third parties	1.89
0	Epistar Corporation	Huga Optotech Inc.	1	Cost of goods sold	391,312	Conducted in the ordinary course of business with terms similar to those with third parties	1.53
0	Epistar Corporation	Huga Optotech Inc.	1	Fixed assets	123,201	Conducted in the ordinary course of business with terms similar to those with third parties	0.18
0	Epistar Corporation	Epicrystal Corporation (Changzhou) Ltd.	1	Sales	489,063	Conducted in the ordinary course of business with terms similar to those with third parties	1.91
0	Epistar Corporation	Epicrystal Corporation (Changzhou) Ltd.	1	Cost of goods sold	1,393,843	Conducted in the ordinary course of business with terms similar to those with third parties	5.46

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	Epistar Corporation	Epicrystal Corporation (Changzhou) Ltd.	1	Accounts payable	$ 345,939	Conducted in the ordinary course of business with terms similar to those with third parties	0.50
0	Epistar Corporation	Epicrystal Corporation (Changzhou) Ltd.	1	Accounts receivable	195,860	Conducted in the ordinary course of business with terms similar to those with third parties	0.28
0	Epistar Corporation	Episky Corporation (Xiamen) Ltd.	1	Sales	768,442	Conducted in the ordinary course of business with terms similar to those with third parties	3.01
0	Epistar Corporation	Episky Corporation (Xiamen) Ltd.	1	Cost of goods sold	2,695,976	Conducted in the ordinary course of business with terms similar to those with third parties	10.56
0	Epistar Corporation	Episky Corporation (Xiamen) Ltd.	1	Accounts payable	359,584	Conducted in the ordinary course of business with terms similar to those with third parties	0.52
0	Epistar Corporation	Episky Corporation (Xiamen) Ltd.	1	Accounts receivable	168,761	Conducted in the ordinary course of business with terms similar to those with third parties	0.24
0	Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	1	Sales	5,536,359	Conducted in the ordinary course of business with terms similar to those with third parties	21.68
0	Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	1	Accounts receivable	2,896,991	Conducted in the ordinary course of business with terms similar to those with third parties	4.19
0	Epistar Corporation	Episky Corporation (Changzhou) Ltd.	1	Cost of goods sold	3,552,207	Conducted in the ordinary course of business with terms similar to those with third parties	13.91
0	Epistar Corporation	Episky Corporation (Changzhou) Ltd.	1	Accounts payable	432,563	Conducted in the ordinary course of business with terms similar to those with third parties	0.63

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction: General ledger account	Transaction: Amount	Transaction: Transaction terms	Transaction: Percentage of consolidated total operating revenues or total assets (Note 3)
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	1	Sales	$ 127,356	Conducted in the ordinary course of business with terms similar to those with third parties	0.50
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	1	Other receivable	955,645	Based on contract terms	1.38
0	Epistar Corporation	Cheng Yi Corporation	1	Cost of goods sold	245,095	Conducted in the ordinary course of business with terms similar to those with third parties	0.96
0	Epistar Corporation	Bliss High Technology Inc.	1	Sales	556,126	Conducted in the ordinary course of business with terms similar to those with third parties	2.18
0	Epistar Corporation	Bliss High Technology Inc.	1	Accounts receivable	154,955	Conducted in the ordinary course of business with terms similar to those with third parties	0.22
1	Lighting Investment Ltd.	Episky Corporation (Xiamen) Ltd.	3	Sales	148,214	Conducted in the ordinary course of business with terms similar to those with third parties	0.58
1	Lighting Investment Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Sales	120,754	Conducted in the ordinary course of business with terms similar to those with third parties	0.47
2	UEC Investment Ltd.	Epicrystal Corporation (Changzhou) Ltd.	3	Sales	323,394	Conducted in the ordinary course of business with terms similar to those with third parties	1.27
2	UEC Investment Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Cost of goods sold	333,702	Conducted in the ordinary course of business with terms similar to those with third parties	1.31
3	Bliss High Technology Inc.	Huga Optotech Inc.	3	Cost of goods sold	102,753	Conducted in the ordinary course of business with terms similar to those with third parties	0.40
4	Episky Corporation (Xiamen) Ltd.	Huga Optotech Inc.	3	Cost of goods sold	128,009	Conducted in the ordinary course of business with terms similar to those with third parties	0.50

				Transaction			
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
4	Episky Corporation (Xiamen) Ltd.	Epicrystal Corporation (Changzhou) Ltd.	3	Cost of goods sold	$ 118,105	Conducted in the ordinary course of business with terms similar to those with third parties	0.46
4	Episky Corporation (Xiamen) Ltd.	Luxlite (Shenzhen) Corporation Limited	3	Sales	265,125	Conducted in the ordinary course of business with terms similar to those with third parties	1.04
5	Epicrystal Corporation (Changzhou) Ltd.	Formosa Epitaxy Incorporation	3	Cost of goods sold	392,274	Conducted in the ordinary course of business with terms similar to those with third parties	1.54
5	Epicrystal Corporation (Changzhou) Ltd.	Huga Optotech Inc.	3	Cost of goods sold	167,176	Conducted in the ordinary course of business with terms similar to those with third parties	0.65
5	Epicrystal Corporation (Changzhou) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Sales	1,830,046	Conducted in the ordinary course of business with terms similar to those with third parties	7.17
5	Epicrystal Corporation (Changzhou) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Accounts receivable	422,450	Conducted in the ordinary course of business with terms similar to those with third parties	0.61
6	Episky Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Cost of goods sold	935,873	Conducted in the ordinary course of business with terms similar to those with third parties	3.66
6	Episky Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Accounts payable	287,920	Conducted in the ordinary course of business with terms similar to those with third parties	0.42
7	Luxlite (Shenzhen) Corporation Limited	Huga Optotech Inc.	3	Cost of goods sold	128,165	Conducted in the ordinary course of business with terms similar to those with third parties	0.50
8	Huga Optotech Inc.	Epistar Corporation	2	Sales	2,038,044	Conducted in the ordinary course of business with terms similar to those with third parties	7.98

				Transaction			
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
8	Huga Optotech Inc.	Epistar Corporation	2	Cost of goods sold	$ 438,301	Conducted in the ordinary course of business with terms similar to those with third parties	1.72
9	Formosa Epitaxy Incorporation	Epistar Corporation	2	Sales	158,267	Conducted in the ordinary course of business with terms similar to those with third parties	0.62
9	Formosa Epitaxy Incorporation	Epistar Corporation	2	Cost of goods sold	145,479	Conducted in the ordinary course of business with terms similar to those with third parties	0.57

Note 1: Parent company is '0'.The subsidiaries are numbered in order starting from '1'.

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

(1) Parent company to subsidiary.
(2) Subsidiary to parent company.
(3) Subsidiary to subsidiary.

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

Note 4: Disclosure of the transactions over 100 million New Taiwan dollars only and the related party transactions for counterparty are not disclosed.

EPISTAR CORPORATION AND SUBSIDIARIES

Information on investees

Year ended December 31, 2016

Table 9

Expressed in thousands of NTD

(Except as otherwise indicated)

				Initial investment amount		Shares held as at December 31, 2016					
Investor	Investee	Location	Main business activities	Balance as at December 31, 2016	Balance as at December 31, 2015	Number of shares (Note)	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2016	Investment income (loss) recognised by the Company for the year ended December 31, 2016	Footnote
Epistar Corporation	Epistar JV Holding (B.V.I) Co., Ltd.	British Virgin Islands	Professional investment	$ 7,282,982	$ 7,667,622	23,416	100.00	$ 5,659,939	($ 639,492)	($ 660,983)	
Epistar Corporation	Cheng Yi Corporation	Taiwan	Manufacturing and sales of LED chips and LED lighting facilities	600,000	600,000	60,000,000	100.00	439,848	(146,421)	(121,325)	
Epistar Corporation	Nan Ya Photonics Incorporation	Taiwan	LED light application	839,450	839,450	81,500,000	40.75	218,500	(1,132,855)	(458,753)	
Epistar Corporation	Nan Ya Photonics Incorporation	Taiwan	LED light application	931	931	108,270	0.05	270	(1,132,855)	(616)	Note 2
Epistar Corporation	Tekcore Co., Ltd.	Taiwan	Manufacturing and sales of LED chips and LED lighting facilities	1,169,412	1,169,412	20,247,828	21.05	81,694	(387,419)	(81,559)	
Epistar Corporation	TE Opto Corporation	Taiwan	Manufacturing and sales of LED chips and LED lighting facilities	9,200	9,200	920,000	40.00	45,992	27,214	10,885	
Epistar Corporation	ProLight Opto Technology Corporation	Taiwan	Packaging, manufacturing and sales of LED	140,000	140,000	8,000,000	16.81	126,327	25,794	4,361	
Epistar Corporation	UEC Investment Ltd.	British Virgin Islands	Professional investment	2,162,602	2,162,602	67,300,247	100.00	2,593,635	98,414	(19,335)	
Epistar Corporation	Lighting Investment Corp.	Taiwan	Professional investment	1,000,000	1,000,000	135,297,086	100.00	695,279	(86,018)	(78,077)	

				Initial investment amount		Shares held as at December 31, 2016					
Investor	Investee	Location	Main business activities	Balance as at December 31, 2016	Balance as at December 31, 2015	Number of shares （Note）	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2016	Investment income (loss) recognised by the Company for the year ended December 31, 2016	Footnote
Epistar Corporation	SH Optotech Co., Ltd.	Taiwan	Manufacturing and sales of LED chips and LED lighting facilities	$ 31,792	$ 31,792	3,179,176	49.00	$ 1,431	($ 1,888)	($ 925)	Note 2
Epistar Corporation	EPI Crystal Investment Inc.	Taiwan	Professional investment	1,158,323	878,323	118,000,000	100.00	995,015	(23,051)	(23,051)	Note 2
Epistar Corporation	HUGA Holding (B.V.I) Ltd.	British Virgin Islands	Professional investment	589,959	317,159	278,510	100.00	397,262	(47,452)	(47,452)	Note 2
Epistar Corporation	PERFECTLED Investment Corporation	Taiwan	Professional investment	2,076	95,000	-	0.00	-	14,070	7,012	Note 2
Epistar Corporation	Ecoled Venture Co.,Ltd.	Hong Kong	Sales of LED lighting facilities	82,348	-	7,189,668	51.99	24,854	(35,721)	(11,936)	Note 2
Epistar Corporation	GaN Ventures Co., Ltd.	Hong Kong	Sales of LED lighting facilities	56,889	-	3,600,000	64.29	35,460	(35,158)	(22,603)	
Epistar Corporation	Bee Rich Corporation	British Virgin Islands	Professional investment	1,754,015	1,754,015	109,472,700	100.00	834,903	(534,920)	(534,888)	Note 3
Epistar Corporation	Full Star Enterprises Limited	Hong Kong	Professional investment	166,785	254,853	8,660,000	100.00	240,513	64,757	64,757	Note 3
Epistar Corporation	Tops Electrical Technology Co., Ltd.	Taiwan	Design of illumination and packaging of LED ceramic packages	7,467	7,467	1,200,000	47.06	3,717	(5,163)	(2,430)	Note 3
Epistar Corporation	SF Light Co., Ltd.	Taiwan	Sales of LED products	14,512	14,512	1,470,000	49.00	14,571	35	22	Note 3
Epistar Corporation	PlayNitride Inc.	British Cayman Islands	Innovative technology licensing and sales of LED related products	68,909	68,909	2,612,500	17.98	37,333	(135,096)	(25,186)	Note 3
Bee Rich Corporation	Crystal Light Enterprise Group Ltd.	British Virgin Islands	Professional investment	17,881	17,881	200,000	100.00	23,791	(46)	(46)	
Bee Rich Corporation	Can Yang Investments Limited	Hong Kong	Professional investment	1,733,522	1,733,522	109,272,700	63.53	811,080	(841,915)	(534,874)	
Crystaluxx SARL	LEDOLUX Sp.ZO.O.	Poland	Assembling and sales of LED bulbs	132,456	132,456	154,714	60.00	17,779	(65,072)	(39,043)	

				Initial investment amount		Shares held as at December 31, 2016					
Investor	Investee	Location	Main business activities	Balance as at December 31, 2016	Balance as at December 31, 2015	Number of shares (Note)	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2016	Investment income (loss) recognised by the Company for the year ended December 31, 2016	Footnote
Epistar JV Holding (B.V.I.) Co., Ltd.	LiteStar JV Holding (B.V.I) Co.,Ltd.	British Virgin Islands	Professional investment	$ 3,047,205	$ 3,041,089	9,682	80.65	$ 3,063,306	$ 3,647	$ 2,911	
Epistar JV Holding (B.V.I.) Co., Ltd.	United LED Corporation (Hong Kong) Limited	Hong Kong	Professional investment	2,029,760	2,029,760	67,000,165	74.86	744,857	(762,380)	(570,718)	
Epistar JV Holding (B.V.I.) Co., Ltd.	Country Lighting (B.V.I) Co., Ltd.	British Virgin Islands	Professional investment	89,843	89,843	3,060,000	36.43	98,745	(72)	(26)	
LiteStar JV Holding (B.V.I) Co.,Ltd.	Epicrystal (Hong Kong) Co. Ltd.	Hong Kong	Professional investment	4,040,994	3,881,719	134,600,000	100.00	3,796,746	3,947	3,947	
Full Star Enterprises Limited	PlayNitride Inc.	British Cayman Islands	Innovative technology licensing and sales of LED related products	39,054	39,054	600,000	4.13	31,773	(135,096)	(5,784)	
HUGA Holding (B.V.I) Ltd.	HUGA Holding (SAMOA) Ltd.	SAMOA	Professional investment	331,951	59,151	12,451,035	100.00	255,225	(23,809)	(23,809)	
HUGA Holding (B.V.I) Ltd.	Bliss High Technology Inc.	SAMOA	Sales of LED chips and LED lighting facilities	3,008	3,008	100,000	100.00	(2,604)	(2,257)	(2,257)	
HUGA Holding (SAMOA) Ltd.	Ecoled Venture Co., Ltd.	Hong Kong	Sales of LED lighting facilities	24,655	24,655	6,638,461	48.01	22,951	(35,721)	(23,785)	
Lighting Investment Ltd.	Luxlite (HK) Corporation Limited	Hong Kong	Professional investment	92,119	92,119	2,850,000	75.00	192,135	492	369	
Lighting Investment Ltd.	Epistar (Hong Kong) Limited	Hong Kong	Professional investment	2,556	2,556	82,850	100.00	2,391	109	109	
Lighting Investment Ltd.	LEDAZ Co., Ltd.	Korea	Engineering service of LED	48,166	48,166	88,460	28.13	40,412	9,966	2,803	
UEC Investment Ltd.	Episky (Hong Kong) Ltd.	Hong Kong	Professional investment	2,124,096	2,124,096	68,000,000	100.00	2,589,525	97,444	97,444	
Lighting Investment Corp.	Lighting Investment Ltd.	British Virgin Islands	Professional investment	152,701	152,701	45,642	100.00	407,384	(48,571)	(48,571)	
Lighting Investment Corp.	Nan Ya Photonics Incorporation	Taiwan	LED light application	9,785	9,785	979,000	0.49	2,585	(1,132,855)	(5,545)	
Lighting Investment Corp.	ProLight Opto Technology Corporation	Taiwan	Packaging, manufacturing and sales of LED	83,856	83,614	5,829,234	12.25	133,079	25,794	3,163	

Investor	Investee	Location	Main business activities	Initial investment amount: Balance as at December 31, 2016	Initial investment amount: Balance as at December 31, 2015	Shares held as at December 31, 2016: Number of shares (Note)	Shares held as at December 31, 2016: Ownership (%)	Shares held as at December 31, 2016: Book value	Net profit (loss) of the investee for the year ended December 31, 2016	Investment income (loss) recognised by the Company for the year ended December 31, 2016	Footnote
InterLight Optotech Corporation.	Interlight OPtotech (HK) Co.,Limited	Hong Kong	Sales of LED chips and LED lighting facilities	$ 13,385	$ 13,385	429,000	30.00	$ 13,040	$ 392	$ 79	
Epistar (Hong Kong) Limited	ES-LEDRU LLC.	Russia	Sales of LED chips and LED lighting facilities	2,474	2,474	4,036,069	49.00	2,445	371	182	
Episky Corporation (Xiamen) Ltd.	Epicrystal Corporation (Changzhou) Ltd.	China-Changzhou	Manufacturing and sales of LED chips and LED lighting facilities	99,056	99,056	RMB 20,000,000	100.00	155,458	44,408	44,408	
Episky Corporation (Xiamen) Ltd.	EPIRICH (Guangzhou)Co.,Ltd	China-Guangzhou	Development and sales of LED products	40,382	-	RMB 8,000,000	100.00	21,593	(8,937)	(8,937)	
Episky Corporation (Xiamen) Ltd.	Epicrystal Corporation (Changzhou) Ltd.	China-Changzhou	Manufacturing and sales of LED chips and LED lighting facilities	147,472	147,472	Cash USD5,200,000	3.59	146,847	4,264	148	
EPI Crystal Investment Inc.	InterLight Optotech Corporation.	Taiwan	Packaging and sales of LED chips and LED lighting facilities	157,672	157,672	2,475,099	100.00	5,780	(1,447)	(1,447)	
EPI Crystal Investment Inc.	Crystaluxx SARL	Luxembourg	Professional investment	129,114	129,114	32,500	100.00	18,640	(39,677)	(39,677)	
EPI Crystal Investment Inc.	Yen-Rich Opto (Hong Kong) Limited	Hong Kong	Sales of LED lighting facilities	250,731	250,731	8,010,000	100.00	302,760	33,536	33,536	
EPI Crystal Investment Inc.	LEDAZ Co., Ltd.	Korea	Engineering service of LED	23,993	23,993	44,065	14.01	24,363	9,999	1,396	
EPI Crystal Investment Inc.	Nan Ya Photonics Incorporation	Taiwan	LED light application	40,776	38,572	3,948,000	1.97	19,275	(1,132,855)	(22,286)	

Note 1 : If the investee is a limited company, “number of shares" presents the investment amount.
Note 2 : Originally invested by subsidiary company, HUGA Optotech Inc, after HUGA Optotech Inc has been merged and dissolved on September 29, 2016, absorbed by Epistar Corporation.
Note 3 : Originally invested by subsidiary company, Formosa Epitaxy Incorporation, after Formosa Epitaxy Incorporation has been merged and dissolved on September 29, 2016, absorbed by Epistar Corporation.

EPISTAR CORPORATION AND SUBSIDIARIES

Information on investments in Mainland China

Year ended December 31, 2016

Table 10

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2016	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2016: Remitted to Mainland China	Remitted back to Taiwan	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016	Net income of investee as of December 31, 2016	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2016 (Note 2)	Book value of investments in Mainland China as of December 31, 2016	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2016	Footnote
Episky Corporation (Xiamen) Ltd.	Manufacturing and sales of LED chips and LED lighting facilities	$ 2,193,000	2	$ 2,193,000	$ -	$ -	$ 2,193,000	$ 97,389	100.00	$ 97,389	$ 2,589,518	$ -	3 4
United LED Shandong Corporation	Manufacturing and sales of LED chips and LED lighting facilities	2,709,000	2	2,055,938	-	-	2,055,938	(778,859)	74.86	(583,054)	960,758	-	3 4
Epicrystal Corporation (Changzhou) Ltd.	Manufacturing and sales of LED chips and LED lighting facilities	4,676,250	2	3,308,850	161,250	-	3,470,100	4,264	74.86	3,150	3,062,076	-	1
Luxlite (Shenzhen) Corporation Limited	Sales of LED chips and LED lighting facilities	96,750	2	96,750	-	-	96,750	318	75.00	238	172,397	-	3 4
KAISTAR Lighting (Xiamen) Co., Ltd.	Manufacturing and sales of LED chips and LED lighting facilities	5,704,986	2	1,646,685	-	-	1,646,685	(209,997)	28.86	(58,763)	1,480,358	-	3 4
Evertop (Fujian) Optoelectronics Co., Ltd.	Designing, manufacture and sale of LED Light Bar, LED packaging, other optical components and module	80,625	2	80,625	-	-	80,625	-	10.00	-	43,299	-	4

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2016	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2016: Remitted to Mainland China	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2016: Remitted back to Taiwan	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016	Net income of investee as of December 31, 2016	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2016 (Note 2)	Book value of investments in Mainland China as of December 31, 2016	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2016	Footnote
APT Electronics Co., Ltd.	Developing, manufacture and sale of LED extension and chip, module and light instrument	$ 1,483,451	3	$ 112,193	$ -	$ -	$ 112,193	$ -	11.20	$ -	$ -	$ -	4
China Crystal Technologies Co.,Ltd.	Developing, manufacture and sale of gallium arsenide unit crystal and chips	919,411	3	-	108,251		108,251	-	8.97	-	219,317	-	3 4
Cosmoled Lighting Limited	Developing, manufacture and sale of LED filament, lamp bulb, lighting instrument and applications	604,370	3	191,157	-	-	191,157	(52,868)	40.00	(21,193)	142,505	-	3 4
Ufeco Technology Inc. (Stock)	Developing and manufacturing LED application and sales of self-product	80,625	2	8,399	-	-	8,399	-	10.00	-	-	-	3 4
Very Optoelectronics (HUI ZHOU) Co., Ltd.	Research and development, manufacturing and sale of LED packaging; research and development, manufacturing and sale of backlight module, lighting modules and accessories	929,800	2	236,074	-	-	236,074	70,323	24.00	16,878	208,291	-	3 4
Ningbo Formosa Epitaxy Incorporation	Professional investment	6,450	2	54,284	-	-	54,284	(46)	100.00	(46)	23,791	-	3 4

Investee in Mainland China	Main business activities	Paid-in capital	Investment method （Note 1）	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2016	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2016		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016	Net income of investee as of December 31, 2016	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2016 （Note 2）	Book value of investments in Mainland China as of December 31, 2016	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2016	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Jiangsu Canyang Optoelectronics Ltd.	Producing and processing LED extension and chip, and manufacturing and sale of interior and exterior illumination	$ 5,160,000	2	$ 1,402,263	$ -	$ -	$ 1,402,263	($ 836,422)	63.53	($ 53,138)	$ 844,184	$ -	3 4

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Epistar Corporation	$ 11,721,509	$ 13,359,431	$ 30,590,398

Note 1: The investments are classified in three types; they are numbered as follows:

1. Direct investment in Mainland China companies;
2. Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
3. Other ways.

Note 2: Investment income or loss in this period:

The bases for recognition of investment income or loss are classified into four types; they are numbered as follows:

1. The financial statements that are audited by the international accounting firm which has a cooperative relationship with the R.O.C. accounting firm;
2. The financial statements that are audited by the R.O.C. parent company's independent accountants;
3. The financial statements are unaudited.
4. Others: they are measured using the cost method; the profit/loss and carrying value are not available.

Note 3: The amount disclosed was based on Investment Commission, MOEA Regulation No. 09704604680 announced on August 29, 2008.

Note 4: The numbers in the table shall be expressed in NTD. Foreign currencies shall be translated into NTD at the exchange rate prevailing on the financial reporting date.

EPISTAR CORPORATION AND SUBSIDIARIES

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

Year ended December 31, 2016

Table 11

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing				
	Amount	%	Amount	%	Balance at December 31, 2016	%	Balance at December 31, 2016	Purpose	Maximum balance during the year ended December 31, 2016	Balance at December 31, 2016	Interest rate	Interest during the year ended December 31, 2016	Others
Jiangsu Canyang Optoelectronics Ltd.	$ 135,131	1	$ 2,676	-	$ 56,149	-	$ 1,895,210	-	$ 1,830,480	$ 935,250	2.05%	$ -	-
	(13,470)	-	-	-	(251)	-	-	-	-	-	-	-	-
United LED (Shandong) Corporation	(54,947)	-	-	-	-	-	-	-	-	-	-	-	-
Episky Corporation (Changzhou) Ltd.	(3,552,207)	(11)	-	-	(432,563)	(5)	-	-	-	-	-	-	-
Luxlite (Shenzhen) Corporation Limited	5,688,957	11	-	-	2,896,991	16	-	-	-	-	-	-	-
Episky Corporation (Xiamen) Ltd.	968,756	2	100,245	4	167,873	1	-	-	-	-	-	-	-
	(2,695,976)	(8)	(12,607)	-	(359,584)	(4)	-	-	-	-	-	-	-
Epicrystal Corporation (Changzhou) Ltd.	1,048,513	2	19,548	1	193,439	1	-	-	-	-	-	-	-
	(1,394,115)	(4)	-	-	(345,939)	(4)	-	-	-	-	-	-	-
KAISTAR Lighting (Xiamen) Co., Ltd.	240,405	1	-	-	67,145	-	-	-	-	-	-	-	-
	(1,096,010)	(3)	-	-	(272,361)	(3)	-	-	-	-	-	-	-

Appendix 1.5

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
EPISTAR CORPORATION

Opinion

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

In our opinion, based on our audits and the reports of other independent accountants, as described in the *Other matters* section of our report, the accompanying non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of the company as at December 31, 2016 and 2015, and its non-consolidated financial performance and its non-consolidated cash flows for the years then ended in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers."

Basis for opinion

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China ("ROC GAAS"). Our responsibilities under those standards are further described in the Independent Accountant's Responsibilities for the Audit of the Non-consolidated Financial Statements section of our report. We are independent of Epistar Corporation in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the report of the other independent accountants, 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 non-consolidated financial statements of the current period. These matters were addressed in the context of our audit of the non-consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Evaluation of Impairment Losses of Property, Plant and Equipment, and Goodwill

Description

Please refer to Note 6(10) of the non-consolidated financial statements for the explanations regarding impairment losses on non-financial assets. As of December 31, 2016, the balances of property, plant and equipment, and goodwill were NT$19,174,184 thousand and NT$6,324,659 thousand, respectively.

The Company evaluates the recoverable amounts of idle property, plant and equipment through assessing the fair values after deducting the disposal costs, and of property, plant and equipment, and intangible assets through value in use. The Company evaluates whether impairment losses will be provided for property, plant and equipment, and goodwill utilizing the aforementioned recoverable amounts. The evaluation of value in use for operational property, plant and equipment and intangible assets consists of the estimation of future cash flows and the determination of discount rates. Since the assumptions adopted in the estimation of future cash flows and the results of the estimation would have significant impact on value in use of operational property, plant, and equipment, and intangible assets, it was identified as one of the key audit matters.

How our audit addressed the matter

We have obtained the appraisal report of idle property, plant and equipment prepared by independent valuers from the Company and assessed the reasonableness of evaluation methods and fair values utilized. For value in use of operational property, plant and equipment, and goodwill, the following procedures were conducted:

1. Interviewed with management and obtained an understanding of the Company's operational procedures in estimating future cash flows and verified the consistency to operation plans approved by the Board of Directors.

2. Discussed operation plans with management to understand the product strategies and their respective executions status.
3. Assessed the reasonableness for assumptions utilized in estimating future cash flows, including projected sales volumes, unit prices and unit costs. Assessed the parameters adopted in determining discount rates, including calculating and comparing the weighted average cost of capital at risk-free rates, the industrial risk premium and the long-term rates of returns.

Evaluation of Inventories

Description

Please refer to Note 6(6) of the non-consolidated financial statements for the explanations regarding inventories. As of December 31, 2016, the balances of inventories and the allowance for valuation loss were NT$3,366,156 thousand and NT$506,800 thousand, respectively.

The Company is primarily engaged in manufacturing and sales of LED wafers and chips. Due to rapid technological developments, short product lifespans and frequent fluctuations of market prices, the risk of decline in market value and obsolescence for inventories is high. The Company evaluates net realized values for inventories which aged over a specific period of time and specific obsolete inventories in order to provide allowance for valuation loss. Since the identification of the above obsolete inventories and their respective net realizable values are subject to management's judgment, it was identified as one of the key audit matters.

How our audit addressed the matter

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

1.Obtained an understanding of the Company's operations and the nature of its industry and interviewed with management to understand the probability of future sales for those out-of-date inventories and to evaluate the reasonableness of allowance for valuation loss.
2. Obtained and validated the accuracy of the detailed listings of inventories aged over a specific period of time and specific obsolete inventories. Validated information of historical sales and discounts for those obsolete inventories to assess the reasonableness of policies in providing allowance for inventory valuation loss.

Other matter – Audited by other Independent Accountants

We did not audit the financial statements of certain consolidated subsidiaries and equity investments accounted for under the equity method. Those financial statements were audited by other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements and the information disclosed in Note 13 was based solely on the reports of other independent accountants. These equity investments amounted to NT$1,395,693 thousand and NT$2,106,292 thousand, representing 2.15% and 2.92% of the total assets as at December 31, 2016 and 2015, respectively, and their comprehensive loss (including share of loss of subsidiaries, associates and joint ventures accounted for under equity method and share of other comprehensive income/(loss) of subsidiaries, associates and joint ventures accounted for under equity method) amounted to NT$1,183,267 thousand and NT$264,170 thousand, representing 28.22% and 7.77% of the comprehensive loss for the years then ended.

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

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers" and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent accountant's responsibilities for the audit of the non-consolidated financial statements

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

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

1. Identify and assess the risks of material misstatement of the non-consolidated 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 report to the related disclosures in the non-consolidated 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 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 non-consolidated financial statements, including the disclosures, and whether the non-consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the non-consolidated financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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 non-consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

Wen, Fang-Yu　　　　　　　　　　Cheng, Ya-Huei

For and on behalf of PricewaterhouseCoopers, Taiwan

March 16, 2017

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

EPISTAR CORPORATION
NON-CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

	Assets	December 31, 2016 AMOUNT	%	December 31, 2015 AMOUNT	%
	Current assets				
1100	Cash and cash equivalents	$ 3,632,418	6	$ 3,458,726	5
1110	Financial assets at fair value through profit or loss - current	150,009	-	438,906	1
1150	Notes receivable, net	34,427	-	27,367	-
1170	Accounts receivable, net	4,818,320	7	3,449,620	5
1180	Accounts receivable - related parties, net	6,060,195	9	7,403,868	10
1200	Other receivables	995,883	2	70,422	-
1210	Other receivables - related parties	1,253,168	2	242,450	-
130X	Inventories, net	2,859,356	4	3,203,970	4
1410	Prepayments	415,595	1	400,397	1
1460	Non-current assets held for sale - net	627,398	1	1,070,011	2
1470	Other current assets	68,228	-	55,689	-
11XX	**Current Assets**	20,914,997	32	19,821,426	28
	Non-current assets				
1523	Available-for-sale financial assets – non-current	1,254,447	2	1,257,400	2
1550	Investments accounted for under equity method	12,446,544	19	31,724,052	44
1600	Property, plant and equipment, net	19,174,184	30	15,764,303	22
1780	Intangible assets	7,813,856	12	1,339,452	2
1840	Deferred income tax assets	2,604,001	4	1,881,786	2
1900	Other non-current assets	644,901	1	239,327	-
15XX	**Non-current assets**	43,937,933	68	52,206,320	72
1XXX	**Total assets**	$ 64,852,930	100	$ 72,027,746	100

(Continued)

EPISTAR CORPORATION
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	December 31, 2016 AMOUNT	%	December 31, 2015 AMOUNT	%
	Current liabilities				
2100	Short-term borrowings	$ 2,000,000	3	$ -	-
2120	Financial liabilities at fair value through profit or loss - current	-	-	179,684	-
2150	Notes payable	22,941	-	10,060	-
2170	Accounts payable	1,718,022	3	1,246,443	2
2180	Accounts payable - related parties	1,596,756	2	2,318,703	3
2200	Other payables	3,062,157	5	3,660,226	5
2320	Long-term liabilities, current portion	523,928	1	7,798,436	11
2399	Other current liabilities - others	166,922	-	270,238	-
21XX	**Current Liabilities**	9,090,726	14	15,483,790	21
	Non-current liabilities				
2540	Long-term borrowings	5,249,544	8	1,780,557	2
2570	Deferred income tax liabilities	916,268	1	1,096,912	2
2600	Other non-current liabilities	322,248	1	392,587	1
25XX	**Non-current liabilities**	6,488,060	10	3,270,056	5
2XXX	**Total Liabilities**	15,578,786	24	18,753,846	26
	Equity				
	Share capital				
3110	Share capital - common stock	10,915,492	17	10,998,443	15
	Capital surplus				
3200	Capital surplus	43,016,259	66	42,810,893	59
	Retained earnings				
3310	Legal reserve	241,512	-	1,547,864	2
3350	Accumulated deficit	(3,545,028)	(6)	(1,306,352)	(2)
	Other equity interest				
3400	Other equity interest	(505,370)	-	143,141	1
3500	**Treasury stocks**	(848,721)	(1)	(920,089)	(1)
3XXX	**Total equity**	49,274,144	76	53,273,900	74
3X2X	**Total liabilities and equity**	$ 64,852,930	100	$ 72,027,746	100

EPISTAR CORPORATION
NON-CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars, except for loss per share amounts)

		Years ended December 31			
		2016		2015	
	Items	AMOUNT	%	AMOUNT	%
4000	**Sales revenue**	$ 23,442,193	100	$ 23,376,051	100
5000	**Operating costs**	(21,158,040)	(91)	(23,391,933)	(100)
5900	**Operating margin**	2,284,153	9	(15,882)	-
5910	Unrealized (profit) loss from sales	(28,104)	-	44,850	-
5920	Realized (loss) profit on from sales	(44,850)	-	54,735	-
5950	**Net operating margin**	2,211,199	9	83,703	-
	Operating expenses				
6100	Selling expenses	(262,343)	(1)	(270,513)	(1)
6200	General & administrative expenses	(1,037,228)	(4)	(1,169,698)	(5)
6300	Research and development expenses	(1,373,214)	(6)	(1,253,426)	(5)
6000	**Total operating expenses**	(2,672,785)	(11)	(2,693,637)	(11)
6500	**Other income and expenses - net**	209,076	1	236,681	1
6900	**Operating loss**	(252,510)	(1)	(2,373,253)	(10)
	Non-operating income and expenses				
7010	Other income	258,327	1	100,535	-
7011	Disaster insurance compensation revenue	1,200,000	5	-	-
7020	Other gains and losses	(1,277,811)	(5)	639,057	3
7021	Net gain on valuation of put options, call options and conversion rights of bonds	56,931	-	1,038,889	4
7022	Loss on call of corporate bonds	(199,386)	(1)	(15,201)	-
7023	Disaster loss	(463,846)	(2)	-	-
7050	Finance costs	(71,722)	-	(490,883)	(2)
7070	Share of loss of associates and joint ventures accounted for using equity method, net	(3,410,587)	(15)	(2,190,706)	(9)
7000	**Total non-operating income and expenses**	(3,908,094)	(17)	(918,309)	(4)
7900	**Loss before income tax**	(4,160,604)	(18)	(3,291,562)	(14)
7950	Income tax benefit	614,559	3	272,805	1
8200	**Loss for the year**	($ 3,546,045)	(15)	($ 3,018,757)	(13)
	Other comprehensive income				
8311	Gains(losses) on remeasurements of defined benefit plans	$ 1,968	-	($ 38,014)	-
8330	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	(107)	-	(3,002)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	(335)	-	6,940	-
8310	**Components of other comprehensive income(loss) that will not be reclassified to profit or loss**	1,526	-	(34,076)	-
8362	Unrealized gain on valuation of available-for-sale financial assets	85,237	-	96,304	-
8380	Share of other comprehensive loss of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(842,868)	(4)	(470,874)	(2)
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	109,120	1	26,959	-
8360	**Components of other comprehensive loss that will be reclassified to profit or loss**	(648,511)	(3)	(347,611)	(2)
8300	**Other comprehensive loss for the year**	($ 646,985)	(3)	($ 381,687)	(2)
8500	**Total comprehensive loss for the year**	($ 4,193,030)	(18)	($ 3,400,444)	(15)
9750	**Basic loss per share**	($	3.33)	($	2.81)
9850	**Diluted loss per share**	($	3.33)	($	3.09)

EPISTAR CORPORATION
NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

			Retained Earnings			Other equity interest				
	Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings (accumulated deficit)	Cumulative translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Other equity - others	Treasury stocks	Amount
2015										
Balance at January 1, 2015	$ 11,031,787	$43,342,832	$1,366,831	$ 100,596	$ 2,737,708	$ 639,823	($ 149,071)	($ 346,915)	($ 461,200)	$58,262,391
Appropriations of 2014 earnings (Note)										
Legal reserve	-	-	181,033	-	(181,033)	-	-	-	-	-
Reversal of special reserve	-	-	-	(100,596)	100,596	-	-	-	-	-
Cash dividends	-	-	-	-	(910,000)	-	-	-	-	(910,000)
Amortization of employee restricted shares compensation cost	-	-	-	-	-	-	-	(204,664)	-	(204,664)
Change in investees interest accounted for under equity method	-	187,470	-	-	-	-	-	-	-	187,470
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	(86,051)	-	-	-	-	-	-	-	(86,051)
Retirement of restricted employee stock	(12,819)	12,819	-	-	-	-	-	-	-	-
Reversal of capital surplus from restricted stocks	-	(551,579)	-	-	-	-	-	551,579	-	-
Retirement of treasury shares	(21,320)	(100,062)	-	-	(790)	-	-	-	122,172	-
Conversion of corporate bonds of subsidiaries	795	5,464	-	-	-	-	-	-	-	6,259
Purchase of treasury shares	-	-	-	-	-	-	-	-	(531,301)	(531,301)
Shares of parent company held by subsidiaries being transferred to treasury shares	-	-	-	-	-	-	-	-	(49,760)	(49,760)
Loss for the year	-	-	-	-	(3,018,757)	-	-	-	-	(3,018,757)
Other comprehensive loss for the year	-	-	-	-	(34,076)	(180,518)	(167,093)	-	-	(381,687)
Balance at December 31, 2015	$ 10,998,443	$42,810,893	$1,547,864	$ -	($ 1,306,352)	$ 459,305	($316,164)	$ -	($ 920,089)	$53,273,900
2016										
Balance at January 1, 2016	$ 10,998,443	$42,810,893	$1,547,864	$ -	($ 1,306,352)	$ 459,305	($ 316,164)	$ -	($ 920,089)	$53,273,900
Appropriations of 2015 earnings										
Legal reserve used to offset accumulated deficit	-	-	(1,306,352)	-	1,306,352	-	-	-	-	-
Change in investees interest accounted for under equity method	-	135,972	-	-	-	-	-	-	-	135,972
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	(323)	-	-	-	-	-	-	-	(323)
Retirement of restricted employee stock	(79,642)	79,642	-	-	-	-	-	-	-	-
Retirement of treasury shares	(3,309)	(17,503)	-	-	-	-	-	-	20,812	-
Treasury stock sold by subsidiary company	-	7,578	-	-	(509)	-	-	-	50,556	57,625
Loss for the year	-	-	-	-	(3,546,045)	-	-	-	-	(3,546,045)
Other comprehensive income (loss) for the year	-	-	-	-	1,526	(687,832)	39,321	-	-	(646,985)
Balance at December 31, 2016	$ 10,915,492	$43,016,259	$ 241,512	$ -	($ 3,545,028)	($ 228,527)	($276,843)	$ -	($ 848,721)	$49,274,144

Note : The employees' bonus of $244,617 and directors' and supervisors' remuneration of $34,598 in 2014 have been deducted from the statements of comprehensive income.

EPISTAR CORPORATION
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

	Years ended December 31 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	($ 4,160,604)	($ 3,291,562)
Adjustments		
Adjustments to reconcile profit (loss)		
Depreciation	2,816,000	2,618,128
Amortization	331,622	295,491
Provision for doubtful accounts	10,569	407
Disaster loss	463,846	-
Net gain on financial assets at fair value through profit or loss	(1,142)	(625)
Net gain on valuation of put options, call options and conversion rights of bonds	(56,931)	(1,038,889)
Interest expense	198,335	189,320
Interest income	(53,412)	(56,252)
Dividend income	(177)	(1,127)
(Reversal of) compensation cost of share-based payment	-	(185,967)
Effect of exchange rate on bonds payable and long-term loans	(117,190)	295,941
Share of loss of subsidiaries and associates accounted for under the equity method	3,410,587	2,190,706
Loss (gain) on disposal of property, plant and equipment	177,399	(13,815)
Gain on disposal of investments	(2,341)	-
Other income from recognition of long-term deferred revenues	(16,883)	(38,651)
Loss on call of corporate bonds	199,386	15,201
Impairment loss on non-financial assets	543,740	39,179
Impairment loss of financial assets	366,563	212,768
Property, plant and equipment transferred to other income	-	(12,816)
Property, plant and equipment transferred to expenses	2,745	8,020
Non-current assets held for sale transferred to expenses	-	200
Gain on bargain purchase	-	(500,075)
Realized loss (profit) from sales	44,850	(54,735)
Unrealized profit (loss) from sales	28,104	(44,850)
Changes in operating assets and liabilities		
Changes in operating assets		
Financial assets held for trading	290,039	(110,733)
Notes receivable	(6,079)	(16,202)
Accounts receivable	(548)	1,266,258
Other receivables	(1,135,812)	14,114
Other financial assets - current	(4,621)	(29,834)
Inventories	765,394	(110,036)
Prepayments	36,882	(98,779)
Other non-current assets	(115)	762
Changes in operating liabilities		
Notes payable	8,282	9,978
Accounts payable	(419,097)	1,017,812
Other payables	248,823	(468,097)
Other current liabilities	(114,278)	143,826
Other non-current liabilities	10,472	13,698
Cash inflow generated from operations	3,864,408	2,258,764
Income tax paid	(16,600)	(19,351)
Interest received	54,737	57,004
Interest paid	(106,203)	(12,415)
Dividend received	22,318	488,351
Net cash flows from operating activities	3,818,660	2,772,353

(Continued)

EPISTAR CORPORATION
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)

	Years ended December 31	
	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	$ -	($ 512,787)
Acquisition of investments accounted for under the equity method	(216,164)	(1,420,481)
Acquisition for property, plant and equipment	(2,232,237)	(2,458,986)
Proceeds from disposal of property, plant and equipment	1,839,553	226,243
Acquisition of intangible assets	(479,777)	(466,901)
(Increase) decrease in refundable deposits paid	(4,740)	4,528
Effect on initial consolidation of subsidiaries	310,255	42,358
Proceeds from disposal of available-for-sale financial assets	78,776	-
Shares returned by subsidiaries	549,993	-
Increase in other receivables - related parties	(918,575)	-
Decrease in other receivables - related parties	918,575	-
Net cash flows used in investing activities	(154,341)	(4,586,026)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	1,800,000	(348,150)
Proceeds from long-term loans	6,450,000	1,880,000
Increase (decrease) in guarantee deposits received	311	(73)
Reacquisition of convertible bonds payable	(7,719,990)	(644,207)
Repayment of convertible bonds payable	(223,609)	-
Repayment of long-term loans	(3,797,339)	-
Payment of cash dividends	-	(910,000)
Purchase of treasury shares	-	(531,301)
Net cash flows used in financing activities	(3,490,627)	(553,731)
Net increase (decrease) in cash and cash equivalents	173,692	(2,367,404)
Cash and cash equivalents at beginning of year	3,458,726	5,826,130
Cash and cash equivalents at end of year	$ 3,632,418	$ 3,458,726

EPISTAR CORPORATION

Chairman
Biing-Jye Lee