

EPiSTAR

Epistar Corporation

2017 Annual Report

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Notice to readers

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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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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1. Letter to Shareholders

Dear Shareholders,

I. Introduction

Since the 2nd half of 2016, global nitride-based LED supply and demand has slightly improved, however other companies in the LED business has completed expansion of their production capacity during the 4th quarter of 2017, causing an increase of competition in the market. Although the operation environment has been bearish, our entire staff and workforce never gave up our goal on turning from loss to profit and we put all our effort into lowering operating costs and increasing product mix optimization. 2017 our consolidated net operating income was NTD2.31 billion and net profit after tax was NTD1.69 billion. Not only have we successfully turned to profit, our profit greatly increased and which exceeded our estimated target.

II. 2017 Business Report

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

1. Net operating revenue

The net operating revenue was NT\$25,270,616 thousand in 2017, and the operating revenue was NT\$25,539,163 thousand, in 2016.

2. Net operating profit

The net operating profit in 2017 was NT\$2,307,150 thousand. The net loss in 2016 was NT\$1,255,776 thousand. The business turned profitable and the profit increased by 283% compared to last year.

3. Profit-current period

In 2017, we continued to consolidate the resources within the Group's plant. After the production line was adjusted and re-deployed, the performance of the plant area was increased. In addition, the depreciation amount of idle equipment and assets provided in 2017 was lower than that in 2016, so the none-operating loss was significantly reduced 85% compared to 2016, after-tax net profit was NT\$1,686,213 thousands, which showed a turn from loss into profit.

B. Capital Structure Analysis & Profitability Analysis

	Item	2017	2016
Capital Structure Analysis	Debts Ratio (%)	20.90	26.21
	Long-term Fund to Property, Plant and Equipment (%)	235.40	215.80
Profitability Analysis	Return on Total Assets (%)	2.78	(4.79)
	Return on Equity attributable to Shareholders of the Parent (%)	3.24	(7.53)
	Net Margin (%)	6.67	(15.71)
	Basic Earnings Per Share (NT\$)	1.55	(3.33)

C. Research and Development

The company continues to invest on Research and Development. In 2017, Research and Development costs is about NTD \$1.58 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.

In addition to the “2017 Taiwan International Lighting Show (TILS) Innovative Product award”, the company has made a good progress in the patent acquirement such as the number of patent certificates increased by 701 (2017) and the total number of patent certificates has reached 3,887.

III. The company’s future development strategy, effect of external competition, legal environment, overall business environment, and a summary of 2018 business plan

For the outlook of 2018, overcapacity issues will affect the LED market balance after the expansion of production capacity in mainland China in the fourth quarter of 2017. It is expected that market demand will recover from the third quarter of 2018. The company will adopt new technologies such as Mini LED which is applied to cell phone or laser applications to balance the impact of overcapacity ; Due to global issues on energy-saving and emphasis on environmental protection, as well as luminous efficiency has improved over the years and Miniaturization of LED chips, many more new applications of LED are emerging. Therefore the LED market has potential to continue to grow, for example LED High efficiency tube and filament LED light bulb demand has grown over the years, and LED application in lighting and automobile and other applications has continued to permeate throughout other fields of applications. LED application in Horticulture has gradually gained importance and IR LED in security control, smart phone sensor, Mini LED application in various kinds of display, and so on.

In 2018 our expected shipment of LED chip is estimated at 562,998 million pcs.

Regarding VCSEL OEM sales and market promotion, asides from significant increase of sales of data transfer VCSEL epitaxy wafer, this year we will start to promote VCSEL in sensor device products.

In reaction to end application demand towards intelligence and price–performance ratio in the upcoming future, we still need to constantly put our effort in research and development, improve our technique and lower our costs. Our company will continue to launch new products, improve efficiency of resource operations, increase product’s additional value and product mix optimization and compete for more high quality orders in order to increase shareholders return on equity.

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 9 th 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.

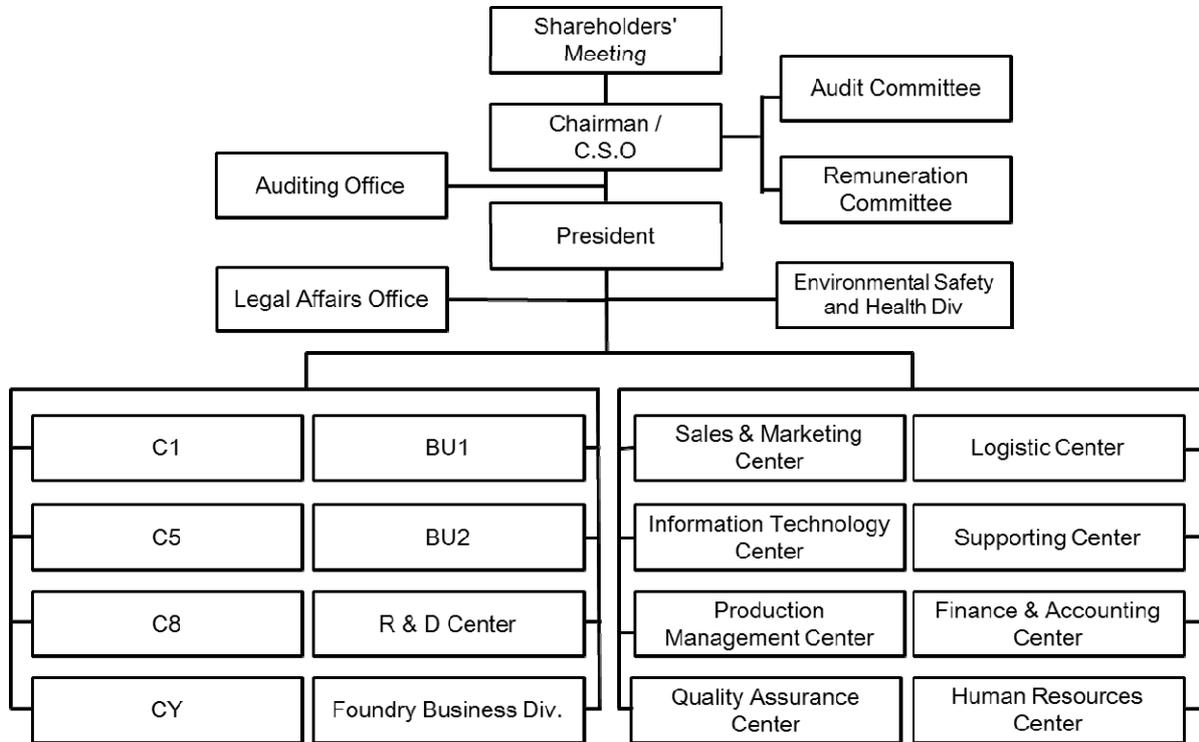
December 2003	Offered 1st overseas convertible corporate bonds amounting to US\$300 million.
April 2004	Acquired the new Lixing 1st Rd. factory built under Phase-3 Development Project.
July 2003	Succeed to shares of Itcompound Semiconductor Corporation by offering new shares Paid-in capital amounting 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 4 th 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 & Legal Affairs Div.	Responsible for the application and maintenance of patents and intellectual property rights internally and the planning and implementation of relevant management system. Plus, carry out all setting up and review for all contracts internally and externally and lawsuits. And offer legal consultation for all staff.
Sales & Marketing Center	Responsible for product sales, customer service, formulating specification book, product catalogue preparation, collection of competitor/associations’ information of new product, analysis and assessment about the possibility for further development with the information collected from the market.

Department	Functions
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 maintenance and management of the day-to-day operation for every factory's FAB service system, and carry out the project plan for improvement and expansion of the plant for every factory's FAB service matters. Which plan and provide the promotion and management of every factory's administrative affairs.
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.
Foundry Business Div	Responsible for III-V semiconductor OEM services, including the relevant engineering R&D, production, continuous improvement, the standardization of mass production, yield improvement of III-V epitaxy/ wafer customization. And the engineering R&D, production, manufacturing process improvement, quality control and other works of III-V wafer/chips customization.

Department	Functions
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.
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.
C8	Responsible for the planning and implementation of epitaxy wafer and chips 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, 2018

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.	Bling-Jye Lee	Male	2015.06.17	3	1996.09.09	1,704,495	0.15%	2,764,495	0.25%	342,596	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%	10,000,175	0.92%	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.	Shan-Chieh Chien	Male	2017.06.27	2	2017.06.27	0	0.00%	0	0.00%	0	0.00%	The Director & The General Manager of United Microelectronics Corp. Bachelor 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%	1,496,667	0.14%	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.	NA
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	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	%		
													Master of Chengchi University Institute of Business Administration Bachelor of Chemical Engineering Department of Tsinghua University	

Remarks: 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. Bing-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 Chairman of Sun Shilin Development 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 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 Ravenel Ltd., the Director of Hanlin Incubation Co., Ltd., the Director of Ruihua Art Co., Ltd and General Manager of Xin Su Transportation Warehousing 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 Chairman of Evertop (Fujian) optoelectronics Co., Ltd., the Director of Everlight Americas, Inc.; 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 Forever Investment Co., Ltd., the Director of Evervision Electronics (B.V.I.) Limited, the Director of Blaze International Limited, the Director of Topbest Holding (Samoa) Limited, the Director & General Manager of Pai-ye Investment Co., Ltd., the Director of Everlight Lighting Co., Ltd., the Director of Zenaro Lighting Co., Ltd., the Chairman of Everlight Lighting Management (shanghai) Co., Ltd., the Executive Director of Everlight Uj-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 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, the Director of Everlight Electronics India Private Limited.

4. Shan-Chieh Chien:

The Director & General Manager United Microelectronics Corp. (TWSE: 2303), the Director UMC New Business Investment Corporation., the Director of Fortune Venture Capital Corp. the Director of Tlc Capital Co., Ltd., the Director of united semiconductor (xiamen) Co., Ltd., the Director of Wavetek Microelectronics Corporation and the Director of UMC Capital Corp.

5. Nan Yang Wu:

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 of Yi-Yang Technology Co., Ltd. and the Director of Yi-Xiang Enterprise Co., Ltd..

6. Ming-Jium 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 Chairman of GaN Ventures Co., Limited, the Chairman of GV Semiconductor Inc., 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 S.A.R.L., 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 Independent Director of EpisiI-Precision Inc. (TWSE: 3016), The Independent Director & the member of Remuneration Committee of Advanced Lithium Electrochemistry (KY) Co., Ltd.(TPEX: 5227) and the member of Remuneration Committee of Dong Xun Co., Ltd.(TWSE: 2321).
8. Chi-Yen Liang:
The Chairman of Taimet Communication System Corp. (TPEX: 4905), the Director of Flexium Interconnect Inc.(TWSE: 6269), the Independent Director of Excellence MOS Corp. (Emerging stock: 5299), the member of Remuneration Committee of Sesoda Corporation (TWSE: 1708), the member of Remuneration Committee of Shinkong Textile Co., Ltd (TWSE: 1419), 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.	<p>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%)</p>
Everlight Electronics Co., Ltd. (Shareholders record date: September 5, 2017)	<p>Cathay United Bank acting in its capacity as depository and representative to the Yi Ren investment account (4.71%) Yin-Fu Yeh (4.30%) Fubon Life Insurance Co., Ltd. (3.85%) Nan Shan Life Insurance Co., Ltd. (3.41%) Public service pension fund Management Committee (2.63%) Chuan Investment Corp. (2.04%) Cathay Life Insurance Co., Ltd. (1.91%) Mercuries Life Insurance Co., Ltd. (1.80%) Bo-Wen Zhou (1.72%) Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds (1.59%)</p>
United Microelectronics Corp. (Shareholders record date: July 17, 2017)	<p>JPMorgan Chase Bank, N.A. acting in its capacity as depository and representative to the holders of ADRs (5.69%) Hsun Chieh Investment Co., Ltd. (3.50%) JPMorgan Chase Bank, N.A. Taipei Branch in custody for New World Fund, Inc. (3.20%) Silchester International Investors International Value Equity Trust (3.16%) Cathay Life Insurance Co., Ltd. (3.00%) Silicon Integrated Systems Corp. (2.50%) Silchester International Investors International Value Equity Group Trust (1.85%) Yann Yuan Investment Co., Ltd. (1.31%) Silchester International Investors International Value Equity Taxable Trust (1.11%) Vanguard Total International Stock Index Fund, A series of Vanguard Star Funds (0.97%)</p>
Yi Te Optoelectronics Co., Ltd.	<p>Chih-Yuan Chen (99.91%) Yeong Yi Asia Corp. (0.09%)</p>

Major shareholders of the major shareholders that are juridical persons:

Name of juridical persons	Major shareholder of the juridical persons
Skyway Industrial Limited	CCS Co., Ltd. (100.00%)
(Samoa) Smithson Crowford Murray Capital	CCS Co., Ltd. (100.00%)
Yeong Yi Asia Corp.	(Samoa) Smithson Crowford Murray Capital (32.17%) Hsin Feng Corp. (25.57%) Fon Tain Belon Co., Ltd. (24.52%) Skyway Industrial Limited (4.92%) Yi-Chao Enterprise Co., Ltd. (4.14%) Chen-Yung Foundation (3.44%) Zhi-Chao Chen (1.95%) Sui Shih Sung Crop. (1.73%) Kang Tu Industrial Co., Ltd. (0.68%) Yi-Yuan Enterprise Co., Ltd. (0.55%)
Yi-Yuan Enterprise Co., Ltd.	Skyway Industrial Limited (22.62%) Yeong Yi Asia Corp. (18.85%) Fon Tain Belon Co., Ltd. (18.85%) Hsin Feng Corp. (18.85%) Chih-Yuan Chen (16.70%) Sui Shih Sung Crop. (2.00%) Meng-Li Zou (1.89%) Yu_An Chen (0.20%) Yun-Yun Chang (0.04%) Zha-Heng Chen (0.03%)
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 (9.29%) Yun-Yun Chang (8.49%) 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
<p>Nan Shan Life Insurance Co., Ltd. (Shareholders record date: February 28, 2018)</p>	<p>First Commercial Bank Trustee Account For Representative of Ruen Chen Investment Holding Co., Ltd. (76.14%) Ruen Chen Investment Holding Co., Ltd. (15.48%) 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%) Ernest Chan (0.03%)</p>
<p>Chuan Investment Corp.</p>	<p>Chuan Corp. (B.V.I.) (100.00%)</p>
<p>Cathay Life Insurance Co., Ltd.</p>	<p>Cathay Financial Holding Co., Ltd. (100.00%)</p>
<p>Mercuries Life Insurance Co., Ltd. (Shareholders record date: February 28, 2018)</p>	<p>Mercuries & Associates Holding Ltd.(43.14%) ShangLin Investment Co., Ltd. (6.11%) ShuRen Investment Co., Ltd. (5.44%) Mercuries Fu Bao Ltd. (2.74%) Labor retirement fund (New system) (1.63%) Shin Kong Life Insurance Co., Ltd. (1.05%) Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds (0.73%) Norges Bank, Norway (0.66%) Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (0.60%) Napoli Co., Ltd. (0.59%)</p>
<p>Hsun Chieh Investment Co.</p>	<p>Hsieh Yong Capital Co., Ltd. (63.48%) United Microelectronics Corp. (36.49%)</p>

Name of juridical persons	Major shareholder of the juridical persons
<p>Silicon Integrated Systems Corp. (Shareholders record date: April 28, 2017)</p>	<p>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%) Hsun Chieh Investment Co. (1.46%) Jia-Qi Investment Limited (1.45%) Xing-Sen Liu (1.36%) Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds (1.33%) Mu-Chuan Lin (0.97%) Dimensional Emerging Markets Value Fund (0.82%) Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (0.79%) De-Chang Wu (0.73%)</p>
<p>Yann Yuan Investment Co., Ltd.</p>	<p>Siliconware Investment Co., Ltd (32.21%) United Microelectronics Corp. (30.87%) Unimicron Technology Corp. (16.78%) King Yuan Electronics Co., Ltd. (13.42%) Sigurd Microelectronics Corp. (6.71%)</p>

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			✓	✓	✓	✓				✓	✓	✓		-
Shan-Chieh Chien			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		-
Nan Yang Wu			✓	✓		✓	✓	✓	✓	✓	✓	✓		-
Ming-Jiunn Jou			✓			✓	✓	✓	✓	✓	✓	✓	✓	-
Wei-Min Sheng	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Feng-Shang Wu	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
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.

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 57~70 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		1	2	3	4	5	6	7	8
	Name	male/female								
Chairman	Biing-Jye Lee	male	✓	✓	✓	✓	✓	✓	✓	✓
Director	Chih-Yuan Chen	male	✓	✓	✓	✓	✓	✓	✓	✓
Director	Yin-Fu Yeh	male	✓	✓	✓	✓	✓	✓	✓	✓
Director	Shan-Chieh Chien	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.

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.	Bing-Jye Lee	Male	2009.01.01	2,764,495	0.25%	342,596	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	1,496,667	0.14%	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	267,155	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	180,918	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	218,674	0.02%	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	802,265	0.07%	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	297,012	0.03%	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 10)	178,084	0.02%	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 10)	259,000	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 10)	205,797	0.02%	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
Senior Director	R.O.C.	Li-Cheng Hung	Female	2012.01.01	110,000	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 9	None	None	None
Senior Director	R.O.C.	Wei-Shih	Male	2012.10.02	207,701	0.02%	0	0.00%	0	0.00%	Director, Information Technology Center, Epistar Corporation M.A. Institute of Electrical Engineering, University of Southern California (USC), USA Special assistant to the President office, Epistar Corporation	None	None	None	None
Senior Director	R.O.C.	Feng-Sheng Qiu	Male	2014.09.01	165,000	0.02%	213	0.00%	0	0.00%	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
Senior Director	R.O.C.	Yi-Chang Hong	Male	2016.11.24	90,459	0.01%	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

Quantity of shares held is based on the quantity of shares held actually on February 28, 2018.

Since January 1, 2018, all position title of Associate Vice President had been transferred to Senior Directors to flatten organization structure. Managers who are essentially equivalent to the "Association-level equivalents" in the articles of the Securities Trading Law shall remain the identity of insider's declaration status.

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 Chairman of GaN Ventures Co., Limited, the Chairman of GV Semiconductor Inc., 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 S.A.R.L., the Director of Jiangsu Canyang Optoelectronics Ltd., the Director of Bee Rich Corporation, the Director of Crystal Light Enterprises Group Limited, 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, cooperation above are directly or indirectly invested by Epistar.
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, and the Director of iReach Corporation, cooperation above are directly or indirectly invested by Epistar.
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 Nan Ya Photonics Inc, and the Director of GaN Ventures Co., Limited, cooperation above are directly or indirectly invested by Epistar.
6. Shih-Shieh Chang:
The Supervisor of Episky Corporation (Xiamen) Ltd., the Director of Luxlite (Shenzhen) Corporation Limited, the Director of LEDOLUX Sp. Zo. O., the Director of iReach Corporation, the Director of Play Nitride Inc., the Director of Chi Lin Optoelectronics Co., Ltd, and the Director of Luxlite (HK) Corporation Limited, cooperation above are directly or indirectly invested by Epistar.
7. Chin-Yung Fan:
The Director of Luxlite (Shenzhen) Corporation Limited, the Director of HUGA Holding (Samoa) Limited, the Director of Crystaluxxx SARM, the Director of LEDOLUX Sp. Zo. O., the Director of Jiangsu Canyang Optoelectronics Ltd., the Chairman of EPIRICH (Guangzhou) 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, cooperation above are directly or indirectly invested by Epistar.
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 Epicrystal (Hong Kong) Co., Ltd., the General Manager of Luxlite (Shenzhen) Corporation Limited and the Director of United LED Corporation Hong Kong Limited, cooperation above are directly or indirectly invested by Epistar.
9. Li-Cheng Hung:
The Chairman of EPISKY Corporation (Changzhou) Ltd., cooperation above are directly or indirectly invested by Epistar.
10. 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 2017

3.2.3.1 Remuneration Paid to Directors

Title	Name	Director Remuneration						Compensation Earned by a Director Who is an Employee of Epistar or of Epistar's Consolidated Entities						Dec. 31, 2017		NT\$ thousands ; Share K							
		Base Compensation (A)		Severance Pay and Pensions (B)		Compensation to Directors (C)		Allowances (D)		Total Remuneration (A+B+C+D) as % of 2016 Net Profit		Base Compensation, Bonuses, and Allowances (E)		Severance Pay and Pensions (F)			Employees' Profits Sharing Bonus (G)		Total Compensation (A+B+C+D+E+F+G) as a % of 2016 Net Profit				
		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	From Epistar	From All Consolidated Entities	From Epistar	From All Consolidated Entities	
																							Cash
Chairman	Biing-Jye Lee	0	0	0	0	4,630	4,630	60	60	0.28	0.28	16,485	16,485	186	186	0	0	0	0	1.29	1.29	0	0
Director	Fon Tain Belon Co., Ltd. Rep: Chih-Yuan Chen	0	0	0	0	4,630	4,630	0	0	0.28	0.28	0	0	0	0	0	0	0	0	0.28	0.28	0	0
Director	Everlight Electronics Co., Ltd. Rep: Yin-Fu Yeh	0	0	0	0	4,630	4,630	60	60	0.28	0.28	0	0	0	0	0	0	0	0	0.28	0.28	0	0
Director	United Microelectronics Corp. Rep: Po-Wen Yen (Note 1) Rep: Shan-Chieh Chien (Note 1)	0	0	0	0	4,630	4,630	0	0	0.28	0.28	0	0	0	0	0	0	0	0	0.28	0.28	0	0
Director	Yi Te Optoelectronics Co., Ltd. Rep: Nan Yang Wu	0	0	0	0	4,630	4,630	0	0	0.28	0.28	0	0	0	0	0	0	0	0	0.28	0.28	0	0
Director	Ming-Jiunn Jou	0	0	0	0	4,630	4,630	60	60	0.28	0.28	14,107	14,107	278	278	0	0	0	0	0.28	0.28	0	0
Independent Director	Wei-Min Sheng	720	720	0	0	4,630	4,630	60	60	0.33	0.33	0	0	0	0	0	0	0	0	0.33	0.33	0	0
Independent Director	Feng-Shang Wu	720	720	0	0	4,630	4,630	60	60	0.33	0.33	0	0	0	0	0	0	0	0	0.33	0.33	0	0
Independent Director	Chi-Yen Liang	720	720	0	0	4,630	4,630	60	60	0.33	0.33	0	0	0	0	0	0	0	0	0.33	0.33	0	0

Note 1: The representative was changed from Mr. Po-Wen Yen to Mr. Shan-Chieh Chien on June 27, 2017.

Note 2: 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 2017 (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 2017.

D: Professional practice expenses related to directors in 2017 (including transportation allowance, special allowance, various allowances and provision of dormitory and car).

E: Received by directors who were also employees in 2017 (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 2017, and calculation of the remuneration to be allocated this year based on the actual allocation of remuneration last year.

Net Profit: The net operating Profit after tax, NT\$1,649,913 thousand, identified in the individual financial statement 2017.

Remuneration Paid to Directors

Range of Remuneration	Name of Directors			Total of (A+B+C+D+E+F+G) From All Consolidated Entities and Non-Consolidated Affiliates
	Total of (A+B+C+D) From EPiSTAR	From All Consolidated Entities	From EPiSTAR	
NT\$0~ NT\$ 2,000,000	Chih-Yuan Chen Yin-Fu Yeh Po-Wen Yen Shan-Chieh Chien Nan Yang Wu	Chih-Yuan Chen Yin-Fu Yeh Po-Wen Yen Shan-Chieh Chien Nan Yang Wu	Chih-Yuan Chen Yin-Fu Yeh Po-Wen Yen Shan-Chieh Chien Nan Yang Wu	Chih-Yuan Chen Yin-Fu Yeh Po-Wen Yen Shan-Chieh Chien Nan Yang Wu
NT\$2,000,001 ~ NT\$5,000,000	Bing-Jye Lee Fon Tain Belon Co., Ltd. Everlight Electronics Co., Ltd. United Microelectronics Corp. Yi Te Optoelectronics Co., Ltd. Ming-Jiunn Jou	Bing-Jye Lee Fon Tain Belon Co., Ltd. Everlight Electronics Co., Ltd. United Microelectronics Corp. Yi Te Optoelectronics Co., Ltd. Ming-Jiunn Jou	Fon Tain Belon Co., Ltd. Everlight Electronics Co., Ltd. United Microelectronics Corp. Yi Te Optoelectronics Co., Ltd.	Fon Tain Belon Co., Ltd. Everlight Electronics Co., Ltd. United Microelectronics Corp. Yi Te Optoelectronics Co., Ltd.
NT\$5,000,001 ~ NT\$10,000,000	Wei-Min Sheng Feng-Shang Wu Chi-Yen Liang	Wei-Min Sheng Feng-Shang Wu Chi-Yen Liang	Wei-Min Sheng Feng-Shang Wu Chi-Yen Liang	Wei-Min Sheng Feng-Shang Wu Chi-Yen Liang
NT\$10,000,001 ~ NT\$15,000,000	None	None	None	None
NT\$15,000,001 ~ NT\$30,000,000	None	None	Bing-Jye Lee Ming-Jiunn Jou	Bing-Jye Lee Ming-Jiunn Jou
NT\$30,000,001~ NT\$50,000,000	None	None	None	None
NT\$50,000,001 ~ NT\$100,000,000	None	None	None	None
Over NT\$100,000,000	None	None	None	None
Total	14	14	14	14

3.2.3.2 Remuneration Paid to Supervisor: None.
3.2.3.3 Remuneration of General Manager and Vice President

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 2017 Net Profit (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					
								Cash	Stock (Fair Market Value)	Cash	Stock (Fair Market Value)				
Strategy officer	Bing-Lye Lee														
General Manager	Ming-Jiunn Jou														
Vice President	Jen-Chau Wu														
Vice President	Rong-Yih Hwang														
Vice President	Min-Hsueh Hsieh	35,790	37,558	2,011	2,011	49,509	49,509	0	0	0	0	5.29	5.40		6
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 2017.

B: The contributed amount.

C: Received by in 2017 (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 2017, and calculation of the remuneration to be allocated this year based on the actual allocation of remuneration last year.
Net Profit: The net operating Profit after tax, NT\$1,649,913 thousand, identified in the individual financial statement 2017.

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	None	None
NT\$5,000,001 ~ NT\$10,000,000	Jen-Chau Wu, Rong-Yih Hwang, Min-Hsun Hsieh, Shih-Shieh Chang, Chin-Yung Fan, Chen Ou, Ming-Da Jin, Lin-Tien Yang	Jen-Chau Wu, Rong-Yih Hwang, Min-Hsun Hsieh, Shih-Shieh Chang, Chin-Yung Fan, Chen Ou, Ming-Da Jin, Lin-Tien Yang
NT\$10,000,001 ~ NT\$15,000,000	Ming-Jiunn Jou	Ming-Jiunn Jou
NT\$15,000,001 ~ NT\$30,000,000	Biing-Jye Lee	Biing-Jye Lee
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

Title	Title and Name		Stock Market Value	Cash	Total Employees' Profit Sharing Bonus	Total Employees' Profit Sharing Bonus Paid to Management Team as a % of 2017 Net Profit
	Name	Title				
Strategy officer	Biing-Jye Lee	Vice President				
General Manager	Ming-Jiunn Jou	Vice President				
Vice President	Jen-Chau Wu	Vice President				
Vice President	Rong-Yih Hwang	Senior Director				
Vice President	Min-Hsun Hsieh	Senior Director	0	0	0	0.00%
Vice President	Shih-Shieh Chang	Senior Director				
Vice President	Chin-Yung Fan	Senior Director				

Dec. 31, 2017 Unit: NT\$ thousands; Shares k

Note1: Allocation of remuneration to employees approved by the board in 2017, and calculation of the remuneration to be allocated this year based on the actual allocation of remuneration last year.

Note2: Net Profit means the net operating Profit after tax, NT\$1,649,913 thousand, identified in the individual financial statement 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 & Profit.			
	2016		2017	
	From EPISTAR	From All Consolidated Entities	From EPISTAR	From All Consolidated Entities
Directors	(0.08)	(0.08)	2.69	2.69
General Manager and Vice President	(1.72)	(1.77)	5.29	5.40

Note: (1) The net operating loss after tax, NT\$3,546,045 thousand, identified in the individual financial statement 2016. (2) The net operating Profit after tax, NT\$1,649,913 thousand, identified in the individual financial statement 2017.

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 2017. 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	5	1	83.3%	
Director	Everlight Electronics Co., Ltd. Rep: Yin-Fu Yeh	3	3	50.0%	

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【B/A】	Remarks
Director	United Microelectronics Corp. Rep: Po-Wen Yen	0	2	0.0%	Discharged on June 27, 2017
Director	United Microelectronics Corp. Rep: Shan-Chieh Chien	2	2	50.0%	Re-appointed on June 27, 2017
Director	Yi Te Optoelectronics Co., Ltd. Rep: Nan Yang Wu	6	0	100.0%	
Director	Ming-Jiunn Jou	6	0	100.0%	
Independent director	Wei-Min Sheng	6	0	100.0%	
Independent director	Feng-Shang Wu	5	1	83.3%	
Independent director	Chi-Yen Liang	6	0	100.0%	

Note: [Total actual attendance rates/total attendance rates to be fulfilled] of all directors attained 83.3% in 2017.

2017 Independent Board Directors' Attendance Status:

V: In person ○: Delegate to attend

2017 Y	March 16	May 3	August 8	September 26	November 10	December 14
Wei-Min Sheng	V	V	V	V	V	V
Feng-Shang Wu	V	V	V	V	V	○
Chi-Yen Liang	V	V	V	V	V	V

Other special disclosure:

- 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
9-5 2017.03.16	To amend "Procedures for Loaning Funds to Other Parties".	None.	N/A	The motion was approved, and submitted to the general shareholders' meeting for discussion on June 21, 2017.
9-5 2017.03.16	To amend "Acquisition or Disposal Procedures of Asset".	None.	N/A	The motion was approved, and submitted to the general shareholders' meeting for discussion on June 21, 2017.

Term/___st/nd/rd/th time Date	Contents of motion	Independent director's opinion	the Company's handling of independent director's opinion	Resolution
9-5 2017.03.16	Fang-Yu Wen, CPA and Ya-Huei Cheng, CPA were replaced by Ya-Huei Cheng, CPA and Chin-Cheng Hsieh, CPA.	None.	N/A	The motion was approved.
9-5 2017.03.16	To release the Directors Po-Wen Yen and Yin-Fu Yeh from non-competition restrictions.	None.	N/A	In relation to the individual's interest conflicts, each of the directors temporarily left and avoided each other, and did not participate in the discussion and voting. The other directors had no objection to the approval and the shareholders' meeting passed the proposal on June 21, 2017.
9-6 2017.05.03	Capital injection by issuance of 165 million shares of common stocks through private placement has been terminated before the expiry date at 17 June 2017.	None.	N/A	Approved as proposed and re-proposing.
9-6 2017.05.03	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.	None.	N/A	The motion was approved, and submitted to the general shareholders' meeting for discussion on June 21, 2017. and had been terminated by the resolution of the Board of directors meeting on 15 March 2018, due to lack of qualified strategic investor can be found before the expiry date at 20 June 2017.

Term/___st/nd/rd/th time Date	Contents of motion	Independent director's opinion	the Company's handling of independent director's opinion	Resolution
9-7 2017.08.08	Evaluate the independence, eligibility, and contents of service and remuneration 2017 about appointment of Ya-Huei Cheng and Chih-Cheng.Hsieh, CPAs.	None.	N/A	As the case involved the CPA's conflict of interest, Ya-Huei Cheng and Wilson Wang, CPAs left the meeting temporarily to rescue himself from the discussion. The motion was approved ultimately.
9-7 2017.08.08	The total amount of the company's fund which lending to subsidiary Jiangsu Canyang Optoelectronics Ltd. shall not exceed US\$29 million in total (or the equivalent amount in RMB).	None.	N/A	It was approved and as per the resolution was executed.
9-7 2017.08.08	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.
9-8 2017.09.26	The Transfer of treasury shares to the manager and/or the employees as Directors.	None.	N/A	The motion which grants the Director as well as employees of Company, Biing-Jye Lee and Ming-Jiunn Jou, treasury shares was approved by seven present directors; and the transfer of treasury shares to the manager was approved by nine present directors ultimately.

(2) There were no other written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion in 2017.

2. Recusals of Directors due to conflicts of interests in 2017:

Term/___st/nd/rd/th time Date	Contents of motion	Persons recusing themselves	Status
9-5 2017.03.16	To release the Directors Po-Wen Yen and Yin-Fu Yeh from non-competition restrictions.	Two directors, including Po-Wen Yen and Yin-Fu Yeh	In relation to the individual's interest conflicts, each of the directors temporarily left and avoided each other, and did not participate in the discussion and voting. The other directors had no objection to the approval and the shareholders' meeting passed the proposal on June 21, 2017.
9-7 2017.08.08	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.
9-8 2017.09.26	The Transfer of treasury shares to the manager and/or the employees as Directors.	Two directors, including Biing-Jye Lee and Ming-Jiunn Jou	The motion which grants the Director as well as employees of Company, Biing-Jye Lee and Ming-Jiunn Jou, treasury shares was approved by seven present directors; and the transfer of treasury shares to the manager was approved by nine present directors ultimately.

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 7 (A) Audit Committee meetings were held in 2017. 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	7	0	100.0%	Chair
Independent Director	Feng-Shang Wu	6	1	85.7%	
Independent Director	Chi-Yen Liang	7	0	100.0%	

Other special disclosure:

- 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
9-5 2017.03.16	Preparation of 2016 Financial Report.	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 21, 2017.
9-5 2017.03.16	To amend "Procedures for Loaning Funds to Other Parties".	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 21, 2017.
9-5 2017.03.16	To amend "Acquisition or Disposal Procedures of Asset".	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 21, 2017.
9-5 2017.03.16	Fang-Yu Wen, CPA and Ya-Huei Cheng, CPA were replaced by Ya-Huei Cheng, CPA and Chin-Cheng Hsieh, CPA.	The motion was approved unanimously.	The motion was approved by all present directors unanimously.
9-6 2017.05.03	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, and submitted to the general shareholders' meeting for discussion on June 21, 2017. and had been terminated by the resolution of the Board of directors meeting on 15 March 2018, due to lack of qualified strategic investor can be found before the expiry date at 20 June 2017.
9-7 2017.08.08	Prepare the 2017 semi-annual Financial Report.	The motion was approved unanimously.	The motion was unanimously agreed and executed by all present directors.
9-7 2017.08.08	Evaluate the independence, eligibility, and contents of service and remuneration 2017 about appointment of Ya-Huei Cheng and Chih-Cheng.Hsieh, CPAs.	The motion was approved unanimously.	As the case involved the CPA's conflict of interest, Ya-Huei Cheng and Wilson Wang, CPAs left the meeting temporarily to rescue himself from the discussion. The motion was approved by all present directors ultimately.
9-8 2017.09.26	The transfer of treasury shares to the employees as Directors.	The motion was approved unanimously.	The motion which grants the Director as well as employees of Company, Bing-Jye Lee and Ming-Jiunn Jou, treasury shares was approved by seven present directors; and the transfer of treasury shares to the manager was approved by nine 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 2017.

2. There were no recusals of independent directors due to conflicts of interests in 2017.
3. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2017:

(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 2017 was outlined as following:

Date	Points of communication
2017.03.16	1. Internal audit report of Q4 in 2016 2. "Statement of Declaration for Internal Control System" 2016
2017.05.03	Internal audit report of Q1 in 2017
2017.08.08	Internal audit report of Q2 in 2017
2017.11.10	1. Internal audit report of Q3 in 2017 2. Audit plan in 2018

(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 2017 was outlined as following:

Date	Points of communication
2017.03.16	1. The report on the audit result of the Company's consolidated and individual financial statements and audit on internal control 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. 4. CPA responds and explains the problems of the audit committee. 5. External auditor's independence.
2017.05.03	1. The report on the audit result of the Company's consolidated financial statements and audit on internal control of Q1 in 2017. 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. CPA responds and explains the problems of the audit committee. 5. External auditor's independence.
2017.08.08	1. The report on the audit result of the Company's consolidated a financial statements and audit on internal control of Q2 in 2017. 2. Overview of the new external auditor's report and notes to key audit matter (KAM). 3. Communication with the corporate governance unit. 4. CPA responds and explains the problems of the audit committee. 5. External auditor's independence.
2017.09.26	Invite the external auditor and CPA to attend the meeting and give the suggestion.
2017.11.10	1. The report on the audit result of the Company's consolidated a financial statements and audit on internal control of Q3 in 2017. 2. Overview of the new external auditor's report and notes to key audit matter (KAM). 3. Communication with the corporate governance unit. 4. CPA responds and explains the problems of the audit committee. 5. External auditor's independence.
2017.12.14	Invite the external auditor and CPA to attend the meeting and give the suggestion.

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	
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.
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.
(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.
(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.
(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.
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 18 of the annual report.
(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.
(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

Assessment Item	Implementation Status		Non-Implementation and Its reason(s)
	YES	NO	
(4) Does the Company regularly evaluate its external auditors' independence?	✓		<p>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.</p> <p>The motion for evaluation on the independence, eligibility, and contents of service and remuneration 2017 about appointment of Ya-Huei Cheng and Chih-Cheng Hsieh, CPAs conducted by the Company once a year was approved upon resolution of the Audit Committee and board of directors on August 8, 2017.</p> <p>The evaluation procedure for independence and eligibility is summarized as following:</p> <ol style="list-style-type: none"> 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. <p>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.</p> <p>The Company has set up the regular unit or personnel to be in charge of the matters related to corporate governance, and appoint the executives (financial and accounting director Shih-Shieh Chang) for supervision. The matters of 2017 related to corporate governance including and follow the relevant regulations:</p> <ol style="list-style-type: none"> 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. 7. Provide irregular training information from time to time.
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.	✓		None

Assessment Item	Implementation Status		Non-Implementation and Its reason(s)
	YES	NO	
			To assist in reminding directors when they execute the business or approving a formal resolution during Board of Directors meeting, they should comply with the laws and regulations and related suggestions. Responsible for reviewing the important information releasing issues over vital resolutions of the board of directors meeting and ensure the lawfulness and correctness of the published contents in a timely manner after the board of directors meeting to protect investors' right on equivalence of transaction information.
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
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.
7. Information Disclosure (1) Has the Company established a corporate website to disclose information regarding its financials, business and corporate governance status? (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'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. <ul style="list-style-type: none"> ● 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
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)?	✓		<ul style="list-style-type: none"> ● Employee's interest and right & care for employees: Please see the section about management-labor relationship in the annual report (Pages 91 ~96). ● 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. ● Suppliers and contractors are important partners for the company's sustainable development. Through a win-win and mutually-beneficial cooperation approach, the company pursues an environment for sustainable development and growth. Locally procurement by the company refers to the procurement proportion from manufacturers or contractors which is/are established pursuant to the decrees of Taiwan authority. According to product attributes, the proportion of locally procurement is non-mandatory. There are around 471 suppliers and contractors maintain a stable relationship with the company, by the procurement policy, the company chooses local manufacturers to support the stability development of local economy. In 2017, the purchased amount from local raw material suppliers was approximately 71%, the procurement amount from local construction contractors was approximately 19%, the proportion of local purchasing gradually increased on yearly basis.

Assessment Item	Implementation Status		Non-Implementation and Its reason(s)
	YES	NO	
		<p>Explanation</p> <ul style="list-style-type: none"> ● The Company has established the stakeholder section. For the time being, the Company identifies 6 major stakeholders, including employees, shareholders/investors/bank, corporate accounts, contractors/suppliers, governmental authorities, Outsourcers, 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 51 ~52 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 109~110). ● 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 51 ~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
		<p>9. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange:</p> <p>(1) According to the result of Corporate Governance Evaluation of the 3rd 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 4th term has not yet been announced before the date of publication of the annual report.</p> <p>(2) The Company has delegated the unit dedicated to corporate governance under supervision of the financial and accounting supervisor -Shih-Shieh Chang. The relevant personnel shall have the experience in legal affairs, finance or shareholder service in a public company for 3 years or more.</p> <p>(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 2017.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p>	

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	✓			✓	✓	✓	✓	✓	✓	✓	✓	0
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 2017. 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	1	75.0%	
Member	Wei-Min Sheng	4	0	100.0%	
Member	Chi-Yen Liang	4	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 2017.
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		
<p>1. Implementation of Corporate Governance</p> <p>(1) Does the Company have a corporate social responsibility policy and evaluate its implementation?</p>	✓		<p>(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, reporting to the Board of Directors by reviewing both the effectiveness of business operation and the budget which approved by the Board of Directors together with the goal settled for the project; the convener agree to unfold the project after the amendment of it at the first meeting of the next year.</p>	None
<p>(2) Does the Company hold regular CSR training?</p>	✓		<p>(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.</p>	None

Assessment Item	Implementation Status		Non-implementation and Its Reason(s)
	YES	NO	
(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 every year and held complying with GRI G3.1 A+ and AA1000AS 2008 standards, and awarded "Taiwan Corporate Sustainability Awards" related to CSR. The 2017 CSR is scheduled to be released by the end of June 2018.	None
	✓	(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. We are committed to improving the energy efficiency both in factories and in offices through specific energy-saving measures such as energy-saving lighting, air-pressure equipment, air-conditioning equipment and power equipment to reduce operating costs and environmental impact. We also support the products and services inherent energy efficiency through procurement of improved energy performance designs, and implements energy management to continuously improve energy efficiency.	None

Assessment Item	Implementation Status		Non-implementation and Its Reason(s)
	YES	NO	
(2) Has the Company set an Environmental management system designed to industry characteristics?	✓		<p>(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 verification by association organization level (from 2006 to 2017), 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.</p> <p>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.</p>
(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?	✓		<p>(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.</p>

Assessment Item	Implementation Status		Non-implementation and Its Reason(s)
	YES	NO	
		<p>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 2017 EPSTAR environmental protection performance baseline to discuss the descriptions about impact to environment by factory and draft the management programs to keep improving.</p> <p>The Company's countermeasures:</p> <ul style="list-style-type: none"> ● In respect of environmental protection expenditures: In 2017, due to the reconstruction of N3 plant from fire damage, the wastewater and air pollution control equipment was rebuilt. ● Prevention of flood and increase recycled water volume. ● In 2017, the proportion of recycled water in total water consumption reached 33.5%. ● 2017 Greenhouse Gas: The intensity of greenhouse gas emissions decreased by 20.8% compared to 2012. The total GHG emissions in 2017 increased by 17.2% compared to the total emissions in 2012. The increase in total emissions was caused by the increase in plant area and production capacity. ● The water usage strength in 2016 declined by 54% from 2011. ● In the aspect of pollution prevention and control in 2017: The sewage discharge intensity decreased by 51% compared with 2012; the volume of unit production waste in 2017 increased by 29.1% compared with 2012; however, it decreased by 26.2% compared with 2016. ● Green products: 100% compliance with RoHS and REACH SVHC; acquisition of IECQ QC080000 certification and ISO 14001; acquisition of SONY GP certification. 	

Assessment Item	Implementation Status		Non-implementation and Its Reason(s)
	YES	NO	
<p>3. Promotion of Social Welfare</p> <p>(1) Does the Company set policies and procedures in compliance with regulations and internationally recognized human rights principles?</p> <p>(2) Has the Company established appropriately managed employee appeal procedures?</p> <p>(3) Does the Company provide employees with a safe and healthy working environment, with regular safety and health training?</p> <p>(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?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>	<p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p>	<p>None</p> <p>None</p> <p>None</p> <p>None</p>

Assessment Item	Implementation Status		Non-implementation and Its Reason(s)
	YES	NO	
(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.
(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.
(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.
(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.
(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.
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 .

Assessment Item	Implementation Status		Non-implementation and Its Reason(s)
	YES	NO	
<p>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.</p> <p>Since the establishment of EPISTAR, our core business is to Actualize LED Potential. We continue to advance our research and develop new products, focusing on environmentally friendly products and optimizing chip process technology, allowing our LED to be applicable in various applications.</p> <p>【Economic】</p> <p>Although 2017 revenue decreased by 1% from 2016 revenue, with great effort from our entire workforce we increased added value to our products and adjusted product portfolio, which enabled great increase in 2017 gross margin. After integration of our corporate resources in 2016, we were able to centralize our production and reduce costs. We believe this will improve and enhance our performance. Overall operational activities are closely related to parties of interest, which sustainable development greatly depends upon. Parties of interest can effectively communicate with us through various channels of communications.</p> <p>【Corporate Governance】</p> <p>EPISTAR advocates and acts upon the principles of operational transparency and respect for shareholder rights. We believe that one basis for successful corporate governance is a sound and effective Board of Directors. In line with this principle, the EPISTAR Board delegates various responsibilities and authority to two Board Committees, Audit Committee and Compensation Committee. Each Committee has a written charter approved by the Board. Each Committee’s chairperson regularly reports to the Board on the activities and actions of the relevant committee. The Audit Committee and Compensation Committee consist solely of independent directors.</p> <p>【Environment】</p> <p>EPISTAR is the leading manufacturer of LED chips; therefore we regard the environmental protection issue very seriously. Our energy consumption, raw material usage, water resource, greenhouse gas and many more all follow the P-D-C-A (Plan-Do-Check-Action) management mode and we continuously implement and improve environment protection programs. Energy conservations through lighting, air pressure and air conditioning and electric equipment all contribute to lower operating costs and in turn lowers impact on the environment. We hope that through energy conservation and process improvement, we can effectively lower our raw material and energy consumption, increase energy efficiency and in turn create a sustainable corporate environment and protect the earth for our future generations.</p> <p>Approved by the Board, we have allocated yearly budget and in 2017 our expenditure was NTD1.5 billion.</p> <p>【Society】</p> <p>EPISTAR provides competitive income, benefits, training, and planning for our employee’s career development. We held many activities which promotes family relationships, exercise and health, and continuously to find balance between work and living, allowing our employees to be “happy at work, enjoy living”. EPISTAR volunteer activities in 2017 include cleaning up the beach, “sharing books sharing love” activity which donates books to children, as well as other activities which help children in need.</p>			
<p>6. Other important information to facilitate better understanding of the company’s implementation of corporate social responsibility:</p> <p>The Company’s social participation is briefed as follows:</p> <ul style="list-style-type: none"> ● We were invited to participate in Hsinchu Science Park Bureau Occupational safety & health expert team—man-made hazard preventive consultation, and worked as leader and consultant in 2017. We helped & consulted 3 companies, and 8 sessions in total. ● As a social citizen, we give back to the society and care for the community. We’ve participated in charitable events in low-profile including charitable donation of NT\$0.98 million, 1,300 copies of book, 500 Xmas gifts for children in rural areas, and Epistar volunteer club activities record. 			

Assessment Item	Implementation Status		Non-implementation and Its Reason(s)
	YES	NO	
<p>7. Other information regarding “Corporate Responsibility Report” which is verified by certifying bodies:</p> <ul style="list-style-type: none"> ● The Company 2016 Corporate Social Responsibility Report was verified by the British Standards Institution (BSI) and an independent assurance statement of opinion was issued. ● Obtained 2017 TSCA Taiwan Corporate Sustainability Report Silver Award of Electronic Information Manufacturing Group. ● Obtained the 2017 BSI Sustainability Award. ● The Company acquires the following quality system certification and continues maintaining the same: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 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	
<p>1. Establishment of Corporate Conduct and Ethics Policy and Implementation Measures</p> <p>(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?</p> <p>(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?</p>	✓		<p>(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.</p> <p>(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.</p>
<p>(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?</p>	✓		<p>(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).</p>
<p>2. Ethic Management Practice</p> <p>(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?</p>	✓		<p>(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.</p>

Assessment Item	Implementation Status		Non-implementation and Its Reason(s)
	YES	NO	
(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, at the end of the year, it reported to the board of directors on the effectiveness of business operation activity and budget execution which approved by the board of directors together with the settled project goal. The general manager also assigned the relevant units from time to time to assist in the formulation of the business integrity policy and prevention plan and discloses the implementation at CSR report and company official website.
(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.
(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.
(5) Does the company provide internal and external ethical conduct training programs on a regular basis?	✓		(5) Epistar will have a complete plan for employee development, we have a training roadmap according to each functional skill and position, and the employees can study through eLearning or participate in the internal training courses or register for external training courses through the training system. All employees could check detailed training records by themselves in the system.
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 complainants' safety must be secured. The process shall also be

Assessment Item	Implementation Status		Non-implementation and Its Reason(s)
	YES	NO	
<p>(2) Does the company establish standard operation procedures for investigating the complaints received and ensuring such complaints are handled in a confidential manner?</p> <p>(3) Does the company adopt proper measures to prevent a complainant from retaliation for his/her filing a complaint?</p>	<p>✓</p> <p>✓</p>		<p>reported to the Chairman of Board.</p> <p>(1.1) Immediate supervisor</p> <p>(1.2) Audit dept. supervisor, Human Resources Center/Employee Relations department supervisor or legal office & intellectual property right supervisor</p> <p>(1.3) The opinion response mechanism set up by the Company internally</p> <p>(1.4) The channel available to stakeholders</p> <p>(1.5) or other eligible personnel</p> <p>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.</p> <p>(2) Employee complaint and reporting shall abide by the relevant internal control system, kept in confidentiality and subject to the relevant protection mechanism.</p> <p>(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.</p>

Assessment Item	Implementation Status		Non-implementation and Its Reason(s)
	YES	NO	
<p>4. Information Disclosure</p> <p>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")?</p> <p>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.</p> <p>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.</p>	✓		<p>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.</p> <p>None</p>

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

Major Internal Policies	Expose & Query Method
<ul style="list-style-type: none"> ● 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 	<p>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.</p>

3.3.8 About the other information of EPISTAR's implementation of corporate governance
3.3.8.1 Continuing Education/Training of Directors in 2017

Title	Name	Date	Host by	Training Title	Duration
Chairman	Bing-Jye Lee	2017.08.25	Taiwan Corporate Governance Association	Mergers and Acquisitions Act	3.0
Chairman	Bing-Jye Lee	2017.11.21	Taiwan Corporate Governance Association	Global Trend Analysis - Risks and Opportunities	3.0
Director	Ming-Jiunn Jou	2017.09.28	Taiwan Stock Exchange Corporation	2017 Mr. Y. D. Sheu Memorial Economic and Financial Forum	6.0
Director	Yin-Fu Yeh	2017.08.10	Taiwan Corporate Governance Association	Director's fiduciary duties and Criteria of business judgment	3.0
Director	Yin-Fu Yeh	2017.11.14	Securities & Futures Institute	How to solve White Collar Crime	3.0
Director	Chih-Yuan Chen	2017.02.15	Taiwan Institute of Directors	The Change and Challenges for the business management in the rising innovation economy	3.0
Director	Chih-Yuan Chen	2017.03.28	Taiwan Institute of Directors	The thinking and challenge of the industry in the online economy	3.0
Director	Chih-Yuan Chen	2017.11.17	Taiwan Institute of Directors	The 6 th Annual Chinese Family Business Forum	3.0
Director	Nan Yang Wu	2017.05.05	Taiwan Corporate Governance Association	What does the court say? What is the clear message of insider trading?	3.0
Director	Nan Yang Wu	2017.08.01	Securities & Futures Institute	The compliance propaganda seminar for the law of insider equity transaction	3.0
Director	Po-Wen Yen (2017.06.27 conge)	2017.04.21	Securities & Futures Institute	2017 Insider trading and CSR Forum	3.0
Director	Shan-Chieh Chien (2017.06.27 new appointment)	2017.09.28	Taiwan Stock Exchange Corporation	2017 Mr. Y. D. Sheu Memorial Economic and Financial Forum	6.0
Independent Director	Feng-Shang Wu	2017.10.25	Taiwan Corporate Governance Association	The 13 th Annual International Corporate Governance Forum	3.0
Independent Director	Feng-Shang Wu	2017.11.17	Securities & Futures Institute	2017 Insider trading and CSR Forum	3.0
Independent Director	Wei-Min Sheng	2017.08.11	Securities & Futures Institute	How to effectively protect Trade secret	3.0

Title	Name	Date	Host by	Training Title	Duration
Independent Director	Wei-Min Sheng	2017.11.02	Securities & Futures Institute	2017 Taiwan M&A Case Sharing	3.0
Independent Director	Chi-Yen Liang	2017.07.07	Securities & Futures Institute	The compliance propaganda seminar for the law of insider equity transaction	3.0
Independent Director	Chi-Yen Liang	2017.07.13	Securities & Futures Institute	Civil liability of insiders under corporate governance and securities transaction law	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 2017

Title	Name	Date	Host by	Training Title	Duration
Accounting Officer	Shih-Shieh Chang	2017.12.07 ~ 2017.12.08	Accounting Research and Development Foundation	Analysis of the New IFRS Criteria Related to the Policy of the Competent Authority to Adopt the Approval System of the Numbered Bulletin Since 2017	3.0
Accounting Officer	Shih-Shieh Chang	2017.12.07 ~ 2017.12.08	Accounting Research and Development Foundation	The Impact of New Type "Financial Statement auditing Report" on Enterprises and Their Responses	3.0
Accounting Officer	Shih-Shieh Chang	2017.12.07 ~ 2017.12.08	Accounting Research and Development Foundation	Major Changes in Economic and Tax Policies in the New Trumps Government of the United States and Taiwanese Business Solutions	3.0
Accounting Officer	Shih-Shieh Chang	2017.12.07 ~ 2017.12.08	Accounting Research and Development Foundation	Analysis of the Status Quo of the Recent Practices and Legal Responsibility of the Supervision of Securities Transactions between the United States and China	3.0
Acting Accounting Officer	Tao-jung Lin	2018.01.25 ~ 2018.01.26	Accounting Research and Development Foundation	the Continuing Education Course for the Accounting Supervisor from Issuer or Securities Dealer	12.0
Internal Audit Officer	Tzu-Hsiang Tai	2017.09.15	Accounting Research and Development Foundation	The Practice Seminar on well preparation for Internal Auditors "Computer Auditing" [Procurement and Payment Cycle]	6.0
Internal Audit Officer	Tzu-Hsiang Tai	2017.09.25	The Institute of Internal Auditors-Chinese Taiwan	Business Secret Law and Competition Prohibition Case Analysis	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	Insurance Company of North America, Taiwan Branch	US\$15,000,000	August 25, 2016 ~ August 25, 2017
All Directors	Insurance Company of North America, Taiwan Branch	US\$15,000,000	August 25, 2017 ~ August 25, 2018

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 10, 2017.

3.3.9 Internal Control System Execution Status

3.3.9.1 Statement of Internal Control System: As Appendix 1.1 (pages 131).

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 2016 Business Report and Financial Statements.

The Group's consolidated operating revenue was NT\$25,539,163 thousand, net operating loss NT\$1,255,776 thousand, and losses after tax of NT\$4,012,752 thousand in 2016. The loss was NT\$3.33 per share.

(2) Approved 2016 Deficit Compensation.

The Company's individual loss after tax was NT\$3,546,045 thousand in 2016, which was covered by the undistributed earnings for the previous years, NT\$1,017 thousand, the legal reserve, NT\$241,513 thousand, and additional paid-in capital, NT\$3,303,515 thousand. After that, the accumulated loss-ending was NT\$0.

(3) 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.

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.

(4) Approved the amendments to "Procedures for Loaning Funds to Other Parties" .

The resolution shall be fully implemented and the revised regulation shall be uploaded to the company's official website and M.O.P.S..

(5) Approved the amendments to "Acquisition or Disposal Procedures of Asset".

The resolution shall be fully implemented and the revised regulation shall be uploaded to the company's official website and M.O.P.S..

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

Name	Positions in Other Companies	Engage business
Po-Wen Yen (United Microelectronics Corp. Rep)	The director and CEO of UMC	IC OEM/ODM/Foundry
Yin-Fu Yeh (Everlight Electronics Co., Ltd.)	The Chairman & General Manager of Everlight Electronics Co., Ltd	Light-emitting & Sensor Components, LED Product Manufacturing & Sales
	The Chairman & General Manager of Tekcore Co., Ltd.	GaN LED Chips/Dies Manufacturing & Sales
	The Chairman & General Manager of Evervision Electronics Co., Ltd.,	LED Display, Reticle/Mask Manufacturing, and LED Backend OEM Services
	The director of Everlight Americas, Inc.	LED Component Sales

3.3.11.2 Board meetings

Date	Major Resolutions	Review on status
2017.03.16	<ol style="list-style-type: none"> (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.
2017.05.03	<ol style="list-style-type: none"> (1) Approved 2017 financial report of Q1. (2) Resolved to discontinue the motion for issuance of common shares in private placement approved at the general shareholders’ meeting 2016. (3) 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. (4) Approved the application for endorsement of facility granted by bank to the subsidiary. (5) Approved the application with financial organization for renewal of the facility. (6) Approved the competition engaged in by the Company’s managerial officers. 	The Private equity issuance of common stock had been approved by shareholders meeting of 2016, it is re-proposed during shareholders meeting of 2017 due to the absence of proper strategic investor; 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 per resolution.

Date	Major Resolutions	Review on status
2017.08.08	<ol style="list-style-type: none"> (1) Approved 2017 financial report of Q2. (2) Approved the evaluation on independence, eligibility, and contents of service and remuneration 2017 about appointment of the CPAs, Ya-Huei Cheng and Chin-Cheng Hsieh. (3) To approve to increasing the investment amount of subsidiaries in the Mainland China. (4) Set up a new company through investment. (5) Approved the application for endorsement of facility granted by bank to the subsidiary. (6) Approved the total amount of the company's fund which lending to subsidiary Jiangsu Canyang Optoelectronics Ltd. shall not exceed US\$29 million in total (or the equivalent amount in RMB). (7) Approved the application with financial organization for renewal of the facility. (8) Approved the amendments to " Audit Committee Charter " and " Rules for the Procedures of the Board of Directors' Meeting ". (9) Approved the competition engaged in by the Company's managerial officers. (10) Approved the motion for remuneration to the Company's directors. 	<p>To obtain the authorization from the board of directors to assess the newly added capital increase of subsidiaries in mainland China; iReach Corporation was registered in Taiwan, mainly engaged in design, manufacture and sales of semiconductor light emitting device, package and module. 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 per resolution.</p>
2017.09.26	<ol style="list-style-type: none"> (1) To approve the Transfer of treasury shares to the manager and/or the employees as Directors. 	<p>20,000,000 treasury shares have been transferred to employees in two batches.</p>
2017.11.10	<ol style="list-style-type: none"> (1) Report on renewal of directors'/supervisors' liability insurance. (2) Approved 2017 financial report of Q3. (3) To approve the base date for the shares reduction which shares are from the dissenting shareholders through the acquisition of the Formosa Epitaxy Incorporation shares conversion. (4) Approved the amendments to " Rules Governing the Scope of Powers of Independent Directors" and " Articles of Association of Special Committee on Mergers and Acquisitions ". (5) Approved the audit plan 2018. (6) Approved the application with financial organization for renewal of facility and the facility for trading of financial derivatives. 	<p>The base date of capital reduction was set on November 10, 2017 to process the cancellation of buying back shares from dissenting shareholders then to process capital reduction; The other matters were executed per resolution.</p>
2017.12.14	<ol style="list-style-type: none"> (1) Approved 2018 business plan and budget. (2) To approve to increasing the investment amount of subsidiaries "Jiangsu Canyang Optoelectronics Ltd." in the Mainland China. (3) Approved the application with financial organization for renewal of the facility. (4) To approve the re-organization through adjustment of manager's title level and rank. (5) Approved the motion for managerial officers' raise 2018. 	<p>To Increase the investment of US\$32 million to Jiangsu Canyang Optoelectronics Ltd., as of the cutting off date of the annual report publication, it has not yet obtained the permission of the specific project from the audit committee; the rest topics will be executed followed by resolution.</p>

Date	Major Resolutions	Review on status
2018.03.15	<ol style="list-style-type: none"> (1) Approved the motion for remuneration to the Company's directors and employees 2017. (2) Approved 2017 financial report and business report. (3) Approved 2017 Resolution on dividend distribution. (4) Resolved to discontinue the motion for issuance of common shares in private placement approved at the general shareholders' meeting 2017. (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 2018. (7) Approved the Statement of Declaration for Internal Control System 2017. (8) Approved the competition engaged in by the Company's managerial officers. (9) Approved the application for endorsement of facility granted by bank to the subsidiary. (10) Approved the application with financial organization for renewal of the facility. (11) Approved to obtain the inventory and fixed assets of 100% owned subsidiary Zheng-Yi Technology Corporation. (12) Approved to dispose the shares of re-investment company Evertop (Fujian) optoelectronics Co., Ltd. (13) Approved to dispose the shares of re-investment company Tops Electrical Technology Co., Ltd. (14) Approved the Company sell Longtan and Pingjhen plant buildings. (15) Approved the motion for remuneration ratio to the Company's directors and employees 2018. (16) Approved managerial officers' raise 2018. 	<p>It is resolved that to propose in the next board of directors' meeting that cash dividend will be paid to shareholders from capital reserve of the company; the Longtan Factory and the Pingzhen Factory will be authorized to Chairman to process subject to appropriate buyers; as to appurtenant equipment will be conducting the impairment of assets in the future depends on the sale-out situation. It is authorized to Chairman for selling the shares of Evertop (Fujian) optoelectronics Co., Ltd and Tops Electrical Technology Co., Ltd. in the proposal of processing shares of re-investment company. In 2018, the proportion of directors' compensation and employee compensation was maintained at 2% and 15%, respectively ; 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, 2018.</p>

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 2017 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 2017 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	Cheng Ya-Huei and Chih-Cheng Hsieh	13,670	0	40	0	5,389	5,429	2017.01.01~2017.12.31

Note 1: Major expenses are the service charge of NT3.22 million from CbC reporting and taxation regulation consulting, NT180 thousands for the service charge of Dual-Status Business Entities and NT1.989 million of finance and taxation service charges.

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) thereof shall be disclosed.: NA

3.5 Replacement of CPA

3.5.1 Regarding the former CPA

Replacement Date	March 16, 2017		
Replacement reasons and explanations	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.		
Describe whether the Company terminated or the CPA did not accept the appointment	Parties		CPA
	Status		The Company
	Termination of appointment		NA
	No longer accepted (continued) appointment		NA
Other issues (except for unqualified issues) in the audit reports within the last two years	None		
Differences with the company	Yes		Accounting principles or practices
			Disclosure of Financial Statements
			Audit scope or steps
			Others
	None	✓	
	Remarks/specify details: None		
Other Revealed Matters	None		

3.5.2 Regarding the former CPA

Name of accounting firm	PricewaterhouseCoopers, Taiwan
Name of CPA	CPA Ya-Huei Cheng 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	2017		January 1, 2018 ~ February 28, 2018	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman & CSO	Biing-Jye Lee	440,000	0	620,000	0
Director	Fon Tain Belon Co., Ltd.	0	0	0	0
	Rep: Chih-Yuan Chen	0	0	0	0
Director	Everlight Electronics Co., Ltd.	(9,800,000)	0	0	0
	Rep: Yin-Fu Yeh	0	0	0	0
Director	United Microelectronics Corp.	0	0	0	0
	Rep: Po-Wen Yen (Note 2)	0	0	NA	NA
	Rep: Shan-Chieh Chien (Note 3)	0	0	0	0
Director	Yi Te Optoelectronics Co., Ltd.	0	0	0	0
	Rep: Nan Yang Wu	0	0	0	0
Director & General Manager	Ming-Jiunn Jou	280,000	0	350,000	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	1,000	0	126,000	0
Vice President	Jen-Chau Wu	(159,000)	0	160,000	0
Vice President	Rong-Yih Hwang	(54,000)	0	(30,000)	0
Vice President & CFO	Shih-Shieh Chang	90,000	0	220,000	0
Vice President	Chen Ou	(37,000)	0	172,600	0
Vice President	Ming-Da Jin	49,053	0	39,000	0
Vice President	Lin-Tien Yang	80,000	0	125,000	0
Vice President	Chin-Yung Fan	56,000	0	55,000	0
Senior Director	Li-Cheng Hung	(69,054)	0	110,000	0
Senior Director	Wei-Shih	30,000	0	135,000	0
Senior Director	Feng-Sheng Qiu	80,000	0	80,000	0
Senior Director	Yi-Chang Hong	(44,000)	0	90,000	0
Senior Director (Note 5)	Tao-jung Lin	(221,160)	0	NA	NA
Senior Director (Note 5)	Hsiu-Jen Liu	0	0	NA	NA
Senior Director (Note 5)	Han-brown Lai	(33,000)	0	NA	NA
Senior Director (Note 5)	Shu-Li Tuan	45,000	0	NA	NA
Senior Director (Note 5)	Zhi-Jiang Lu	33,000	0	NA	NA
Senior Director (Note 5)	Wen-Chieh Kuo	0	0	NA	NA
Senior Director (Note 5)	Biau-Dar Chen	30,000	0	NA	NA
Senior Director (Note 5)	Ben-Yu Liao	0	0	NA	NA
Senior Director (Note 5)	Shaoyou Deng	692	0	NA	NA
Senior Director (Note 5)	Hsien-Chun Weng	(28,000)	0	NA	NA
Senior Director (Note 5)	Chia-Chen Chang	(108,185)	0	NA	NA
Senior Director (Note 5)	Jia-Liang Xu	12,210	0	NA	NA
Senior Director & Internal Audit Officer (Note 5)	Tzu-Hsiang Tai	(43,000)	0	NA	NA
Senior Director (Note 5)	Guo-Xin Hong	65,000	0	NA	NA
Senior Director (Note 5)	Yu-Pin Hsu	(1,000)	0	NA	NA
Senior Director (Note 5)	Cheng-Chi Chiang	(206)	0	NA	NA
Senior Director (Note 5)	Jian-Feng Chen	(9,000)	0	NA	NA
Senior Director (Note 5)	Wei-Kuo Su	(10,000)	0	NA	NA
Senior Director (Note 5)	Sun-Jie Wang	45,000	0	NA	NA
Senior Director (Note 5)	Shen-Gjie Xu	0	0	NA	NA
Senior Director (Note 5)	Jun-Long Zeng (Note 4)	(18,985)	0	NA	NA
Senior Director (Note 5)	Zheng-Da Cai (Note 4)	90,000	0	NA	NA

Note 1: The information about the change of equity disclosed until the time of discharge.

Note 2: Discharged on June 27, 2017.

Note 3: Re-elected and discharged on June 27, 2017.

Note 4: Initially appointed on March 16, 2017, and expressed the change in equity from the date of inauguration.

Note 5: Since January 1, 2018, all position title of Associate Vice President had been transferred to Senior Directors to flatten organization structure. Managers who are essentially equivalent to the “Association-level equivalents” in the articles of the Securities Trading Law shall remain the identity of insider’s declaration status.

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

	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	Nan Shan Life Insurance Co., Ltd.	38,140,000	3.49%	NA	NA	NA	NA	None	None
	Chairman: Ying-Zong Du	0	0.00%	0	0.00%	0	0.00%	None	None
2	San’an Optoelectronics Co., Ltd.	33,305,578	3.05%	NA	NA	NA	NA	None	None
	Chairman: Xiu-Cheng Lin	0	0.00%	0	0.00%	0	0.00%	None	None
3	Hsin Feng Corp.	20,289,213	1.86%	NA	NA	NA	NA	None	None
	Chairman: De-Ming Lin	555	0.00%	0	0.00%	0	0.00%	None	None
4	Everlight Electronics Co., Ltd.	19,800,175	1.81%	NA	NA	NA	NA	None	None
	Rep & Chairman: Yin-Fu Yeh	0	0.00%	34,311	0.00%	0	0.00%	None	None
5	Public service pension fund Management Committee	18,781,169	1.72%	NA	NA	NA	NA	None	None
6	Evervaliant Corp.	17,546,925	1.61%	NA	NA	NA	NA	None	None
	Chairman: Qing- zhi Chen	0	0.00%	0	0.00%	0	0.00%	None	None
7	Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds	17,236,732	1.58%	NA	NA	NA	NA	None	None
8	Tai Li Corp.	15,737,487	1.44%	NA	NA	NA	NA	None	None
	Chairman: Hon-Gji Luo	0	0.00%	0	0.00%	0	0.00%	None	None
9	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.-Equity Trading Division (Proprietary Trading Desk)	14,314,000	1.31%	NA	NA	NA	NA	None	None
10	Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	12,412,760	1.14%	NA	NA	NA	NA	None	None

Note 1: 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 23, 2017).

Note 2: On December 6, 2017, the Ministry of Economic Affairs Investment Committee was granted a letter of investigation No. 1062071930 that the shares hold by San’an Optoelectronics Co., Ltd. has been fully transferred out.

3.9 Ownership of Shares in Affiliated Enterprises

As of December 31, 2017

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 (Note2)	7,189,668	51.99	6,638,461	48.01	13,828,129	100.00
GaN Ventures Co., Limited	10,800,000	55.96	1,500,000	7.77	12,300,000	63.73
SH Optotech Co., Ltd.	3,179,176	49.00	0	0.00	3,179,176	49.00
Tops Electrical Technology Co., Ltd.	1,200,000	47.06	0	0.00	1,200,000	47.06
Nan Ya Photonics Inc.	18,239,448	40.80	1,570,534	3.51	19,809,982	44.31
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	6,162,234	12.94	14,162,234	29.75
Play Nitride Inc.	2,612,500	14.08	1,378,541	7.43	3,991,041	21.51

Note1: EPISTAR's long-term investment using the equity method.

Note2: The net value of shareholder equity of the investee company is negative, it is re-classified as other non-current liabilities.

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)
11/2017	10	1,300,000	13,000,000	1,088,701	10,887,014	Capital reduction for cancellation of treasury shares	None	2

Note 1: Said information refers to that available until the date of publication, March 15, 2018.

Note 2: Chu-Shang-Tze No. 1060032105 dated November 29, 2018.

Unit: Share

Type of Stock	Authorized Share Capital (Listed Stock)		
	Outstanding shares(Note)	Unissued Shares	Total
Common Stock	1,088,701,410	211,298,590	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 2,564,755 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	5	69	185	367	109,832	110,458
Shareholding	35,823,169	92,043,459	154,881,276	270,370,994	538,430,292	1,091,549,190
Holding Percentage (%)	3.28	8.43	14.19	24.77	49.33	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 23, 2017).

4.1.3 Distribution Profile of Share Ownership

4.1.3.1 Common Share

Per Share Issue Price is NT\$10

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership	Ownership (%)
1~999	39,797	8,590,259	0.79
1,000~5,000	52,069	112,607,469	10.32
5,001~10,000	9,420	74,295,991	6.81
10,001~15,000	2,753	35,206,689	3.23
15,001~20,000	1,997	37,271,559	3.41
20,001~30,000	1,563	40,499,966	3.71
30,001~50,000	1,190	47,352,288	4.34
50,001~100,000	895	65,094,759	5.96
100,001~200,000	383	55,082,644	5.04
200,001~400,000	185	52,755,552	4.83

Per Share Issue Price is NT\$10

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership	Ownership (%)
400,001~600,000	50	24,097,945	2.21
600,001~800,000	25	17,581,122	1.61
800,001~1,000,000	30	27,084,766	2.48
Over 1,000,001	101	494,028,181	45.26
Total	110,458	1,091,549,190	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 23, 2017).

4.1.3.2 Preferred Share: None.

4.1.4 Major Shareholders

Unit: share

Shareholders	Total Shares Owned	Ownership (%)
Nan Shan Life Insurance Co., Ltd.	38,140,000	3.49
San'an Optoelectronics Co., Ltd. (Note 2)	33,305,578	3.05
Hsin Feng Corp.	20,289,213	1.86
Everlight Electronics Co., Ltd.	19,800,175	1.81
Public service pension fund Management Committee	18,781,169	1.72
Evervaliant Corp.	17,546,925	1.61
Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds	17,236,732	1.58
Tai Li Corp.	15,737,487	1.44
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.-Equity Trading Division (Proprietary Trading Desk)	14,314,000	1.31
Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	12,412,760	1.14

Note 1: 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 23, 2017). It will be posted to the official website of the company after the date of stop transfer for shareholders at 23 April 2018.

Note 2: On December 6, 2017, the Ministry of Economic Affairs Investment Committee was granted a letter of investigation No. 1062071930 that the shares hold by San'an Optoelectronics Co., Ltd. has been fully transferred out.

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

Unit: NTD

Item	Year				
	2016	2017	01/01/2018 ~03/15/2018		
Market Price Per Share	Highest Market Price	30.40	67.30	57.60	
	Lowest Market Price	16.80	23.00	42.90	
	Average Market Price	24.01	40.70	51.52	
Net Worth Per Share	Before Distribution	46.22	47.76	Note 4	
	After Distribution	46.22	not allocated yet	Note 4	
Earnings Per Share	Weighted Average Shares (thousand shares)	1,064,989	1,067,492	Note 4	
	EPS	(3.33)	1.55	Note 4	
Dividends Per Share	Cash Dividends	0	(Note 5) 0.6881559	—	
	Stock Dividends	Share Dividend	0	0	—
		Capital Surplus stock dividend	0	0	—
	Accumulated Undistributed Dividend	0	0	—	

Unit: NTD

Item	Year	2016	2017	01/01/2018 ~03/15/2018
	Return on Investment	Price/Earnings Ratio (Note 1)	(7.21)	26.26
Price/Dividend Ratio (Note 2)		—	59.14	—
Cash Dividend Yield (%)(Note 3)		—	1.69	—

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: As of the publication date of the annual report, the financial report for the first quarter of 2018 has not yet been completed, so it does not apply.

Note 5: (1) The proposed number of the board of directors will be finalized after the resolution of the shareholders' meeting in 2018.

(2) On March 15, 2018, the board of directors motioned a resolution to add a capital reserve cash dividend of NT\$0.1118441 to the next board proposal.

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
2017	March 15, 2018	\$749,196,302 (NT\$ 0.6881559 per share)	\$121,764,829 (NT\$ 0.1118441 per share)	\$0 (NT\$ 0 per share)

Note: On March 15, 2018, the board of directors motioned a resolution to add a capital reserve cash dividend of NT\$0.1118441 to the next board proposal.

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

4.1.7 Impact to 2018 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)	i.e. 10%~20% of the earnings of the given year, based on 15% for the time being. The aforementioned employees' compensation will be distributed in shares or cash. The employees of EPISTAR's subsidiaries who fulfill specific requirements stipulated by the Board of Directors may be granted such compensation.

Item	Rang
Directors' Compensation (Cash)	2 % of annual profit as compensation for directors. Directors may only receive compensation in cash.

Note1: 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.

Note2: EPISTAR may, by a resolution adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors, distribute the aforementioned employees' and director's compensation and report to the stockholders' meeting for such distribution.

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:

The Company estimates the amounts of the employees' compensation and remuneration to directors and recognizes them in the profit or loss during the periods when earned for the years ended December 31, 2016 and 2017. The Board of Directors estimated the amount by taking into consideration the amendment of the Articles of Incorporation, government regulations and industry averages. If the Board of Directors resolves to distribute employee compensation through stock, the number of stock distributed is calculated based on total employee compensation divided by the closing price of the day before the Board of Directors meeting. If the Board of Directors subsequently modifies the estimates significantly, the Company will recognize the change as an adjustment in the profit or loss in the subsequent period. The difference between the estimation and the resolution of the stockholders' meeting will be recognized in profit or loss in the subsequent year.

4.1.8.3 2017 Directors' Compensation and Employees' Profit Sharing Bonus

Unit: NT\$ thousands

Item	Board Resolution (March 15, 2018)
Directors' Compensation (Cash)	41,672
Employee's Compensation (Cash)	312,528
Total	354,200

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 2016 Directors' Compensation and Employees' Profit Sharing Bonus

Unit: NT\$

Item	Actual Result (June 21, 2017)	Board Resolution (March 16, 2017)	Variance	Cause of variance
Directors' Compensation (Cash)	0	0	0	None
Employee's Compensation (Cash)	0	0	0	None
Total	0	0	0	None

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

4.1.9 Buyback of Treasury Stock: None.

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 15, 2018, 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\$)	2017	High	10.42
		Low	3.57
		Average	5.72
	01/01/2018 ~ 03/15/2018	High	9.37
		Low	7.68
		Average	8.61

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 2017	(%) of Sales
Chip	23,672,518	93.68
Epi Wafer	335,405	1.32
The Others	1,262,693	5.00
Total	25,270,616	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 VCSEL	AlGaAs	Epitaxial Wafer, Die (OEM)

5.1.1.4 Plan of new product (service) development

- (1) Proximity sensor/emitting diode-related products for portable and wearable devices
- (2) LED chip products for facial recognition and biometric detection adapted in portable device /notebook
- (3) Infrared LED chip products for in-cabin driver's awareness sensing system
- (4) LED chip products with SpO₂ measurement function adapted in portable and wearable device
- (5) LED chip products for industrial automation equipment /Robot sensing
- (6) Infrared LED chip products for commercial/home/automotive safety monitor and surveillance system
- (7) Ultra-high wall plug efficiency LED chip for horticultural lighting application
- (8) Ultra-high brightness red and yellow LED chip products for special lighting applications
- (9) Ultra-high efficiency red LED chip products of all chip size for automotive tail lamp
- (10) New small-chip design for more compact and smaller size of package
- (11) LED chip products for electronic sports application
- (12) Ultra-high brightness and current-density LED chip products for projector application
- (13) The horizontal GaN LED development
- (14) The Mini LED development for display
- (15) The Mini LED development for mobile phone BLU
- (16) The Mini LED development for TV BLU
- (17) The high performance/high quality flip-chip GaN LED
- (18) The high current density B/G vertical GaN LED development for pico projector application
- (19) The high efficiency vertical UV LED development for 365nm application
- (20) The mini flip-chip LED development for ultra-thin cell phone panel
- (21) The high-end white light LED development for flash light module
- (22) The high voltage flip-chip LED development for TV BLU application
- (23) The high voltage flip-chip LED development for general lighting application
- (24) Development of UVC LED chip
- (25) Development of high power edge emitting blue laser diode
- (26) Development of new LED CSP for ultra-thin and high contrast LCD BLU
- (27) Development of white LED CSP for high-end flash applications
- (28) Development of high efficiency CSP technique for lighting application
- (29) Development of LED CSP for high color gamut BLU applications
- (30) Development of LED CSP for Direct type BLU with high color gamut
- (31) Development of high power white LED CSP for lighting
- (32) Development of high voltage white LED CSP
- (33) Development of high reliable white LED CSP for Automotive application
- (34) Development of LED CSP at UV wavelength
- (35) Development of side emitting BLD chip
- (36) Development of GaN-on-Si power device for LED general lighting application
- (37) Development of switching mode power supply for adapter under 100W

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 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.

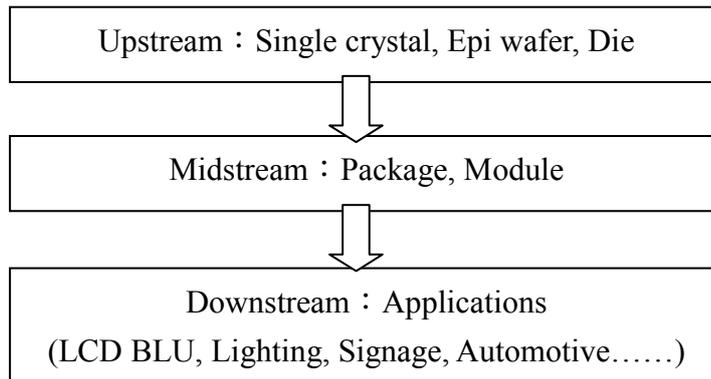
The high brightness and high purity properties make LEDs the best fit for the indoor and outdoor signage market. The large size RGB LED digital signage displays are used in outdoor commercials, event broadcasting, traffic controls & notifications... and keep expanding. Meanwhile, fine-pitch high-density 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 Crystal / Epi Wafer / Die the Upstream, package and module assembly the mid-stream, and all kinds of application in the downstream.

LED industry supply chain structure



5.1.2.3 Application developing trend of LED products

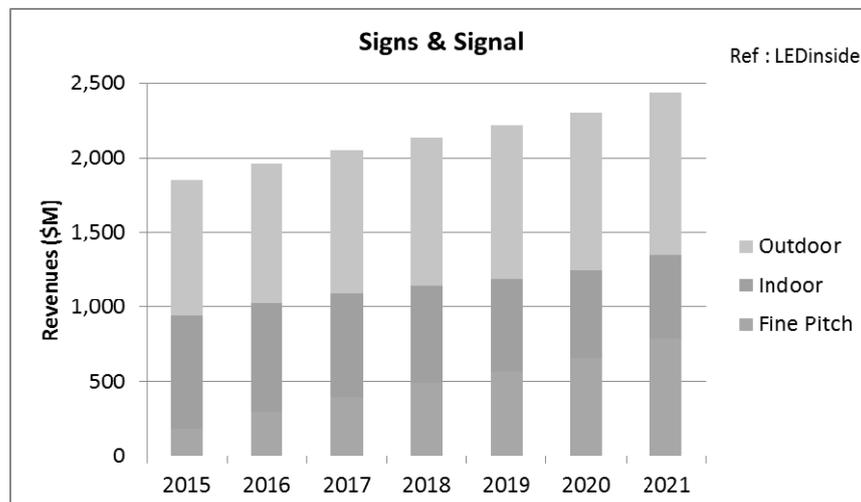
(1) Indicators and LED Display

“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 Olympic series from 2008, many World Expos, and FIFA World cups. 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, <1.0mm pitch indoor displays are also in production. The indoor applications have evolved from long-distance advertisement to detail information like in the airport flight schedule, replacing traditional display tech like PDP / LCD / Rear Projection “Fine-pitch” is officially the new industry mainstream for both indoor and outdoor LED displays.

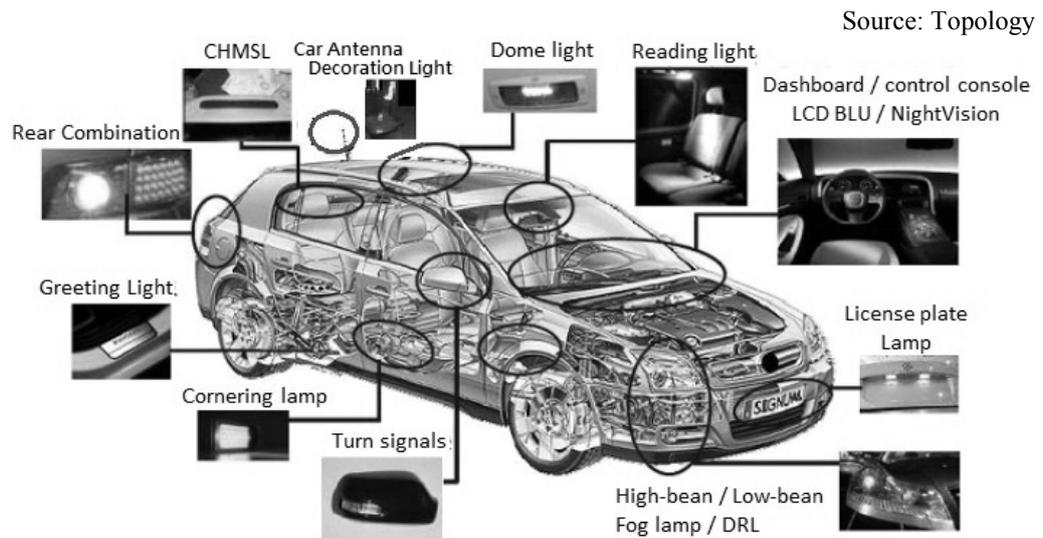
LED revenue in Signs & Signal and Display market, 2015-2021



(2) Automotive Lighting

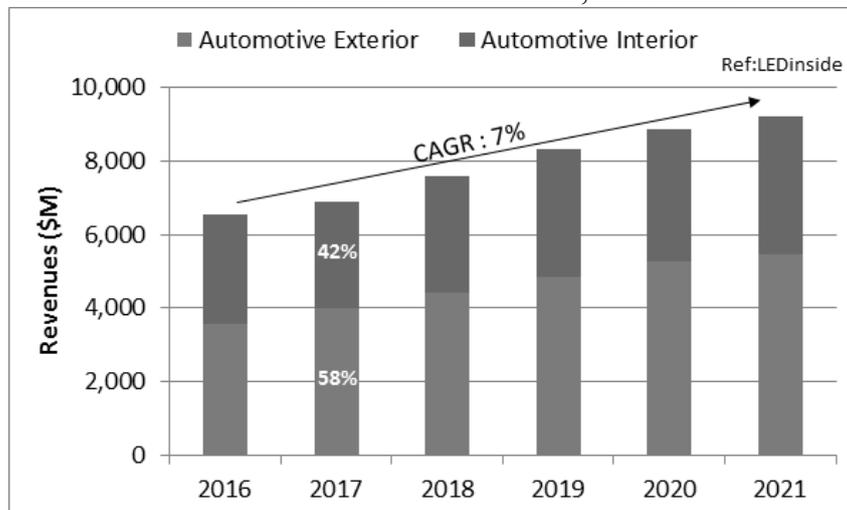
High reliability, energy saving, and instant response make HB LEDs the best light source in both interior and exterior automotive applications. Interior applications include light sources in dashboard and control console, reading light, interior dome light, trunk light, and doorway light. Exterior applications 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.

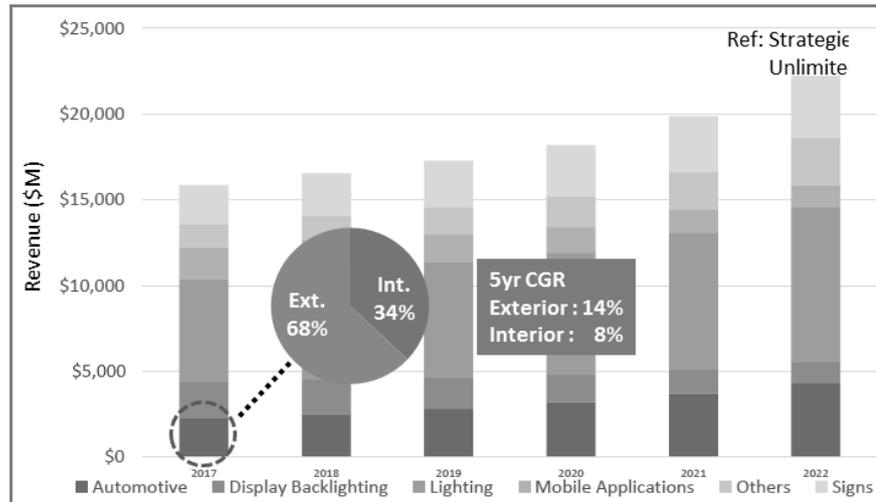
LED light sources in automotive application



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. As the autonomous-driving function matures, in-cabinet displays are expected to grow, the flat or curve displays leave more opportunities for mini-LED BLUs.

LED revenue in Automotive, 2016-2021

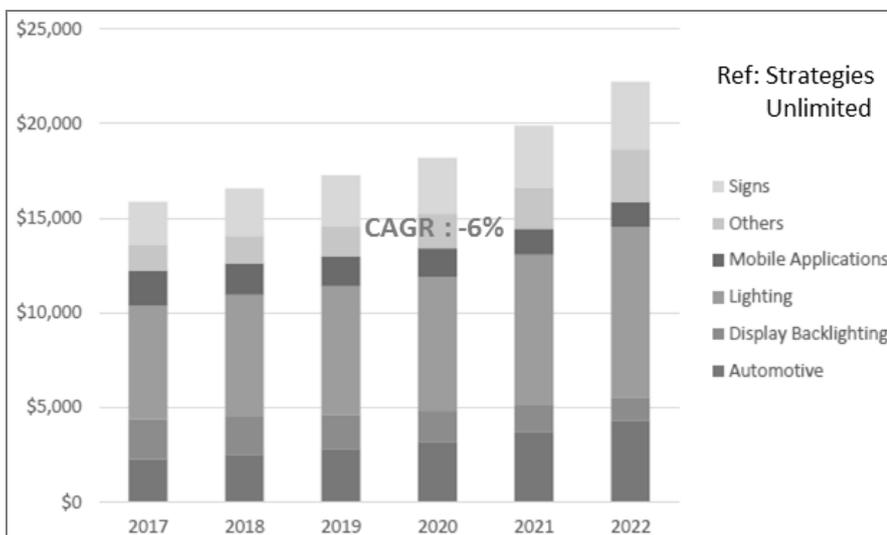
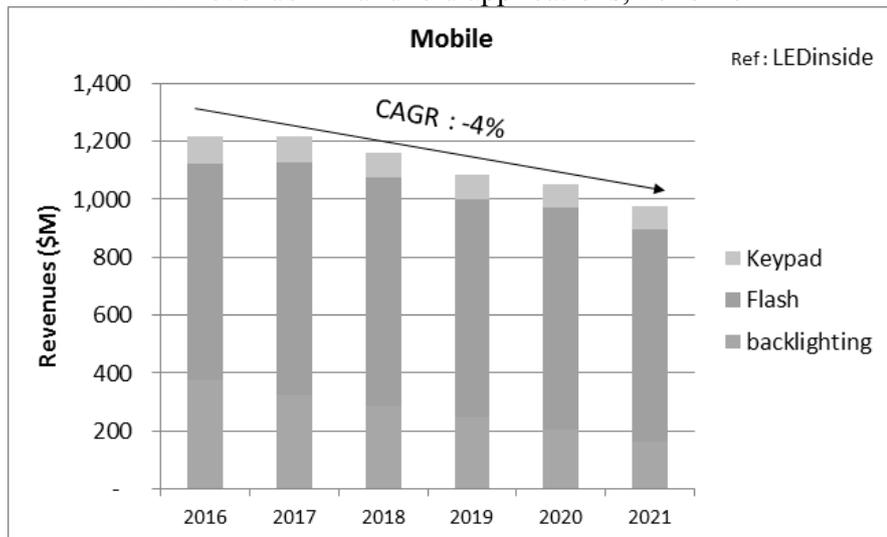




(3) BLU for cellphone and portable handheld devices

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 the OLED trend in handheld device. Therefore, LED industries are also developing super-thin HDR (High-Dynamic-Range) features by utilizing direct-type mini-LED which is even smaller than current side view LED in edge-BLU. With these thousands of mini-LED, the BLU can perform 2D-local-dimming to very fine zones so reaching super-high contrast, while maintaining excellent power consumption and thickness. In the premium tablet and gaming NB/PC market, the demand for premium picture quality and power consumption also push for mini-LED design to take-off.

LED revenue in handheld applications, 2016-2021



(4) 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 LCD TVs 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.

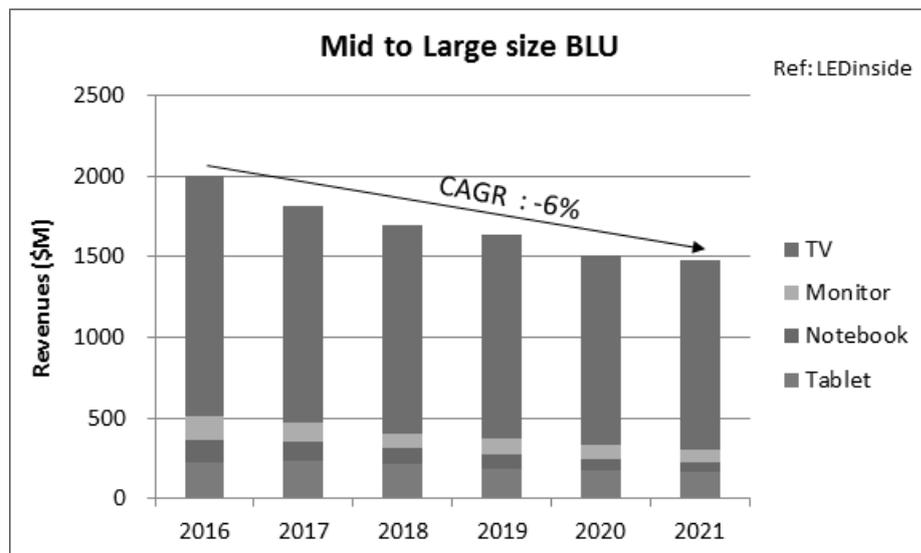
Nevertheless, there are some positive factors for this application including:

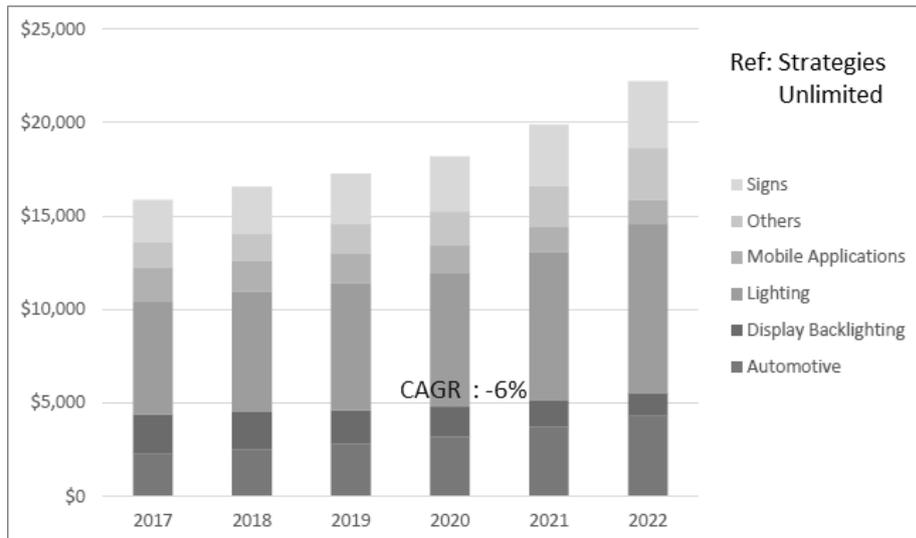
- A. Trend for average size-up every year. 41.7"@2014, 41.4"@2015, 43.6"@2016 and 45"@2017 forecasted by Wits View. A 6% increase in panel size and LED count in yearly average can be observed.
- B. Trend to UHD (4k2k). 30%~50% more LED per TV comparing to FHD

- 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 mini-LED for HDR BLU design uses multiple-times of LED per TV will boost the contrast performance, and also LED usage in BLU applications.

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 has become one of the major trends in the 2017 model, spreading from Korean brands to others.

LED revenue in mid to large size BLU, 2016-2021

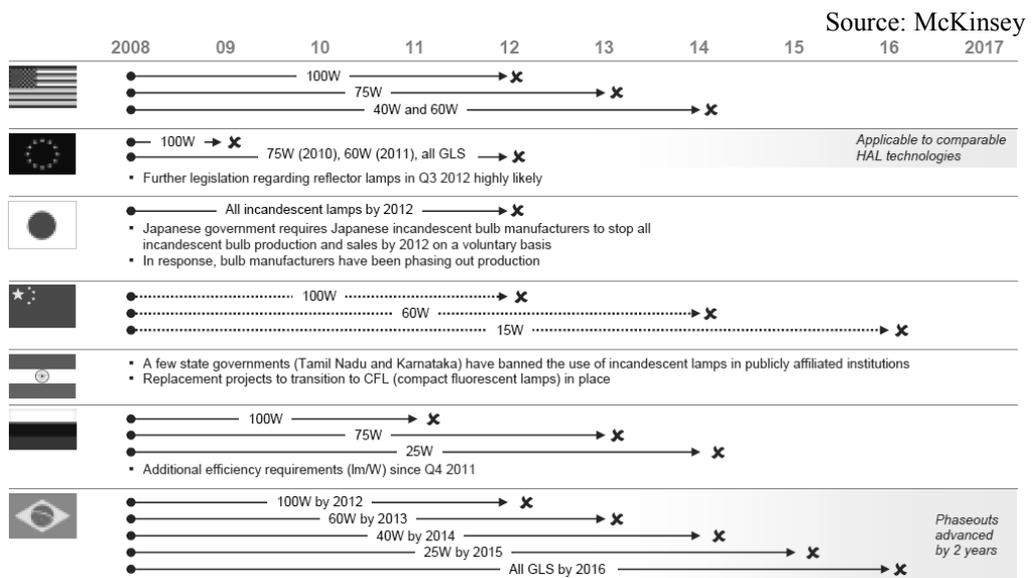




(5) Solid-state lighting market

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

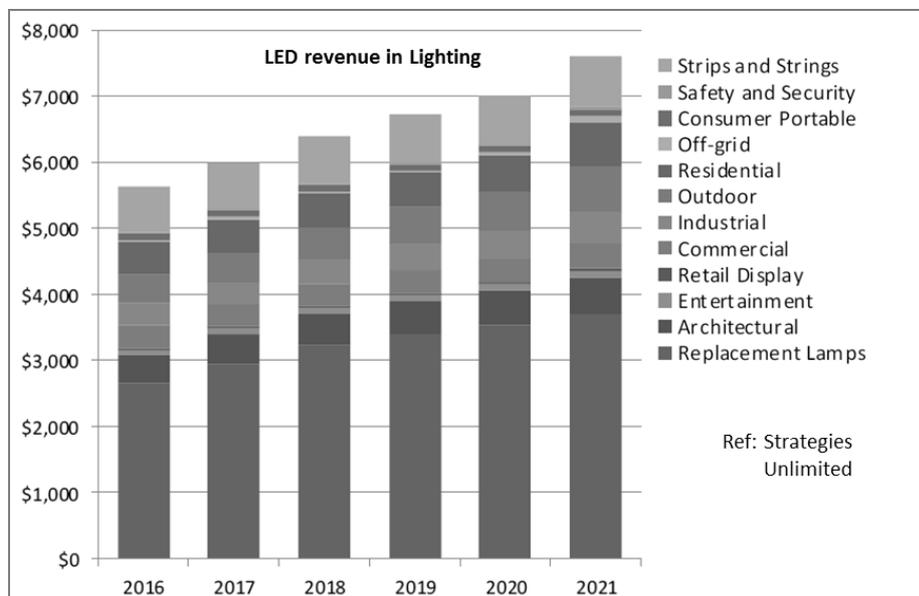
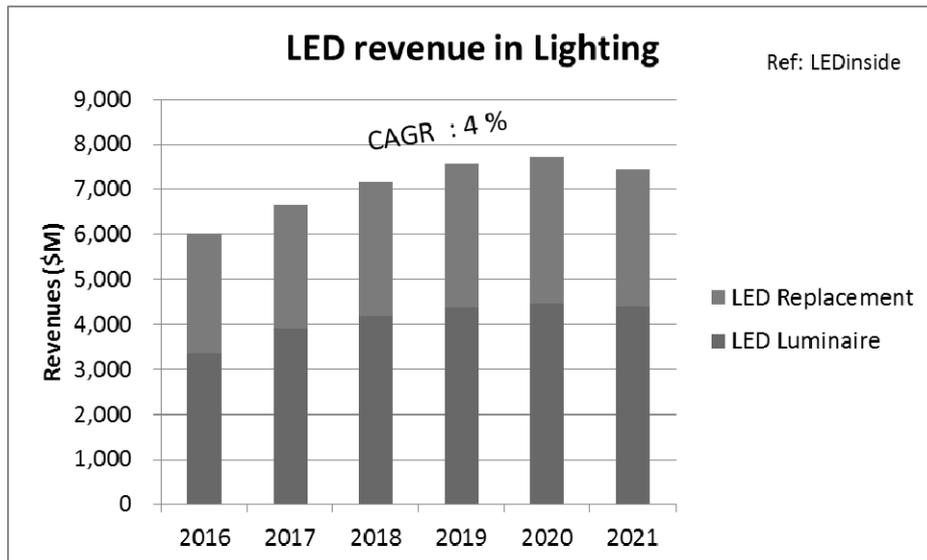


Lighting industry has two main market segments, one for the replacing light source market, and another one for the luminaries. From the cumulative installed capacity of global illumination (the number of sockets) point of view, LED lighting penetration rate in 2013 and 2014 were only about 2% and 4% 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 budget 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%. In 2016 the penetration rate already reach 50% and is expected to reach 65% in 2018, with a total demand amounting to more than 100 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. The installed penetration rate is 13% in 2016, and growing to 20% in 2017, forecasted to be over 50% in 2021. Product-wise the LED filament bulbs also gain much popularity among branders and consumers, due to the classic appearance and energy-efficient features.

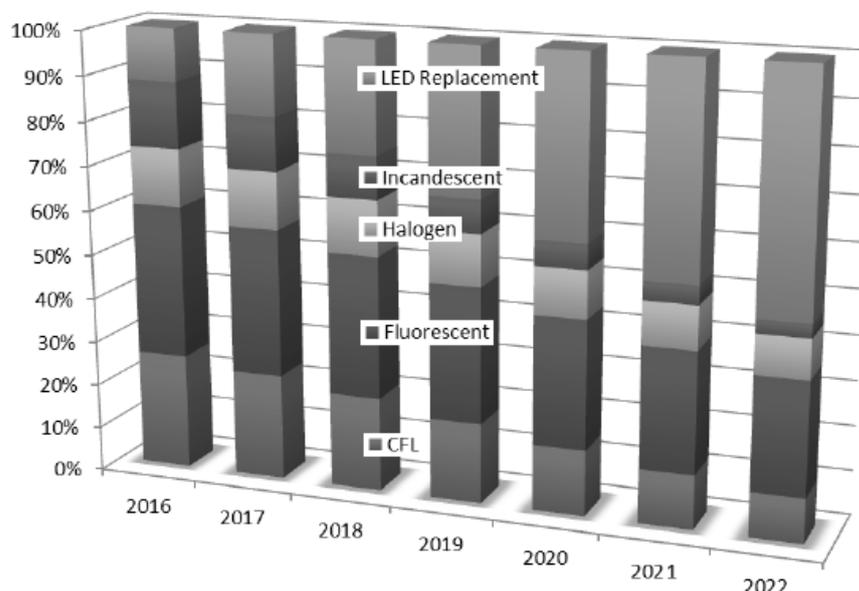
Besides the consumer lighting market, some niche lighting application also grows faster than average. The horticultural lighting can help both in shortening harvest-time and increase plant density per area. Horticultural LED lighting had been implemented in many high-value plant farms. The LED luminaries for horticulture are forecasted to grow to \$2B in 2022.



Device amount in global retrofit light source market, 2016-2022 (unit: million)

Source: Strategies in Light 2017

Global lamp Installed Base %



(6) Sensing application

Sensing functions are now applied in many scenarios. The Infrared LED and Camera pair had been used for Facial Biometric Recognition in many IT devices, replacing the routine Password-setting / key-in/ re-new...etc. The lower-power consumption and wavelength-customization-capability are also very favorable in smartphone authentication. The uniqueness and accuracy of Iris tissue has made Iris-Recognition a very popular authentication method. Wearable devices like wristband are widely used in health-monitoring and sport-tracking, with pulse-tracking function that enabled by different absorption-spectrum of blood and vessel tissue. By combining visible and infrared spectrum, the tracking device can provide best S/N ratio of bio-information for the user to judge. Other than just pulse-rate, important bio-metrics like SpO₂, blood glucose level are available by using multiple-wavelength Infrared LED. Besides measurement, many Photodynamic Therapies are also under-developing. Infrared LEDs have been used to improve life qualities in terms of Security, Recognition, HealthCare, BioMedical.

VCSEL (Vertical Cavity Surface Emitting Laser) is an important key component in the 3D sensing application. In the past, it was mainly used in the optical communications market. Its 'collimated and coherent' features enable high accuracy, miniaturization, low power consumption, reliability, and excellent response speed. These all contribute to precision distance measurement and recognition. As 3D sensing architecture such as time-of-flight and structured light maturing, plus the rapid development of algorithms, major manufacturers gradually introduces 3D sensing technology to mobile devices in response to the demand for new features of consumer electronics products. Since the high-end flagship devices began to accommodate 3D sensing capabilities in 2017, the number of VCSEL shipped for consumer electronics products has exceeded

VCSEL for existing optical communications market. Market research institutes expect VCSELS used on smart phones will reach 5 times the demand for optical communications in 2019. In the future, 3D sensing with VCSEL as an important component can also be extended to new applications such as vacuum-cleaner robots, AR/VR, automotive applications like drones and self-driving cars, or biomedical sensing.

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 2017, Epistar acquired 4,828 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
2017	1,576,283	6.24%

Note: Based on IFRS

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

- (1) High power 810nm/850nm/940nm wavelength infrared dual junction chip products for facial and iris recognition function adapted in portable device /notebook
- (2) Infrared LED chip for automotive night vision and Advanced Driver Assistance System(ADAS)
- (3) Ultra-high brightness red LED chip products for vehicles rear lamp assembly

- (4) Proximity sensor and biometric detection related products for portable and wearable device
- (5) Wall plug efficiency (WPE) >70% red LED chip for horticultural lighting application
- (6) Small size red flip chip for electronic sports application
- (7) Red PEC-chip (Pad extended chip) for display
- (8) 850nm VCSEL Epi for 4 Gbits and 10 Gbits datacom
- (9) RGB LED chip for high brightness projector, lumen reaches 630lm@1.4A driving, current-density reaches 3.5A/mm²
- (10) The high brightness horizontal GaN LED technology development
- (11) The high voltage flip-chip LED development for CSP package. Suitable for all kinds of BLU module and down size LED PKG dimension
- (12) The Mini LED development for ultra fine-pitch display application
- (13) The Mini LED development for mobile phone BLU application
- (14) The high voltage (9V-18V) LED development for general lighting application
- (15) The UV flip-chip LED development for 365-420nm application
- (16) The ultra-high brightness B/G GaN LED for pico projector application.
- (17) The ultra-high brightness vertical UV (365nm) LED.
- (18) The high efficiency light tube development with 220lm/w horizontal LED chip
- (19) The mini flip-chip LED development for ultra-thin cell phone panel application
- (20) The white light technology development for cell phone flash module
- (21) The short wavelength UV LED technology development
- (22) Development of UVC (280nm) chip
- (23) Development of ultra-thin and high color gumut LED CSP for Edge-lit of LCD BLU
- (24) Development of wide angle of LED CSP for ultra-thin and high contrast LCD BLU
- (25) Development of high power and high color gumut LED CSP for BLU
- (26) Development of new LED CSP technique for flash application
- (27) Development of high optical density of LED CSP in lighting applications
- (28) Development of 6 inch GaN on Silicon Epi wafer technology for high breakdown voltage application
- (29) Package and modulation technology for power supply application

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 2018 is roughly 1.711 billion. The R&D items are shown as follows:

- (1) 6-inches VCSEL product design and epi/chip technology development
- (2) Mini RGB package for small pitch display
- (3) High efficiency flip chip products
- (4) Launch/receive device development for biometric detection and recognition
- (5) Ultra-high wall plug efficiency LED chip for horticultural lighting application
- (6) Ultra-high efficiency/Stable reliability LED chip for automotive application
- (7) Ultra-high brightness and current-density RGB chip products for projector application
- (8) Mini LED product development & performance improvement
- (9) High efficiency & high voltage flip-chip LED product development and performance improvement
- (10) High efficiency flip-chip LED product development and performance improvement

- (11) High efficiency & high voltage LED product development and performance improvement
- (12) High efficiency & high qualities flip-chip LED development and performance improvement for automotive application
- (13) High current density B/G vertical GaN LED development and efficiency improvement for pico projector application
- (14) High efficiency B/G LED development and performance improvement for fine-pitch display application
- (15) High efficiency vertical UV (365-405nm) LED development and performance improvement for industrial or commercial application
- (16) High efficiency UV (410-420nm) LED development and performance improvement for high color gamut lighting applications
- (17) Development of high competitive product with white light LED apply for BLU, general lighting and high-end flash module
- (18) Improvement of UVC (280nm) LED
- (19) Development of Blue laser diode
- (20) Development of new LED CSP for BLU, lighting and high-end flash applications
- (21) Development of LED CSP for headlamp for automotives
- (22) Development of LED CSP array with different wavelength
- (23) Design of 2nd lens for LED CSP optimization
- (24) Development of integrated GaN-on-Si power device for LED general lighting application
- (25) Development of power supply system for operation over 100W and beyond 1 MHz over 100W operated higher than 1MHz power supply
- (26) Development of GaN power electronics device/circuitry/system for LiDAR 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. Fastening the adaption of mini-LED and micro-LED solutions by working closely with LCD customer and also supply chains of all display types.

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 thicken 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 and VCSEL foundry OEM business.

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	5,052,664	19.99	
Asia	19,849,089	78.55	
Others	368,863	1.46	
Total	25,270,616	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 38.2 billion NTD. Epistar's revenue in 2017 was around 25.3 billion NTD. The market share is about 66.1% in 2017.

Source: MOPS

Ranking	Company	2017 Consolidated Revenue (NTD million)	%
1	Epistar	25,271	66.1%
2	Optotech *	5,590	14.6%
3	Tyntek *	3,125	8.2%
4	Epileds	1,235	3.2%
5	Genesis	1,225	3.2%
6	HPO	780	2.1%
7	Tekcore	777	2.0%
8	Arima	227	0.6%

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

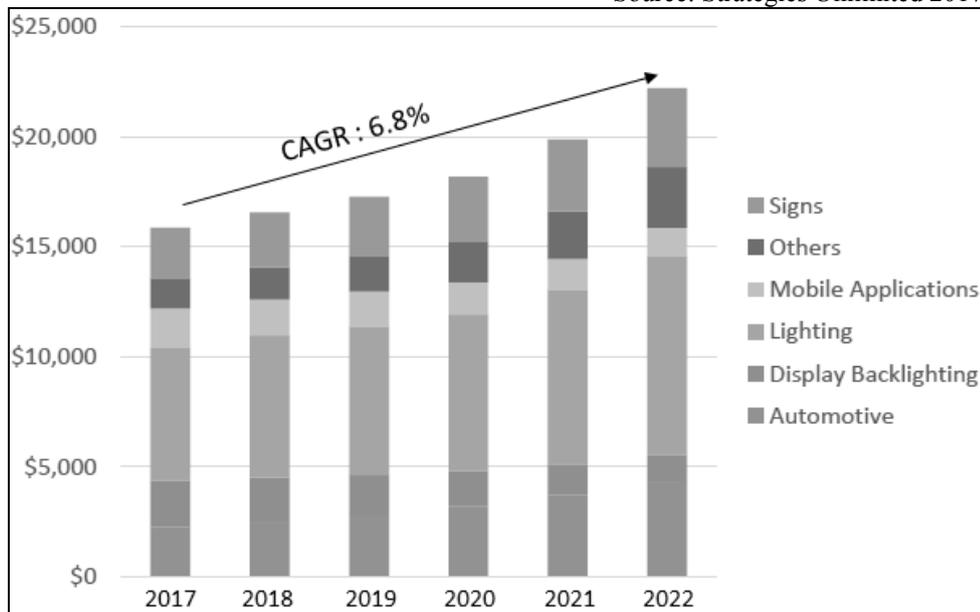
Starting in 2009, China's government subsequent 11th and 12th 5-year plan subsidized and encouraged Chinese manufacturers to purchase MOCVDs, create joint ventures, or new companies. Many new industry players were created and the market became highly-competitive, and the supply and demand became out-of-balance. The price

went down and some players went bankrupt. As a result, the annual revenue of 2015 declined 2~3%.

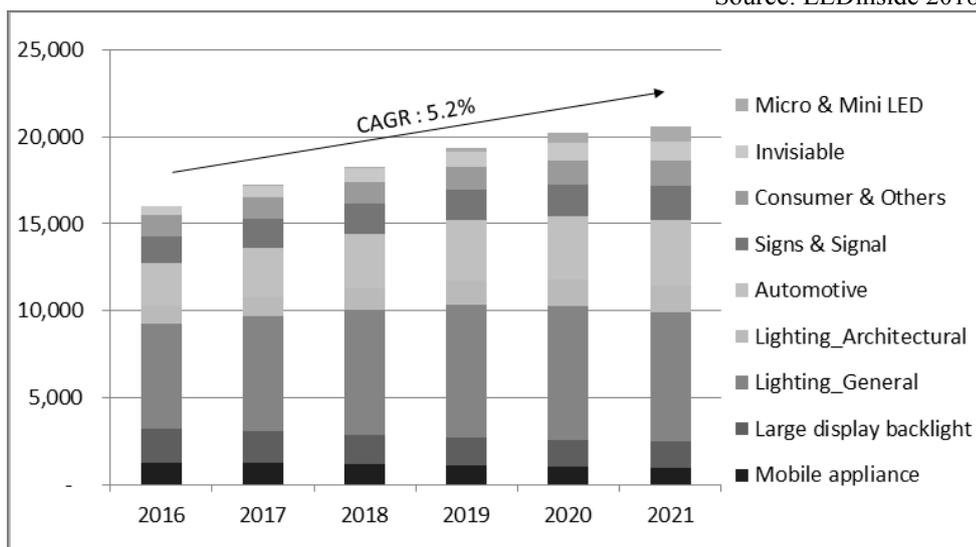
In spite of the needs of solid state lighting having increased, the consuming habit for general lighting focuses on the “cost / performance ratio” and this factor makes revenue increase quickly but profits sharply decrease. However, the applications like automotive, medical, horticulture, security, and 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, 2017-2021

Source: Strategies Unlimited 2017



Source: LEDinside 2018



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 22 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.

(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 1,400 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 4,828 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 and Environment, Health and Safety Management system.

Epistar always dedicates to improve product quality since its establishment. Epistar was ISO 9001 certificated in March, 1999. For quality standards especially for automotive application, Epistar was TS16949 certificated in January 2006, QC080000, Sony Partner certificated in 2009, and will continually pursue new edition of ISO9001:2015, IATF 16949: 2016 certification in 2018. In addition, in order to enhance the reliability to product quality, eliminate the dispute of measurement and promote the enterprise image, Epistar established a laboratory of the photoelectric measurement and was ISO17025 certificated in 2012.

Furthermore, Epistar values the environment, health and safety management. Epistar was ISO 14001 certificated in July, 2006, OHSAS 18001 certificated in 2008, CNS 15506 certificated in 2009 and performed the three-year re-evaluation of the Environment, Health and Safety Management system (ISO 14001/OHSAS 18001/SNC 15506) in 2017. The factor shows that Epistar pays attention on Environment, Health and Safety Management.

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 heat, 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

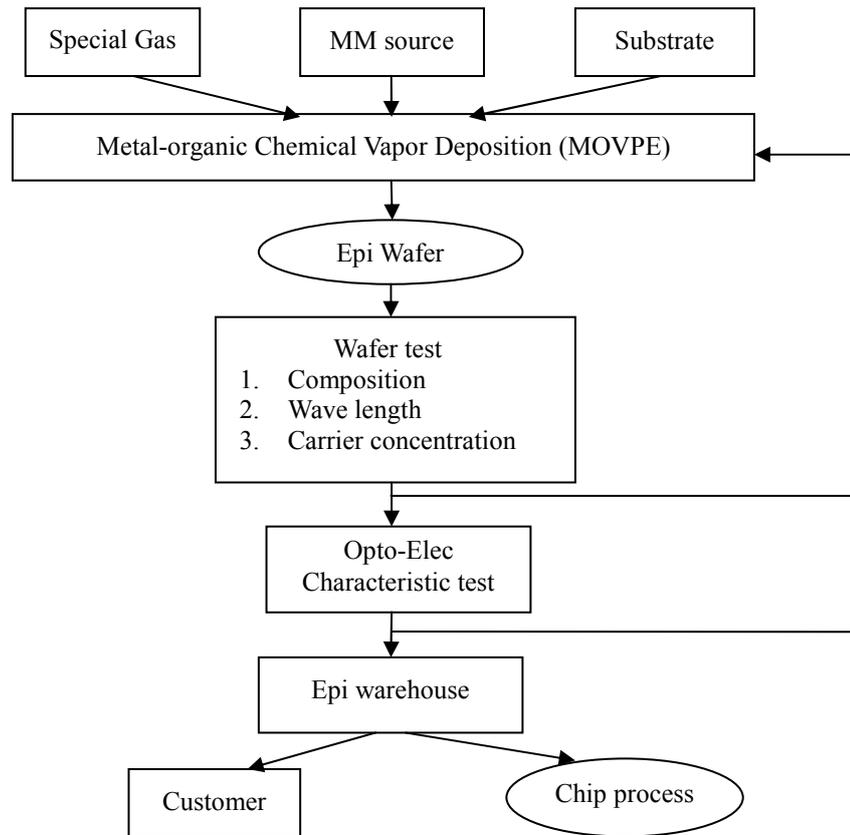
Backlight source, flashlight, and distance measuring in all kinds of cellphones.

- (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.

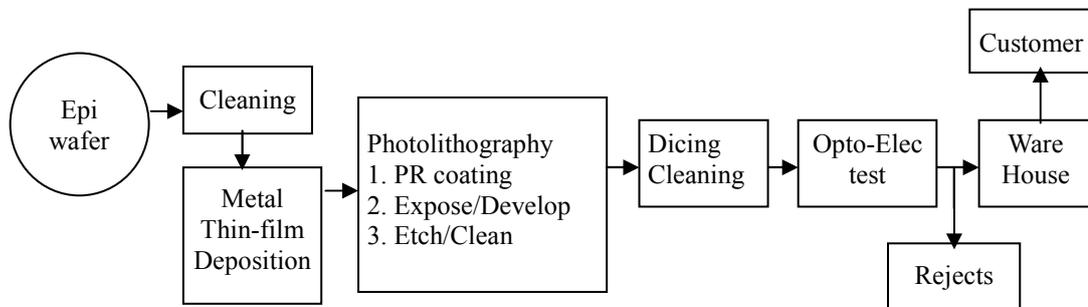
5.2.2.2 Manufacturing process

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	Crystalwise Technology Inc. Rigidtech Microelectronics Corp. Sinopatt Technology Co., Ltd.	Taiwan and China	Smooth
MO source	Laminar advanced material Co. Ltd. SAFC Hitech Taiwan Co., Ltd.	Taiwan	Smooth
Special Gas	Praxair Chemax Semiconductor Materials Co., Ltd. Taiyo Nippon Sanso Taiwan, Inc. Showa Specialty Gas (Taiwan) Co., Ltd.	Taiwan	Smooth
Metal	Matsuda Sangyo Co., Ltd	Japan	Smooth

5.2.4 Major Suppliers and Clients

5.2.4.1 Major Clients

Unit: NT\$ thousands

Customer	2016			2017			
	Net Revenue	As % of 2016 Total Net Revenue	Relation to EPISTAR	Customer	Net Revenue	As % of 2017 Total Net Revenue	Relation to EPISTAR
A	3,722,150	14.57	The company's Chairman of Board acts as the Company's director.	A	2,685,924	10.63	The company's Chairman of Board acts as the Company's director.
Others	21,817,013	85.43	None	Others	22,584,692	89.37	None
Total Net Revenue	25,539,163	100.00		Total Net Revenue	25,270,616	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 4%. Therefore, no material effect would be rendered therefor.

5.2.4.2 Major Suppliers

Unit: NT\$ thousands

Supplier	2016			2017			
	Procurement Amount	As % of 2016 Total Net Procurement	Relation to EPISTAR	Supplier	Procurement Amount	As % of 2017 Total Net Procurement	Relation to EPISTAR
B	2,042,101	22.07	The Company's stakeholder	D	1,429,530	11.50	None
Others	7,210,109	77.93	None	Others	10,997,761	88.50	None
Total Net Procurement	9,252,210	100.00		Total Net Procurement	12,427,291	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	2016				2017			
	Year	Output	Capacity	Output	Amount	Capacity	Output	Amount
Major Products								
Chip		560,978,868		345,776,952	23,937,565	633,842,579	380,230,502	24,083,100
Epi Wafer		59,132,903		5,238,045	473,226	75,503,194	8,984,070	83,218
Total		—		—	24,410,791	—	—	24,166,318

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

5.2.6 Consolidated Shipments and Net Revenue in the Last Two Years

Consolidated Base	2016						2017					
	Year	Local		Export		Sales	Local		Export		Net Revenue	
Major Products	Quantity	Net Revenue	Quantity	Net Revenue	Quantity		Net Revenue	Quantity	Net Revenue	Quantity		Net Revenue
Chip	22,446,725	5,775,326	323,254,038	19,411,622	20,291,657	4,988,139	394,920,327	18,684,379				
Epi Wafer	42,287	63,945	585,643	128,272	29,507	40,884	409,398	294,521				
Others	—	44,921	—	115,077	—	2,261	—	1,260,432				
Total	22,489,012	5,884,192	323,839,681	19,654,971	20,321,164	5,031,284	395,329,725	20,239,332				

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

5.3 Human Resources

Consolidated Base

Year		2016	2017	Feb. 28, 2018
Number of Employees	Management	535	517	501
	R&D and Technician	1,317	1,385	1,392
	Direct	2,100	2,135	2,118
	Total	3,952	4,037	4,011
Average Age		34.4	34.8	34.9
Average Years of Service		6.8	7.0	7.2
Education	Ph.D.	2.0	1.9	1.8
	Masters	18.6	19.1	19.0
	Bachelor's Degree	42.3	42.1	42.4
	Senior High School & Below	37.1	36.9	36.8
	Senior High School			

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 2017. Notwithstanding, the audit result on the toxic substance 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 verification by association organization level (from 2006 to 2017), and also completed introduction and certification of PAS 2050 standards on carbon footprint of V45H chip in 2011. In 2016 and 2017, the Company actively worked with TOSIA members in research of environmental laws and regulations and countermeasures, including waste disposal companies, suppliers' and vendors' on-site SHE audit, improvement and guidance as the points of guidance, also assist TOSIA member companies to consult with the competent authorities 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\$148,200,000, primarily for the construction of Company's Fab N3 fire damage, rebuild the waste water processing system and air-pollution control equipment engineering, fab repairing and maintenance, and payment of government fees in 2017. The Company also spared no effort to invest in green production. Since 2014, the optoelectronic semiconductor industry has promoted the implementation of the Cleaner Production Evaluation System to promote cleaner production. In 2015, the Company's fab S3 factory passed the cleaner production and obtained the Cleaner Production Certificate (validity period: 2016/02/01 ~ 2019/01/31). In 2017, with top-level support from the Company and efforts by various departments, there are many source reduction environmental protection projects that have produced outstanding results and achieved remarkable results. As a result, the annual volume of wastes has been reduced by 243 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; healthy "body", satisfaction in "mind" and joyful "spirit" . We've introduced three elements of healthy "body", satisfaction in "mind" and joyful "spirit" into our employee health care project. It's from healthy body and knowledge, satisfaction in "mind", and self-mind dialogue, connecting the health activities in our FAB and extending to family to create a complete, good, and healthy workplace to reach a balanced and healthy physical, mental, social and spiritl. PLS refer to below situations how we take care of our staff :

- (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 health 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 develop the staff's healthcare self-management attitude and action and strengthen employees' ability of healthcare self-management; and from the passive way of healthcare to the active way of 『preventive medicine』 .

Starting from 2016 we've cooperated with the hospitals to offer free low-dosage computed tomography scan, a total of 284 people (288 people were eligible for the program) enrolled in the program from the year of 2016 to 2017. The participation of attendance is as high as 99%, and it saves NT\$1.7 million dollars. Moreover, for the purpose of greater diversity, courses of lectures, rhythm, charitable blood donation, thematic activities on special occasion were also included in 2017. A total of 20,690 people enrolled and the participation rate is 41% in 2017.

- (3) Operational health risk prevention and management:

We formulated human factors hazard prevention SOP in 2015, and carried it out for all staff. We also conducted hazard assessments for those stations that have higher hazard risk. We may reduce human factors through the improvement of working environment and workmanship.

- (4) Infectious disease management:

We've assigned an in-charge unit for monitoring constantly and based on the condition of epidemic to draw up workplace epidemic preventive program, and from the experience accumulated to avoid over-reaction or inappropriate response.

In addition to epidemic materials preparation and vaccination (influenza vaccine, hepatitis type A vaccine for those who relocated to Mainland China), we also promote the knowledge about epidemic prevention through posters, announcements, e-mails, and lectures to strengthen and encourage employees to apply it at workplace and in the family to take care of themselves, family and prevent group infection. We also provide epidemic prevention facemasks, thermometers, record sheets for those who travelling on business when it's necessary.

(5) Occupational injured employee health care:

When employees reinstate from injury or other physical and mental reasons; to prevent frustration from work performance due to their health issue or the original work may worsen their health and result in worries of work safety; through the support from relevant departments, we would carry out healthcare assistance and reinstatement mechanisms to give essential care to the reinstated employees.

(6) Maternal protection & healthy workplace:

We've set up a maternal protection SOP in 2016 to build an appropriate pregnancy notification mechanism to carry out maternal care and risk prevention control. There were 63 maternal people to be taken care of in 2017 and 63 maternal people were taken care of with a 100% participation rate.

Every plant has a breast-feeding room equipped with comfortable couches, disinfected pots, and other relevant breast-feeding items. Cleaning lady does disinfection on a regular basis. The cleanliness has won the hearts and praises from breast-feeding moms. We also won breast-feeding room certification issued from city/county government. In addition, we have chair for pregnant woman only 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 receive relevant information about pregnancy, childbirth, childcare; we've drawn 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

We arrange internal and external courses for our employees on business integrity, laws and regulations, safety and health, accounting, internal audit and many more. In order to ensure the quality and safety of the company's products, the new employees are required to participate in the orientation, and some of them must be evaluated regularly to ensure that their abilities are eligible for their duties.

EPISTAR spares no effort in protecting our trade secrets. To protect the fruits of our employee's hard work and prevent the leakage of intellectual property and important information, we strictly implemented "information grading protection" regulation and which enforces our employees to develop the habit of information protection and criterion to abide by when handling and transferring information and files. We established the "Information Management Review Committee" to further enhance our information protection goal. All our employees must participate in information protection training and abide by information protection regulations.

In order to achieve the company's operational goals and develop employees' performance, the training roadmap has been set up, including the management courses, quality courses, technical courses, Environment courses, the Professional function courses and new comer training.

The total number of people participated in training in 2017 was about 16,000 and the total training hours were about 70,000 hours, and the total training expense was NT \$ 6.77 million. The results of the training are as follows:

Unit: NT\$ thousands

Items of 2017	Attendee count	Hours of advanced studies	Cost of advanced studies
Series of management talents	672	5,935	6,778
Series of quality	1,507	7,349	
Series of professionalism	2,487	11,414	
Series of environment/safety/health (ESH)	7,371	21,059	
Various series of professionalism	3,672	16,278	
Orientation	1,017	10,488	
Total	16,726	72,523	

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 System	New System
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.

Pension system	Old System	New System
Contributed amount	Balance of the labor pension, NT\$239,145 thousand	The pension cost recognized in 2017 was NT\$184,294 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 Department 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 in-service for every two years.
- (5) We have medical staff and medical room located in every site according to the law for preliminary care and waiting 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 services and referral services with other medical organization outside the plant.
- (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 2017 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 corporate 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.
Technology transfer	S University of Science and Technology	2017.08.01	Technology transfer of cooperative research and development result	If the Agreement is terminated due to the fault of the Company, the compensation for the technology transfer will not be refunded to the Company.

6. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Balance Sheet

IFRSs (consolidated subject)

Unit: NT\$ thousands

Item	Year	2013	2014	2015	2016	2017
Current Assets		36,249,273	38,297,332	30,885,730	24,798,264	26,043,651
Property, Plant and Equipment		27,627,752	36,314,695	34,396,105	27,286,631	24,348,881
Intangible Assets		4,291,051	7,529,578	7,994,637	8,007,219	7,846,962
Other Assets		7,827,957	9,817,434	9,855,452	9,005,320	8,746,175
Total Assets		75,996,033	91,959,039	83,131,924	69,097,434	66,985,669
Current Liabilities	Before Distribution	18,453,138	19,653,411	22,001,168	10,214,070	9,668,814
	After Distribution	18,871,139	20,842,626	22,001,168	10,214,070	Note 2
Non-Current Liabilities		9,939,982	11,190,751	5,485,999	7,899,368	4,332,943
Total Liabilities	Before Distribution	28,393,120	30,844,162	27,487,167	18,113,438	14,001,757
	After Distribution	28,811,121	32,033,377	27,487,167	18,113,438	Note 2
Equity Attributable to Owners of the Parent		45,963,990	58,262,391	53,273,900	49,274,144	51,379,181
Share Capital		9,359,711	11,031,787	10,998,443	10,915,492	10,887,014
Capital Surplus		34,774,489	43,342,832	42,810,893	43,016,259	39,970,967
Retained Earnings	Before Distribution	2,557,328	4,205,135	241,512	(3,303,516)	1,614,226
	After Distribution	2,139,327	3,015,920	241,512	(3,303,516)	Note 2
Other equity Interest		(529,916)	143,837	143,141	(505,370)	(684,243)
Treasury Stock		(197,622)	(461,200)	(920,089)	(848,721)	(408,783)
Non-Controlling Interest		1,638,923	2,852,486	2,370,857	1,709,852	1,604,731
Total Equity	Before Distribution	47,602,913	61,114,877	55,644,757	50,983,996	52,983,912
	After Distribution	47,573,498	59,925,662	55,644,757	50,983,996	Note 2

Note 1: Adoption of IFRSs since 2013.

Note 2: The surplus distribution for the year 2017 is still subject to the resolution of the shareholders' meeting.

IFRSs (individual entity)

Unit: NT\$ thousands

Item	Year	2013	2014	2015	2016	2017
		Current Assets	28,200,434	22,154,385	19,821,426	20,914,997
Property, Plant and Equipment		16,064,927	15,832,635	15,764,303	19,174,184	17,010,006
Intangible Assets		902,844	823,884	1,339,452	7,813,856	7,684,157
Other Assets		23,053,304	36,552,166	35,102,565	16,949,893	17,320,940
Total Assets		68,221,509	75,363,070	72,027,746	64,852,930	61,968,674
Current Liabilities	Before Distribution	15,061,163	8,154,176	15,483,790	9,090,726	7,399,939
	After Distribution	15,479,164	9,064,176	15,483,790	9,090,726	Note 2
Non-Current Liabilities		7,196,356	8,946,503	3,270,056	6,488,060	3,189,554
Total Liabilities	Before Distribution	22,257,519	17,100,679	18,753,846	15,578,786	10,589,493
	After Distribution	22,675,520	18,010,679	18,753,846	15,578,786	Note 2
Equity Attributable to Owners of the Parent		45,963,990	58,262,391	53,273,900	49,274,144	51,379,181
Share Capital		9,359,711	11,031,787	10,998,443	10,915,492	10,887,014
Capital Surplus		34,774,489	43,342,832	42,810,893	43,016,259	39,970,967
Retained Earnings	Before Distribution	2,557,328	4,205,135	241,512	(3,303,516)	1,614,226
	After Distribution	2,139,327	3,295,139	241,512	(3,303,516)	Note 2
Other equity Interest		(529,916)	143,837	143,141	(505,370)	(684,243)
Treasury Stock		(197,622)	(461,200)	(920,089)	(848,721)	(408,783)
Total Equity	Before Distribution	45,963,990	58,262,391	53,273,900	49,274,144	51,379,181
	After Distribution	45,545,989	57,352,391	53,273,900	49,274,144	Note 2

Note 1: Adoption of IFRSs since 2013.

Note 2: The surplus distribution for the year 2017 is still subject to the resolution of the shareholders' meeting.

6.1.2 Condensed Statement of Comprehensive Income

Condensed Statement of Comprehensive Income from 2013 to 2017(Consolidated)

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

Item \ Year	2013	2014	2015	2016	2017
Operating Revenue	22,241,387	27,713,156	25,509,789	25,539,163	25,270,616
Gross Profit from Operations	2,957,868	5,276,129	123,499	1,916,010	5,460,627
Net operating income(loss)	440,853	2,388,586	(3,510,547)	(1,255,776)	2,307,150
Non-Operating Income and Expense	(372,226)	(192,504)	(110,325)	(2,499,138)	(383,760)
Income (Loss) before Tax	68,627	2,196,082	(3,620,872)	(3,754,914)	1,923,390
Income (Loss) for Continued Operations	74,555	1,802,947	(3,317,582)	(4,012,752)	1,686,213
Net Income (Loss)	74,555	1,802,947	(3,317,582)	(4,012,752)	1,686,213
Other Comprehensive Income (Income after Tax)	321,885	701,761	(590,541)	(801,435)	(240,158)
Total Comprehensive Income	396,440	2,504,708	(3,908,123)	(4,814,187)	1,446,055
Net Income Attributable to Owners of the Parent	38,349	1,810,334	(3,018,757)	(3,546,045)	1,649,913
Net Income Attributable to Non-Controlling Interest	36,206	(7,387)	(298,825)	(466,707)	36,300
Comprehensive Income Attributable to Owners of the Parent	300,985	2,412,184	(3,400,444)	(4,193,030)	1,435,353
Comprehensive Income Attributable to Non-Controlling Interest	95,455	92,524	(507,679)	(621,157)	10,702
Earnings (Loss) Per Share	0.04	1.98	(2.81)	(3.33)	1.55

Note: Adoption of IFRSs since 2013.

Condensed Statement of Comprehensive Income from 2013 to 2017 (Unconsolidated)

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

Item \ Year	2013	2014	2015	2016	2017
Operating Revenue	19,390,873	24,634,071	23,376,051	23,442,193	21,954,472
Gross Profit from Operations	3,017,369	3,840,177	83,703	2,211,199	4,364,300
Net operating income(loss)	885,305	1,583,129	(2,373,253)	(252,510)	1,607,791
Non-Operating Income and Expense	(910,144)	517,589	(918,309)	(3,908,094)	121,618
Income (Loss) before Tax	(24,839)	2,100,718	(3,291,562)	(4,160,604)	1,729,409
Income (Loss) for Continued Operations	38,349	1,810,334	(3,018,757)	(3,546,045)	1,649,913
Net Income (Loss)	38,349	1,810,334	(3,018,757)	(3,546,045)	1,649,913
Other Comprehensive Income (Income after Tax)	262,636	601,850	(381,687)	(646,985)	(214,560)
Total Comprehensive Income	300,985	2,412,184	(3,400,444)	(4,193,030)	1,435,353
Earnings (Loss) Per Share	0.04	1.98	(2.81)	(3.33)	1.55

Note: Adoption of IFRSs since 2013.

6.1.3 Auditors' Opinions from 2013 to 2017

Year	Accounting Firm	CPA	Audit 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
2017	PricewaterhouseCoopers	Ya-Huei Cheng, Chin-Cheng Hsieh	Unqualified Opinion

6.2 Five-Year Financial Analysis

Financial Analysis from 2013 to 2017 (Consolidated)

Item		Year				
		2013	2014	2015	2016	2017
Financial Structure (%)	Debts Ratio (%)	37.36	33.54	33.06	26.21	20.90
	Long-term Fund to Property, Plant and Equipment (%)	208.28	199.11	177.73	215.80	235.40
Solvency (%)	Current Ratio (%)	196.44	194.86	140.38	242.79	269.36
	Quick Ratio (%)	163.88	153.34	98.05	181.49	202.35
	Times Interest Earned (Times)	1.17	7.78	(6.55)	(8.48)	9.15
Operating Performance	Average Collection Turnover (Times)	2.15	1.98	1.84	2.28	2.27
	Days Sales Outstanding	170	184	198	160	161
	Average Inventory Turnover (Times)	3.57	3.55	3.29	3.56	3.6
	Average Payment Turnover (Times)	7.59	7.44	7.45	7.15	6.16
	Average Inventory Turnover Days	102	103	110	102	101
	Property, Plant and Equipment Turnover (Times)	0.78	0.87	0.72	0.83	0.98
	Total Assets Turnover (Times)	0.31	0.33	0.29	0.34	0.37
Profitability	Return on Total Assets (%)	0.65	2.46	(3.25)	(4.79)	2.78
	Return on Equity (%)	0.16	3.32	(5.68)	(7.53)	3.24
	Pre-tax Income to Paid-in Capital Ratio (%)	0.73	19.91	(32.92)	(34.40)	17.67
	Net Margin (%)	0.34	6.51	(13.01)	(15.71)	6.67
	Earnings Per Share (NT\$)	0.04	1.98	(2.81)	(3.33)	1.55
Cash flow	Cash Flow Ratio (%)	8.30	21.72	30.20	68.01	72.09
	Cash Flow Adequacy Ratio (%)	51.07	52.15	52.72	97.31	121.07
	Cash Flow Reinvestment Ratio (%)	2.23	5.02	7.83	8.99	7.8
Leverage	Operating Leverage	20.38	4.76	(2.10)	(7.06)	5.29
	Financial Leverage	8.92	1.15	0.88	0.76	1.11

Note: Adoption of IFRSs since 2013.

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

1. Debts Ratio (%): Mainly due to the increase of net cash inflows in 2017, taking into account of working capital status and financial structure to repayment some of the borrowings, resulting in a decrease in total liabilities lead to a decrease in the ratio of liabilities to assets
2. Times interest earned: The main reason is adequately responding to market changes in 2017 by adjusting the product mix and decreasing production costs, it leads to operating margin up lifted and a rise in net profit, times interest earned increased accordingly.
3. Profitability: The main reason is adequately responding to market changes in 2017 by adjusting the product mix and decreasing production costs, it leads to operating margin up lifted and a rise in net profit, profitability increased accordingly.
4. Cash flow ratio: In 2017, the large amount of recoveries of overdue receivables and income from fire insurance claims leads to the net cash inflows increased, cash flow ratio is increased accordingly.
5. Cash flow adequacy ratio: In 2017, the large amount of recoveries of overdue receivables and income from fire insurance claims leads to the net cash inflows increased, Cash flow adequacy ratio is increased accordingly.
6. Balance: The main reason is adequately responding to market changes in 2017 by adjusting the product mix and decreasing production costs, it leads to operating margin up-lifted and a rise in net profit, financial/operating leverage increased accordingly.

Financial Analysis from 2013 to 2017 (Unconsolidated)

Item		Year				
		2013	2014	2015	2016	2017
Financial Structure (%)	Debts Ratio (%)	32.63	22.69	26.04	24.02	17.09
	Long-term Fund to Property, Plant, and Equipment (%)	330.91	424.50	358.68	290.82	320.08
Solvency (%)	Current Ratio (%)	187.24	271.69	128.01	230.07	269.65
	Quick Ratio (%)	165.29	229.13	97.83	187.14	214.86
	Times Interest Earned (Times)	0.92	12.07	(15.31)	(19.55)	18.52
Operating Performance	Average Collection Turnover (Times)	2.03	2.12	2.00	2.11	2.19
	Days Sales Outstanding	180	172	183	173	167
	Average Inventory Turnover (Times)	4.52	5.83	6.00	5.58	4.79
	Average Payment Turnover (Times)	6.75	8.16	7.64	6.12	5.96
	Average Inventory Turnover Days	81	63	61	65	76
	Property, Plant and Equipment Turnover (Times)	1.15	1.54	1.48	1.34	1.21
	Total Assets Turnover (Times)	0.30	0.34	0.32	0.34	0.35
Profitability	Return on Total Assets (%)	0.53	2.74	(3.84)	(4.89)	2.75
	Return on Equity (%)	0.08	3.47	(5.41)	(6.92)	3.28
	Pre-tax Income to Paid-in Capital Ratio (%)	(0.27)	19.04	(29.93)	(38.12)	15.89
	Net Margin (%)	0.20	7.35	(12.91)	(15.13)	7.52
	Earnings Per Share (NT\$)	0.04	1.98	(2.81)	(3.33)	1.55
Cash flow	Cash Flow Ratio (%)	12.88	53.15	17.90	42.01	101.65
	Cash Flow Adequacy Ratio (%)	63.62	66.83	61.76	89.71	113.21
	Cash Flow Reinvestment Ratio (%)	3.03	5.27	2.74	5.58	9.70
Leverage	Operating Leverage	7.84	4.51	(1.25)	(23.73)	5.76
	Financial Leverage	1.51	1.13	0.93	0.56	1.06

Note: Adoption of IFRSs since 2013.

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

1. Debts Ratio (%): Mainly due to the increase of net cash inflows in 2017, taking into account of working capital status and financial structure to repayment some of the borrowings, resulting in a decrease in total liabilities lead to a decrease in the ratio of liabilities to assets.
2. Times interest earned: The main reason is adequately responding to market changes in 2017 by adjusting the product mix and decreasing production costs, it leads to operating margin up lifted and a rise in net profit, times interest earned increased accordingly.
3. Profitability: The main reason is adequately responding to market changes in 2017 by adjusting the product mix and decreasing production costs, it leads to operating margin up lifted and a rise in net profit, profitability increased accordingly.
4. Cash flow ratio: In 2017, the large amount of recoveries of overdue receivables and income from fire insurance claims leads to the net cash inflows increased, cash flow ratio is increased accordingly.
5. Cash flow adequacy ratio: In 2017, the large amount of recoveries of overdue receivables and income from fire insurance claims leads to the net cash inflows increased, Cash flow adequacy ratio is increased accordingly.
6. Cash re-investment ratio: The main reason is adequately responding to market changes in 2017 by adjusting the product mix and decreasing production costs, it leads to operating margin up-lifted and a rise in net profit, Cash re-investment ratio increased accordingly.
7. Balance: The main reason is adequately responding to market changes in 2017 by adjusting the product mix and decreasing production costs, it leads to operating margin up-lifted and a rise in net profit, financial/operating leverage increased accordingly.

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)

- 6.3 Audit Committee's Review Report for the Most Recent Year: As Appendix 1.2 (pages 132)
- 6.4 Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016, and Independent Auditors' Report: As Appendix 1.4 (pages 134~252)
- 6.5 The Latest Individual Auditor's Report and Financial Statements Audited and Certified by CPAs: As Appendix 1.5 (pages 253~264)
- 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, 2016	Dec. 31, 2017	Difference	%
	Current Assets		24,798,264	26,043,651	1,245,387
Available-for-sale Financial Assets - Non-Current & Investments Accounted for Under Equity Method		4,894,403	4,776,758	(117,645)	(2.40)
Property, Plant and Equipment		27,286,631	24,348,881	(2,937,750)	(10.77)
Intangible Assets		8,007,219	7,846,962	(160,257)	(2.00)
Other Assets		4,110,917	3,969,417	(141,500)	(3.44)
Total Assets		69,097,434	66,985,669	(2,111,765)	(3.06)
Current Liabilities		10,214,070	9,668,814	(545,256)	(5.34)
Non-Current liabilities		7,899,368	4,332,943	(3,566,425)	(45.15)
Total Liabilities		18,113,438	14,001,757	(4,111,681)	(22.70)
Share Capital		10,915,492	10,887,014	(28,478)	(0.26)
Capital Surplus		43,016,259	39,970,967	(3,045,292)	(7.08)
Retained Earnings		(3,303,516)	1,614,226	4,917,742	148.86
Other Equity Interest		(505,370)	(684,243)	178,873	35.39
Treasury Stocks		(848,721)	(408,783)	(439,938)	(51.84)
Non-Controlling Interest		1,709,852	1,604,731	(105,121)	(6.15)
Total Equity		50,983,996	52,983,912	1,999,916	3.92

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

1. Decrease in noncurrent liabilities : Primarily as a result of the advance repayment of long-term bank loans in 2017.
2. Decrease in total liabilities : Primarily as a result of the decrease in bank loan.
3. Increase in retained earnings : Primarily as a result of a turn from loss to profit in 2017 and making up for 2016 losses with capital reserve in 2017, resulting in the increase in retained earnings.
4. Decrease in other equities : Primarily as a result of the fluctuation in foreign exchange rate in the market in 2017, resulting in foreign currency exchange adjustment in the financial statements of foreign subsidiaries invested by the Company.
5. Decrease in Treasury Stocks : Primarily as a result of the cancellation of redemption shares from objecting shareholders and the transfer of treasury stocks to employees in 2017.

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	2016	2017	Difference	%
Net Revenue		25,539,163	25,270,616	(268,547)	(1.05)
Cost of Revenue		(23,626,125)	(19,786,497)	(3,839,628)	(16.25)
Unrealized (gain) loss from inter-affiliate accounts		2,972	(23,492)	26,464	890.44
Gross Profit		1,916,010	5,460,627	3,544,617	185
Operating Expenses		(3,427,649)	(3,367,636)	(60,013)	(1.75)
Other Operating Income and Expenses		255,863	214,159	(41,704)	(16.30)
Operating (loss) Profit		(1,255,776)	2,307,150	3,562,926	283.72
Non-Operating Income and Expenses		(2,499,138)	(383,760)	(2,115,378)	(84.64)
(Loss) Profit before Income Tax		(3,754,914)	1,923,390	5,678,304	151.22
Income Tax Benefit (Expense)		(257,838)	(237,177)	(20,661)	(8.01)
(Loss) Profit		(4,012,752)	1,686,213	5,698,965	142.02
Other comprehensive (loss) income		(801,435)	(240,158)	(561,277)	(70.03)

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

1. Unrealized gain from inter-affiliate accounts
Primarily as a result of falling in product prices, resulting in gross loss on sale.
2. Increase in net gross profit, increase in operating income and increase in net profit, et.
Primarily as a result of launching new product, optimizing the product portfolio, integration of Group's resources and strict control of production costs in 2017.
3. Decrease in non-operating expenses
Primarily as a result of the losses of fire in 2016; the carrying amount of non-financial assets for 2017, after deducting impairment in accordance with the recoverable amount, was significantly reduced from those in 2016; the affiliated company and joint-venture losses and corporate finance costs recognized in the 2017 adopting equity method were also lower than those in 2016.
4. Decrease in other comprehensive loss in current period
Primarily as a result of the decrease in exchange loss on translation of foreign financial statements in 2017.

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 added production capacity in China which has launched in the fourth quarter of 2017 affects the balance of LED market. It is anticipated that the demand in the third quarter of 2018 will be recovered and Company will balance the impact of overcapacity by new technologies, such as Mini LED application or laser application; Therefore the LED market has potential to continue to grow, for example LED High efficiency tube and filament LED light bulb demand has grown over the years, and LED application in lighting and automobile and other applications has continued to permeate throughout other fields of applications. LED application in Horticulture has gradually gained importance and IR LED in security control, smart phone sensor, Mini LED application in various kinds of display, and so on.

In 2018 our expected shipment of LED chip is estimated at 562,998 million pcs.

Regarding VCSEL OEM sales and market promotion, besides from significant increase of sales of data transfer VCSEL epitaxy wafer, this year we will start to promote VCSEL in sensor device products.

In reaction to end application demand towards intelligence and price-performance ratio in the upcoming future, we still need to constantly put our effort in research and development, improve our technique and lower our costs. Our company will continue to launch new products, improve efficiency of resource operations, increase product's additional value and product mix optimization and compete for more high quality orders in order to increase shareholders return on equity.

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	3,544,617	5,896,153	(1,647,267)	36,823	(741,092)

Notes to cause of increase/decrease:

Response to the change of market demand, although the sales volume has decreased, however, improving the added value of products, optimizing the product portfolio and the decrease in costs result 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	2016	2017	Difference	%
	From Operating Activities		6,947,002	6,970,141	23,139
From Investing Activities		(285,375)	(2,230,160)	1,944,785	681.48
From Financing Activities		(8,380,543)	(4,003,077)	(4,377,466)	(52.23)

Analysis of Cash Flow

1. Investing Activities

Primarily as a result of disposition of plant, integration of the Group's resources and activation of idle assets, resulting in an increase in the cash flow from investing activities in 2016.

2. Financing Activities

Primarily as a result of repurchase of the fourth overseas convertible corporate bonds 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 2018

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	
				Investing plan	Wealth management plan
(a)	(b)	(c)	(a)+(b)+(c)		
6,836,697	7,344,000	(7,970,000)	6,210,697	—	—

Analysis of changes in cash flow for 2018

1. Operating Activities: Primarily as a result of the profit which is after deducting non-cash flow expenses, including depreciation and amortization, resulting in net cash inflow.

2. Investing Activities: The cash outflow primarily resulted from the capital expenditure incurred by the plan to expand production capacity and replace old machine with new one.

3. Investing Activities: The cash outflow primarily resulted from the advance repayment of loans to save interest.

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 2017:

Unit: NT\$ thousands

Project	Capital sources	Total funding
Purchase belong to equipment for business use	Own fund	2,206,021

7.4.2 Impact on financial business

In 2017, in response to the needs of introducing new product, enhancing product specifications and improving competitiveness, new advanced process equipment, clean rooms, R&D equipment and machine upgrades were added, it is also invested to strengthening environmental protection and safety facilities. The Company has also carefully evaluated the funding need for purchase of machine and equipment, and planned the utilization of working capital 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 significant adverse effect is produced to the financial situation of the Company and its subsidiaries.

Item	Year	
	2016	2017
Property, Plant and Equipment Turnover (Times)	0.83	0.98
Current Ratio (%)	242.79	269.36

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 and its subsidiary focus its investment policies on the III-V Semiconductors industry primarily. In order to stable the material resource, reduce the production cost and expand applications and sale volume of the Company's products, the Company conducts investment assessment. Through the investment, the Company achieves the upstream and downstream virtual vertical integration, continues to boost strategic cooperation, upgrades effective utilization of resources and increases the penetration rate of LED products in various application markets, and thereby upgrades the Company's entire competitiveness and improve the Company's profitability.

7.5.2 Analysis on investment income

In 2017, as a result of the increase of demand of new product application such as CSP, IR LED, automotive LED, LED filament lamps and LED plant lighting, etc., economic rebound, and the performance of investee company's profitability and stock price, the investment profit recognized by the Group in 2017 was NT\$ 64.094 million dollars.

7.5.3 Corrective actions against investment and investment plan for following year

The Company continually reviews and adjusts investment structure in hopes of exerting the maximum efficiency of investment fund. The Company insists on consistent policy and focuses its investment on the III-V Semiconductors industry to develop the upstream and downstream virtual vertical integration; meanwhile, energetically seeks the investment niche for new application and increase sale volume of the Company's

products to expand business territory, improve penetration of III-V semiconductor products in various applications in hope of exerting the maximum efficiency and promote the competitiveness, growth and profitability of the Company.

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\$379,057 thousand and NT\$447,384 thousand in 2016 and 2017. 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.

The limit of loan made by the subsidiary indirectly owned by the Company, Epicrystal Corporation (ChangZhou) Ltd., shall be no more than 30% of the net worth in the latest financial statements of Epicrystal Corporation (ChangZhou) Ltd.. The limit of loan made by Epicrystal (ChangZhou) to any single counterpart shall be no more than 20% of the net worth in its latest financial.

December 31, 2017 Unit: NT\$ thousands

Lender	Borrower	Balance of loan A	Actual drawdown	A to 2017 Q4 Net value ratio (%)
EPISTAR Corporation	Jiangsu Canyang Optoelectronics Ltd.	863,040	863,040	1.68
EPISKY Corporation (Xiamen) Ltd.	United LED Shan Dong Corporation	27,390	0	1.01
EPISKY Corporation (Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	273,900	0	10.09
Epicrystal Corporation (ChangZhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	365,200	365,200	8.37
Total subsidiaries		1,529,530	1,228,240	2.98

Note: The net worth in the financial statements of the Company, Episky Xiamen and Epicrystal (ChangZhou) 2017 was NT\$51,379,181 thousand、RMB594,450 thousand and RMB955,876 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, 2017 Unit: NT\$ thousands

Endorser/guarantor	Endorsee/guarantee	Balance of guaranty A	Actual drawdown	A to 2017 Q4 Net value ratio (%)
EPISTAR Corporation	EPISKY Corporation (Xiamen) Ltd.	1,432,520	0	2.79
EPISTAR Corporation	Jiangsu Canyang Optoelectronics Ltd.	1,071,360	452,352	2.09
EPISTAR Corporation	Ecoled Venture Co., Limited	89,280	0	0.17
EPISTAR Corporation	Yen-Rich Opto (Hong Kong) Limited	148,800	0	0.29
Total consolidated subjects		2,741,960	452,352	5.34

Note: The net worth in the financial statement 2017 was NT\$51,379,181 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 2017 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 2018 will remain growing stably. For details, please see Pages 79~80 herein.

7.6.5 The impact of material changes of local and foreign government policies and regulations in fiscal year 2017 and as of the publication date of the annual report on the Company's finance and business, and the responsive measures

It will not have directly impact to the company now by reference to related public information regarding the potential trade war between china and America, however, it should be carefully evaluated the situation in the future. 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 added production capacity of LED factory in China has successively launched in the end of 2017, which will turn LED market from tight to overcapacity, However due to global issues on energy-saving and emphasis on environmental protection, as well as luminous efficiency has improved over the years and Miniaturization of LED chips, many more new applications of LED are emerging. Therefore the LED market has potential to continue to grow, for example LED High efficiency tube and filament LED light bulb demand has grown over the years, and LED application in lighting and automobile and other applications has continued to permeate throughout other fields of applications. LED application in Horticulture has gradually gained importance and IR LED in security control, smart phone sensor, Mini LED application in various kinds of display, and so on.

In reaction to end application demand towards intelligence and price–performance ratio in the upcoming future, we still need to constantly put our effort in research and development, improve our technique and lower our costs. Our company will continue to launch new products, improve efficiency of resource operations, increase product’s additional value and product mix optimization and compete for more high quality orders in order to increase shareholders return on equity.

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

Epistar has always valued the relationship with clients because we believe that, in the tightly-interwoven LED industry, working closely with clients is critical to producing the highest quality end-products. That is why Epistar has developed a unique “Co-Activation Service Model,” working alongside clients as their partner to co-design chips and production processes, while perfecting quality control. Through such close-knit partnerships, Epistar is able to meet the diverse needs of downstream businesses and consumers, and in essence, satisfy every Epistar partner’s client.

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

The company conducts organization reform continually to reach internal efficiency and effectiveness through operation management. As of the published date of the annual report, the company and its subsidiaries did not have a certain mergers and acquisitions plan, so it has no significant impact on the shareholders' equity of the company.

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. The Company continue to promote and integrate its fabs and centralize the Group’s equipment to upgrade the business scale and management efficiency of each fab. Up to now there are still good results.

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; Except the procurement amount of semi-finished products of LED chips from supplier B (which is the company's related party) was accounted for 22.07% out of the net purchase amount of the year 2016, mainly reason is to comply with Group's production and sales plan adjustment then there shouldn't be worry about over-centralized purchasing.

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%

Everlight Electronics Co., Ltd is the company's director who adjusted the company's shares holding position due to financial operation in the fourth quarter of 2017. This does not affect the long-term and important partnership between the two parties. The company maintains a close relationship with major shareholders at any time. Therefore, it has no major impact on the company's finances or businesses.

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
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 9.3 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.
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 HsinChu 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	The Company sued Epileds for patent infringement under four TW patents, which are TW141155, TW170789, TW202662, and TW1283031. The products at issue are IR LED BN-D4242J-A3 and BN-D4242E-A3.	subject to the outcome of court judgement	2016.01.08	Epileds	Reach a settlement.

Case	General issue	Amount of the dispute	Beginning date of the lawsuit	Litigant	Current progress
Patent litigation	The Company sued Lowe's for patent infringement under five US patents, which are US6,346,771 , US8,492,780 , US7,560,738 , US8,791,467 and US8,587,020. The products at issue are LED filament and light bulb.	subject to the outcome of court judgement	2017.04.28	Lowe's	The case is currently under trial by the United States District Court of California.
Patent litigation	The Company sued All Star Lighting Supplies for patent infringement under eight US patents, which are US7,355,208 , US7,489,068 , US7,560,738 , US8,791,467 , US9,065,022 , US9,257,604 , US9,488,321 , US9,664,340. The products at issue are LED filament and light bulb.	subject to the outcome of court judgement	2017.10.13	All Star Lighting Supplies	The case is currently under trial by the United States District Court of New Jersey.

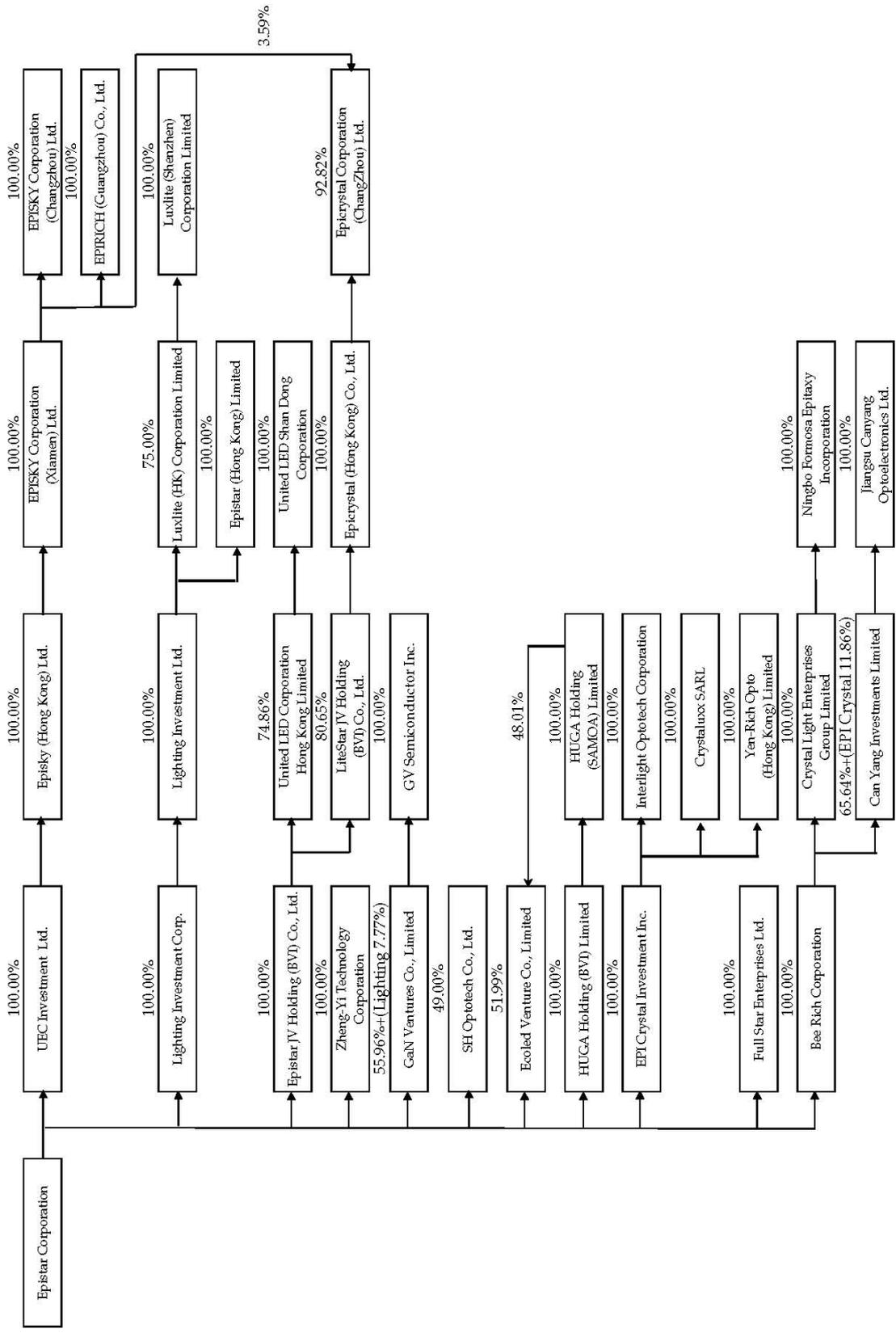
7.6.14 Other important risks, and mitigation measures being or to be taken: None.

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, 2017)



8.1.2 Basic Information of Affiliates

Unit: \$ thousands USD, RMB and EUR

Company Name	Date of establishment	Address	Capital Stock	Major business
UEC Investment Ltd.	1999.10.20	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, 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	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, 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 8,404	Investment & sales of electronic Components .
SH Optotech Co., Ltd.	2009.09.25	IF 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 products.
HUGA Holding (BVI) Limited	2011.01.11	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, 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	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, 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: \$ thousands USD, RMB and EUR

Company Name	Date of establishment	Address	Capital Stock	Major business
LiteStar JV Holding (BVI) Co., Ltd.	2010.02.22	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	USD 120,050	Professional investment.
GV Semiconductor Inc.	2017.06.28	1245 South Winchester Blvd, Suite 300, San Jose, CA 95128 United States of America	USD 1,620	Manufacturing of Semiconductors and seller of technology components
HUGA Holding (Samoa) Limited	2011.01.13	Vistra Corporate Services Centre, Ground Floor NPF Building, Bach Road, Apia Samoa.	USD 12,451	Professional investment.
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 Ningbo, 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: \$ thousands USD, 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	Room 1501,15F, Zhiju Building, No.1 QiTian Road, Linyi Avenue, Taoyuan Street, Nanshan 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

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	0	0.00%
General Manager	Yung-Sheng Yu				
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	0	0.00%
General Manager	Lin-Tien Yang				
GaN Ventures Co., Limited	Chairman	Ming-Jiunn Jou		0	0.00%
	Director	DHAYAGUDE Tushar Heramb		0	0.00%
	Director	SHAH Ashok Deepak		0	0.00%
	Director	Min-Hsun Hsieh		0	0.00%
	Director	Nan-Yang Wu		0	0.00%

As of December 31, 2017

As of December 31, 2017

Company Name	Title	Name or Representative		Shareholding	
		Name	Legal representative	Shares	%
SH Optotech Co., Ltd.	Chairman	Seoul Optodevice Co., Ltd.	Hyeon Jong Yu	2,725,007	42.00%
	Director	Seoul Optodevice Co., Ltd.	Woo Chul Kwak		
	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.	Jong Hyeon Chae	583,928	9.00%
Ecoled Venture Co., Limited	General Manager	Lin-Tien Yang		0	0.00%
	Chairman	Ming-Jiunn Jou		0	0.00%
HUGA Holding (BVI) Limited	Director	Alexander-Chan Wang		0	0.00%
	Director	Yung-Sheng Yu		0	0.00%
	Director	Chin-Yung Fan		0	0.00%
	Director	Epistar Corporation	Ming-Jiunn Jou	118,000,000	100.00%
EPI Crystal Investment Inc.	Director	Epistar Corporation	Lin-Tien Yang		
	Director	Epistar Corporation	Yung-Sheng Yu		
Full Star Enterprises Limited	Supervisor	Epistar Corporation	Tao-jung Lin	0	0.00%
	General Manager	Tzu-Hsiang Tai			
Bee Rich Corporation	Director	Ming-Jiunn Jou		0	0.00%
	Director	Epistar Corporation	Ming-Jiunn Jou	109,472,700	100.00%
Episky(Hong Kong)Ltd.	Director	Chin-Yung Fan		0	0.00%
	Director	Ming-Jiunn Jou		0	0.00%
Lighting Investment Ltd.	Director	Ming-Jiunn Jou		0	0.00%
	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%
	Director	Biing-Jye Lee		0	0.00%
LiteStar JV Holding (BVI) Co., Ltd.	Director	Ming-Jiunn Jou		0	0.00%
	Director	Kuo-Yang Chang		0	0.00%
	Director	Ming-Jiunn Jou		0	0.00%
GV Semiconductor Inc.	Chairman	Ming-Jiunn Jou		0	0.00%
	Director	DHAYAGUDE Tushar Heramb		0	0.00%
	Director	SHAH Ashok Deepak		0	0.00%
	Director	Nan- Yang Wu		0	0.00%

As of December 31, 2017

Company Name	Title	Name or Representative		Shareholding	
		Name	Legal representative	Shares	%
HUGA Holding (Samoa) Limited	Director	HUGA Holding (BVI) Limited	Chin-Yung Fan	12,451,035	100.00%
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			
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	Suntrap Corporation Limited	Ching-Huei Wu	10,472,700	6.09%
			Episky (Hong Kong) Ltd.	Jen-Chau Wu	NA (Note 1)
EPI SKY Corporation (Xiamen) Ltd.	Director	Episky (Hong Kong) Ltd.	Chang Bao	NA (Note 1)	0.00%
	Director	Episky (Hong Kong) Ltd.	Rong-Yih Hwang		
	Director	Episky (Hong Kong) Ltd.	Wen-Chieh Kuo		
	Director	Episky (Hong Kong) Ltd.	Shih-Shieh Chang		
	Supervisor	Episky (Hong Kong) Ltd.			
	General Manager	Wen-Chieh Kuo			
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%
	Director	Chin-Yung Fan		0	0.00%
	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		
Epistar (Hong Kong) Limited	General Manager	Hsien-Chun Weng		NA (Note 1)	0.00%
	Director	Bing-Jye Lee		0	0.00%
	Director	Ming-Jiunn Jou		0	0.00%

As of December 31, 2017

Company Name	Title	Name or Representative		Legal representative		Shareholding	
		Name	Name	Legal representative	Shares	%	
	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	Jen-Chau Wu	NA (Note 1)	100.00%	
	Director	Crystal Light Enterprises Group Limited	Jimbo Wang	Jimbo Wang			
Jiangsu Canyang Optoelectronics Ltd.	Director	Crystal Light Enterprises Group Limited	Talung Ho	Talung Ho			
	Chairman	Can Yang Investments Limited	Jen-Chau Wu	Jen-Chau Wu	NA (Note 1)	100.00%	
	Director	Can Yang Investments Limited	Ming-Jiunn Jou	Ming-Jiunn Jou			
	Director	Can Yang Investments Limited	Chin-Yung Fan	Chin-Yung Fan			
	Director	Can Yang Investments Limited	Chia-Chen Chang	Chia-Chen Chang			
	Director	Can Yang Investments Limited	Nam Han-Yong	Nam Han-Yong			
	Director	Can Yang Investments Limited	Ching-Huei Wu	Ching-Huei Wu			
	Supervisor	Can Yang Investments Limited	Talung Ho	Talung Ho			
	General Manager	Can Yang Investments Limited	Cheng-Chi Chiang	Talung Ho	NA (Note 1)	0.00%	
	General Manager	Cheng-Chi Chiang			NA (Note 1)	100.00%	
EPISKY Corporation (Changzhou) Ltd.	Chairman	EPISKY Corporation (Xiamen) Ltd.	Li-Cheng Hung	Li-Cheng Hung	NA (Note 1)	100.00%	
	Director	EPISKY Corporation (Xiamen) Ltd.	Hsien-Chun Weng	Hsien-Chun Weng			
	Director	EPISKY Corporation (Xiamen) Ltd.	Jen-Chau Wu	Jen-Chau Wu			
	Director	EPISKY Corporation (Xiamen) Ltd.	Chia-Chen Chang	Chia-Chen Chang			
	Director	EPISKY Corporation (Xiamen) Ltd.	Talung Ho	Talung Ho			
	Supervisor	EPISKY Corporation (Xiamen) Ltd.	Tzu-Hsiang Tai	Tzu-Hsiang Tai			
EPIRICH (Guangzhou) Co., Ltd.	General Manager	Liang-Sheng Chi			NA (Note 1)	0.00%	
	Chairman	EPISKY Corporation (Xiamen) Ltd.	Chin-Yung Fan	Chin-Yung Fan	NA (Note 1)	100.00%	
	Director	EPISKY Corporation (Xiamen) Ltd.	Benson Liaw	Benson Liaw			
	Director	EPISKY Corporation (Xiamen) Ltd.	Yung-Sheng Yu	Yung-Sheng Yu			
Luxlite (Shenzhen) Corporation Limited	Supervisor	EPISKY Corporation (Xiamen) Ltd.	Talung Ho	Talung Ho			
	Chairman	Luxlite (HK) Corporation Limited	Chang Bao	Chang Bao	NA (Note 1)	100.00%	
	Director	Luxlite (HK) Corporation Limited	Ming-Jiunn Jou	Ming-Jiunn Jou			
	Director	Luxlite (HK) Corporation Limited	Shih-Shieh Chang	Shih-Shieh Chang			
	Director	Luxlite (HK) Corporation Limited	Tzu-Hsiang Tai	Tzu-Hsiang Tai			
	Director	Luxlite (HK) Corporation Limited	Rong-Yih Hwang	Rong-Yih Hwang			
	Director	Luxlite (HK) Corporation Limited	Chin-Yung Fan	Chin-Yung Fan			
	Director	Luxlite (HK) Corporation Limited	Chen-Chen Liu	Chen-Chen Liu			
	Supervisor	Luxlite (HK) Corporation Limited	Tao-jung Lin	Tao-jung Lin	NA (Note 1)	0.00%	
	General Manager	Lin-Tien Yang			NA (Note 1)	100.00%	

As of December 31, 2017

Company Name	Title	Name or Representative		Shareholding		
		Name	Legal representative	Shares	%	
Epicrystal Corporation (ChangZhou) Ltd.	Chairman	Epicrystal (Hong Kong) Co., Ltd.	Jen-Chau Wu	NA (Note 1)	92.82%	
	Director	Epicrystal (Hong Kong) Co., Ltd.	Bing-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., `	Tao-jung Lin	NA (Note 1)	100.00% (Note 2)	
			EPISKY Corporation (Xiamen) Ltd., `			
			Lite-On Electronics (Tianjin) Co., Ltd.			
		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, 2017 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	2,773,525	32	2,773,493	2,948	(124)	264,473	NA
Lighting Investment Corp.	1,352,971	1,050,866	7,059	1,043,807	171,158	226,184	211,386	1.56
Epistar JV Holding (BVI) Co., Ltd.	7,282,982	5,753,564	0	5,753,564	0	(86)	72,029	NA
Zheng-Yi Technology Corporation	600,000	422,294	160,105	262,189	301,554	(155,719)	(152,564)	(2.54)
GaN Ventures Co., Limited	250,088	149,240	10,926	138,314	609	(62,824)	(81,147)	NA
SH Optotech Co., Ltd.	64,881	14,293	11,635	2,658	333	(960)	(262)	(0.04)
Ecoled Venture Co., Limited	98,595	34,337	37,044	(2,707)	66,505	(47,979)	(47,878)	NA
HUGA Holding (BVI) Limited	589,959	293,197	0	293,197	0	(47)	(33,307)	NA
EPI Crystal Investment Inc.	1,180,000	1,140,395	19,665	1,120,730	0	(347)	52,227	0.45
Full Star Enterprises Limited	262,991	252,169	87	252,082	0	(144)	6,655	NA
Bee Rich Corporation	3,331,416	849,620	0	849,620	0	0	1,872	NA
Episky (Hong Kong) Ltd.	2,124,096	2,768,770	0	2,768,770	0	0	264,951	NA
Lighting Investment Ltd.	152,701	639,227	110,203	529,024	309,172	(7,673)	152,562	NA
United LED Corporation Hong Kong Limited	2,689,036	844,419	(135)	844,554	0	(42,117)	(146,567)	NA
LitesStar JV Holding (BVI) Co., Ltd.	3,807,404	4,014,874	49	4,014,825	0	(115)	281,504	NA
GV Semiconductor Inc.	48,211	28,838	0	28,838	1,674	(16,819)	(19,810)	NA
HUGA Holding (Samoa) Limited	308,047	164,340	0	164,340	0	(42)	(22,875)	NA
Interlight Optotech Corporation	24,751	26,519	19,456	7,063	167	(9,305)	2,317	0.94
Crystaluxx SARL	115,603	17,529	390	17,139	0	(1,042)	(3,380)	NA
Yen-Rich Opto (Hong Kong) Limited	238,378	622,982	329,436	293,546	1,146,933	12,334	14,482	NA
Crystal Light Enterprises Group Limited	6,754	26,352	0	26,352	0	0	2,953	NA
Can Yang Investments Limited	5,306,728	1,315,950	61,734	1,254,216	0	(663)	1,513	NA
EPI SKY Corporation (Xiamen) Ltd.	2,036,206	5,007,568	2,238,805	2,768,763	5,688,343	298,724	264,952	NA
Luxlite (HK) Corporation Limited	113,088	412,096	5,993	406,103	0	(72)	154,138	NA
Epistar (Hong Kong) Limited	2,556	2,449	102	2,347	0	(32)	(9)	NA
United LED Shan Dong Corporation	2,519,400	1,018,172	184,962	833,210	46	(173,590)	(146,567)	NA
Epicrystal (Hong Kong) Co., Ltd.	4,040,994	4,013,504	0	4,013,504	0	0	281,708	NA

As of December 31, 2017 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	26,355	2	26,353	0	2,282	2,953	NA
Jiangsu Canyang Optoelectronics Ltd.	4,810,097	4,049,266	2,741,602	1,307,664	1,813,418	165,846	2,852	NA
EPISKY Corporation (Changzhou) Ltd.	91,300	2,090,070	1,886,963	203,107	4,666,224	56,261	49,815	NA
EPIRICH (Guangzhou) Co., Ltd.	36,520	16,357	24	16,333	420	(4,652)	4,807	NA
Luxlite (Shenzhen) Corporation Limited	93,068	2,687,242	2,306,016	381,226	5,302,553	264,859	153,533	NA
Epicrystal Corporation (ChangZhou) Ltd.	4,282,228	5,674,195	(1,360,178)	7,034,373	3,648,456	288,787	303,499	NA

8.1.7 Affiliates Consolidated Financial Statements: As Appendix 1.3 (pages 133)

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..

The limit of total loan made by the subsidiary wholly owned by the Company directly, Epicrystal Corporation (ChangZhou) Ltd., and the limit of loan made by it any single counterpart shall be no more than 30% and 20% of the net worth in the latest financial statements of Epicrystal Corporation (ChangZhou) Ltd..

December 31, 2017 Unit: NT\$ thousands

Lender	Borrower	Balance of loan A	Actual drawdown	A to 2017 Q4 Net value ratio (%)
EPISKY Corporation (Xiamen) Ltd.	United LED Shan Dong Corporation	27,390	0	1.01
EPISKY Corporation (Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	273,900	0	10.09
Epicrystal Corporation (ChangZhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	365,200	365,200	8.37
Total		666,490	365,200	1.30

Note: Episky Corporation (Xiamen) Ltd. and Epicrystal (ChangZhou) Ltd. The net worth in the financial statement 2017 was RMB 594,450 thousand and RMB 955,876 thousand respectively.

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 2017 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 21, 2017. (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 21, 2017.				
Basis for and reasonableness of the pricing	<p>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:</p> <ol style="list-style-type: none"> 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. 				
Manner in which the specified persons were selected	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.				
Reasons why the private placement was necessary	<p>The Company's major product, InGaN LED chip production, contributes to around 75% of the total revenue of the Company for the Fiscal Year of 2016. However, the LED chip market suffered from oversupply and it has affected our sales performance, which leads to negative gross margin ratio of the product category in 2016. It may worsen the Company's financial position and consequently affect our shareholders' value.</p> <p>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.</p> <p>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.</p>				
Date of completion of payment	NA				
Information about offerees	Targets of the private placement	Qualifications	Subscription amounts	Relationship with the Company	Participation in the operations of the Company
	No offerees have been arranged so far.				
Actual subscription price	NA				
Difference between actual subscription price and reference price	NA				

Title	Approved the motion for issuance of securities in private placement at the shareholders' meeting on June 21, 2017. (note)
Effect of the private placement to shareholders' equity	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 13.16% of the current (March 15, 2018) paid-in capital upon the capital increase.
Status of use of the capital raised through the private placement of common shares and implementation progress of the plan	NA
Realization of the benefits of the plan	NA

Note: As of the date of printed of the annual report, the Company had been terminated by the resolution of the Board of directors meeting on 15 March 2018, due to lack of qualified strategic investor can be found before the expiry date at 20 June 2017.

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

Unit: NT\$, Shares: %

Company	Capital Stock (NT\$ K)	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)	NT\$ 1,352,971 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\$ 122,339 thousand	None	0	0
From 2017 until the date of publication of the annual report											

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-Ize 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.

8.4 Other Necessary Supplement: None.

8.5 Any Events in 2017 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: None.

Appendix 1.1

Epistar Corporation Statement of Internal Control System

March 15, 2018

Epistar Corporation has conducted a self-check for internal control for the year of 2017. 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, 2017 (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 15, 2018 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 2018

The board of directors has prepared and submitted the Company's 2017 Business Report, Financial Statements, and Proposal for allocation of profit. Ya-Huei Cheng CPA and Chih-Cheng Hsieh CPA of PricewaterhouseCoopers have also audited the financial statements and issued the auditors' report. The Business Report, Financial Statements, and Proposal for 2017 allocation of profit 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 15, 2018

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, 2017 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 15, 2018

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, 2017 and 2016, 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, 2017 and 2016, 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 reports of 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 judgement, 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.

The key audit matters in relation to the consolidated financial statements for the year ended December 31, 2017 are outlined as follows:

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

Description

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, 2017, the balances of property, plant and equipment, and goodwill were NT\$24,348,881 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.

How our audit addressed the matter

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\$5,488,266 thousand and NT\$672,888 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 judgement, 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 2017 and 2016 financial statements of certain consolidated subsidiaries. Total assets of those consolidated subsidiaries amounted to NT\$1,045,560 thousand and NT\$1,408,852 thousand, constituting 1.56% and 2.04% of the consolidated total assets as at December 31, 2017 and 2016, respectively, and total operating revenues of \$0 and NT\$74,744 thousand, constituting 0% and 0.29% of the consolidated total operating revenues for the years then ended. Furthermore, we did not audit the 2017 and 2016 financial statements of certain equity investments accounted for under the equity method. These equity investments amounted to NT\$802,377 thousand and NT\$650,836 thousand, representing 1.19% and 0.94% of the consolidated total assets as of December 31, 2017 and 2016, 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\$485,632 thousand and NT\$525,096 thousand, representing (33.58%) and 10.91% of the consolidated comprehensive income for the years then ended. The financial statements of the aforementioned subsidiaries and investees 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 subsidiaries and investments, is based solely on the reports of the other independent accountants.

We have audited and expressed an unmodified opinion on the parent company only financial statements of Epistar Corporation as at and for the years ended December 31, 2017 and 2016.

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 judgement 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.

Cheng, Ya-Huei

Hsieh, Chih-Cheng

For and on behalf of PricewaterhouseCoopers, Taiwan

March 15, 2018

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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2017		December 31, 2016	
		AMOUNT	%	AMOUNT	%
Current assets					
Cash and cash equivalents	6(1)	\$ 6,836,697	10	\$ 6,001,430	9
Financial assets at fair value through profit or loss - current	6(2)	410,766	1	694,057	1
Notes receivable, net	6(4)	1,886,532	3	892,562	1
Accounts receivable, net	6(5)	6,623,059	10	6,831,210	10
Accounts receivable - related parties, net	7	2,779,105	4	2,753,269	4
Other receivables	6(20)	823,277	1	1,137,658	2
Other receivables - related parties	7	24,785	-	62,821	-
Inventories, net	6(6)	4,815,378	7	4,354,837	6
Prepayments		1,192,436	2	1,277,849	2
Non-current assets held for sale - net	6(12)	468,142	1	627,398	1
Other current assets	8	183,474	-	165,173	-
Current Assets		<u>26,043,651</u>	<u>39</u>	<u>24,798,264</u>	<u>36</u>
Non-current assets					
Available-for-sale financial assets - non-current	6(3)	1,957,093	3	2,151,349	3
Investments accounted for under equity method	6(7)	2,819,665	4	2,743,054	4
Property, plant and equipment, net	6(8)(11) and 8	24,348,881	36	27,286,631	39
Intangible assets	6(9)(11)	7,846,962	12	8,007,219	12
Deferred income tax assets	6(30)	3,021,330	5	2,714,882	4
Other non-current assets	6(10)	948,087	1	1,396,035	2
Non-current assets		<u>40,942,018</u>	<u>61</u>	<u>44,299,170</u>	<u>64</u>
Total assets		<u>\$ 66,985,669</u>	<u>100</u>	<u>\$ 69,097,434</u>	<u>100</u>

(Continued)

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2017		December 31, 2016	
		AMOUNT	%	AMOUNT	%
Current liabilities					
Short-term borrowings	6(13)	\$ 700,000	1	\$ 2,161,250	3
Short-term notes and bills payable	6(14) and 8	376,791	1	69,836	-
Notes payable		74,172	-	35,185	-
Accounts payable		2,413,925	4	2,411,249	4
Accounts payable - related parties	7	754,847	1	735,181	1
Other payables	7	4,037,486	6	3,943,714	6
Current income tax liabilities		168,527	-	45,727	-
Long-term liabilities, current portion	6(16) and 8	977,277	1	615,841	1
Other current liabilities - others		165,789	-	196,087	-
Current Liabilities		<u>9,668,814</u>	<u>14</u>	<u>10,214,070</u>	<u>15</u>
Non-current liabilities					
Long-term borrowings	6(16) and 8	2,120,859	3	5,737,866	8
Deferred income tax liabilities	6(30)	1,097,797	2	949,502	1
Other non-current liabilities	6(17)(19)	1,114,287	2	1,212,000	2
Non-current liabilities		<u>4,332,943</u>	<u>7</u>	<u>7,899,368</u>	<u>11</u>
Total Liabilities		<u>14,001,757</u>	<u>21</u>	<u>18,113,438</u>	<u>26</u>
Equity attributable to owners of parent company					
Share capital					
Share capital - common stock	6(21)				
	6(20)	10,887,014	16	10,915,492	16
Capital surplus					
Capital surplus	6(21)	39,970,967	59	43,016,259	61
Retained earnings					
Legal reserve	6(22)	-	-	241,512	-
Unappropriated retained earnings (accumulated deficit)		1,614,226	3	(3,545,028)	(5)
Other equity interest					
Other equity interest	6(23)	(684,243)	(1)	(505,370)	-
Treasury stocks					
	6(20)	(408,783)	-	(848,721)	(1)
Equity attributable to owners of the parent					
		<u>51,379,181</u>	<u>77</u>	<u>49,274,144</u>	<u>71</u>
Non-controlling interest					
		<u>1,604,731</u>	<u>2</u>	<u>1,709,852</u>	<u>3</u>
Total equity		<u>52,983,912</u>	<u>79</u>	<u>50,983,996</u>	<u>74</u>
Total liabilities and equity		<u>\$ 66,985,669</u>	<u>100</u>	<u>\$ 69,097,434</u>	<u>100</u>

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, 2017 AND 2016

(Expressed in thousands of New Taiwan dollars, except for earnings (loss) per share amounts)

Items	Notes	Years ended December 31			
		2017		2016	
		AMOUNT	%	AMOUNT	%
Sales revenue	7	\$ 25,270,616	100	\$ 25,539,163	100
Operating costs	6(6) and 7	(19,786,497)	(79)	(23,626,125)	(93)
Operating margin		5,484,119	21	1,913,038	7
Unrealized loss (profit) from sales		(21,083)	-	2,409	-
Realized profit from sales		(2,409)	-	563	-
Net operating margin		5,460,627	21	1,916,010	7
Operating expenses	6(28)				
Selling expenses		(231,959)	(1)	(289,926)	(1)
General and administrative expenses		(1,559,394)	(6)	(1,604,835)	(6)
Research and development expenses		(1,576,283)	(6)	(1,532,888)	(6)
Total operating expenses		(3,367,636)	(13)	(3,427,649)	(13)
Other income and expenses - net	6(24) and 7	214,159	1	255,863	1
Operating loss		2,307,150	9	(1,255,776)	(5)
Non-operating income and expenses					
Other income		252,335	1	244,673	1
Insurances income from disaster	6(3)(11)	400,000	2	1,200,000	5
Other gains and losses	6(3)(11)	(729,284)	(3)	(2,252,180)	(8)
Net gain on valuation of put options, call options and conversion rights of bonds		-	-	56,931	-
Loss on call of corporate bonds		-	-	(199,386)	(1)
Disaster loss		(57,172)	-	(463,846)	(2)
Finance costs		(198,788)	(1)	(403,915)	(2)
Share of loss of associates and joint ventures accounted for under equity method	6(7)	(50,851)	-	(681,415)	(3)
Total non-operating income and expenses		(383,760)	(1)	(2,499,138)	(10)
Profit (loss) before income tax		1,923,390	8	(3,754,914)	(15)
Income tax expense		(237,177)	(1)	(257,838)	(1)
Profit (loss) for the year		\$ 1,686,213	7	(\$ 4,012,752)	(16)

(Continued)

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016

(Expressed in thousands of New Taiwan dollars, except for earnings (loss) per share amounts)

Items	Notes	Years ended December 31			
		2017		2016	
		AMOUNT	%	AMOUNT	%
Other comprehensive income					
Gains (losses) on remeasurements of defined benefit plans	6(17)	(\$ 42,790)	-	\$ 1,968	-
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)	(171)	-	(107)	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		7,274	-	(335)	-
Components of other comprehensive income that will not be reclassified to profit or loss		(35,687)	-	1,526	-
Components of other comprehensive income that will be reclassified to profit or loss					
Cumulative translation differences of foreign operations	6(23)	(206,586)	(1)	(853,572)	(3)
Unrealized gain (loss) on valuation of available-for-sale financial assets	6(3)(23)	(66,753)	-	42,966	-
Share of other comprehensive income 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)	24,125	-	(101,475)	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(30)	44,743	-	109,120	-
Other comprehensive loss for the year		(\$ 240,158)	(1)	(\$ 801,435)	(3)
Total comprehensive (loss) income for the year		\$ 1,446,055	6	(\$ 4,814,187)	(19)
Profit (loss), attributable to:					
Equity holders of the parent company		\$ 1,649,913	7	(\$ 3,546,045)	(14)
Non-controlling interest		\$ 36,300	-	(\$ 466,707)	(2)
Comprehensive (loss) income attributable to:					
Equity holders of the parent company		\$ 1,435,353	6	(\$ 4,193,030)	(17)
Non-controlling interest		\$ 10,702	-	(\$ 621,157)	(2)
Basic earnings (loss) per share 6(31)					
Total basic earnings (loss) per share		\$ 1.55		(\$ 3.33)	
Diluted earnings (loss) per share					
Total diluted earnings (loss) per share		\$ 1.53		(\$ 3.33)	

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

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Notes	Share capital - common stock	Capital surplus	Legal reserve	Equity attributable to owners of the parent						Total	Non- controlling interest	Total			
					Retained earnings	Unappropriated retained earnings (accumulated deficit)	Cumulative translation differences of foreign operations	Unrealized gain or loss on available-for- sale financial assets	Treasury stocks	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					
Appropriation of 2015 earnings	6(22)	-	-	(1,306,352)	1,306,352	-	-	-	-	-	-	-	-			
Legal reserve used to offset accumulated deficit	6(22)	-	135,972	-	-	-	-	-	135,972	-	135,972	-	-			
Changes in equity of associates accounted for using equity method interest accounted for under equity method	6(21)	-	(323)	-	-	-	-	-	(323)	(5,076)	(5,399)	-	-			
Difference between consideration and carrying amount of subsidiaries acquired and disposed	6(20)(21)	(79,642)	(79,642)	-	-	-	-	-	-	-	-	-	-			
Retirement of restricted employee stock	6(21)	(3,309)	(17,503)	-	-	-	-	20,812	-	-	-	-	-			
Retirement of treasury share		-	7,578	-	(509)	-	-	50,556	57,625	63,718	121,343	-	-			
Treasury stock sold by subsidiary		-	-	-	-	-	-	-	-	(98,490)	(98,490)	-	-			
Capital reduction of subsidiary		-	-	-	(3,546,045)	-	-	-	(3,546,045)	(466,707)	(4,012,752)	-	-			
Loss for the year	6(22)	-	-	-	1,526	(687,832)	39,321	-	(646,985)	(154,450)	(801,435)	-	-			
Other comprehensive income (loss) for the year	6(22)(23)	-	-	-	(\$ 3,545,028)	(\$ 228,527)	(\$ 276,843)	(\$ 848,721)	\$ 49,274,144	\$ 1,709,852	\$ 50,983,990	-	-			
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	\$ 50,983,990					

(Continued)

EPSTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31	
		2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit (loss) before tax		\$ 1,923,390	(\$ 3,754,914)
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(8)(28)	4,839,803	5,373,296
Amortization(long-term prepaid rents)	6(9)(10)(28)	360,721	384,871
Provision for doubtful accounts		(18,534)	59,414
Net (gain) loss on financial assets at fair value through profit or loss	6(26)	(99,581)	13,427
Net loss on financial liability at fair value through profit or loss	6(26)	6,572	-
Net gain on valuation of put options, call options and conversion rights of bonds		-	(56,931)
Interest expense	6(27)	234,607	392,302
Interest income	6(25)	(56,221)	(74,979)
Dividend income	6(25)	(1,448)	(11,685)
Compensation cost of share-based payment	6(18)(19)	27,906	-
Effect of exchange rate on bonds payable and long-term loans	6(15)	(49,210)	(178,176)
Share of loss of associates and joint ventures accounted for under the equity method	6(7)	50,851	681,415
Impairment loss on non-financial assets	6(11)(26)	377,682	987,848
(Loss) gain on disposal of property, plant and equipment	6(26)	(9,766)	501,237
Gain on disposal of intangible assets	6(26)	-	(849)
Gain on disposal of investments	6(26)	(32,015)	(74,492)
Other income from recognition of long-term deferred revenues	6(19)	(166,205)	(168,358)
Loss on redemption corporate bonds	6(15)	-	199,386
Impairment loss of financial assets	6(26)	16,651	395,482
Property, plant and equipment transferred to expenses		7,017	10,636
Intangible assets transferred to expenses	6(9)	410	2,074
Payable on machinery and equipment transferred to other income		(121,680)	-
Prepayment for business facilities transferred to other disbursements	6(32)	8,524	-
Realized loss (profit) from sales		2,409	(563)
Unrealized profit (loss) from sales		21,083	(2,409)
Disaster loss	10	57,172	463,846
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets held for trading		381,518	159,630
Notes receivable		(992,632)	716,218
Accounts receivable		202,942	(427,427)
Other receivables		706,642	(755,235)
Inventories		(548,599)	1,956,706
Prepayments		85,413	388,364
Other non-current assets		(40,577)	210,278
Changes in operating liabilities			
Notes payable		38,732	(143,020)
Accounts payable		58,459	349,061
Other payables		171,732	(274,795)
Other current liabilities		(30,298)	(129,291)
Other non-current liabilities		(36,628)	(15,135)
Cash inflow generated from operations		7,376,842	7,177,232
Income tax paid		(245,836)	(40,593)
Interest received		54,674	95,528
Interest paid		(229,498)	(322,489)
Dividend received		13,959	37,324
Net cash flows from operating activities		<u>6,970,141</u>	<u>6,947,002</u>

(Continued)

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31	
		2017	2016
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
(Increase) decrease in other financial assets		(\$ 18,301)	\$ 1,024,926
Acquisition of available-for-sale financial assets		(2,045)	(390,953)
Proceeds from disposal of available-for-sale financial assets		125,425	208,166
Acquisition of investments accounted for under the equity method		(70,312)	(2,445)
Proceeds from liquidation of investment accounted for using equity method		14,631	-
Net cash from disposal of subsidiaries		-	35,604
Acquisition for property, plant and equipment	6(32)	(2,206,021)	(2,622,908)
Proceeds from disposal of property, plant and equipment	6(32)	153,690	1,930,988
Acquisition of intangible assets	6(32)	(228,929)	(492,787)
Proceeds from disposal of intangible assets		-	849
Decrease in refundable deposits paid		1,702	23,185
Net cash flows used in investing activities		(2,230,160)	(285,375)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term loans		(1,456,318)	(1,495,211)
Increase (decrease) in short-term notes and bill payable		304,287	(135,631)
Repayment of long-term loans		(8,518,326)	(6,658,834)
Proceeds from long-term loans		5,300,000	7,776,673
Repayments of convertible bonds	6(15)	-	(7,667,042)
Redemption of convertible bonds payable	6(15)	-	(223,609)
Increase in guarantee deposits received		45,467	258
Proceed from treasury share transferred to employees		260,930	-
Increase in cash paid for acquisition of non-controlling interests		60,883	-
Capital reduction of subsidiary		-	(98,490)
Treasury stock sold by subsidiary company		-	121,343
Net cash flows used in financing activities		(4,003,077)	(8,380,543)
Effects of foreign currency exchange		98,363	157,215
Net increase (decrease) in cash and cash equivalents		835,267	(1,561,701)
Cash and cash equivalents at beginning of year		6,001,430	7,563,131
Cash and cash equivalents at end of year		\$ 6,836,697	\$ 6,001,430

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

EPISTAR CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

(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 AlGaInP, 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 15, 2018.

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”)

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 10, IFRS 12 and IAS 28, ‘Investment entities: applying the consolidation exception’	January 1, 2016
Amendments to IFRS 11, ‘Accounting for acquisition of interests in joint operations’	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Amendments to IAS 1, ‘Disclosure initiative’	January 1, 2016
Amendments to IAS 16 and IAS 38, ‘Clarification of acceptable methods of depreciation and amortisation’	January 1, 2016
Amendments to IAS 16 and IAS 41, ‘Agriculture: bearer plants’	January 1, 2016
Amendments to IAS 19, ‘Defined benefit plans: employee contributions’	July 1, 2014
Amendments to IAS 27, ‘Equity method in separate financial statements’	January 1, 2016
	January 1, 2014

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 36, 'Recoverable amount disclosures for non-financial assets'	January 1, 2014
Amendments to IAS 39, 'Novation of derivatives and continuation of hedge accounting'	January 1, 2014
IFRIC 21, 'Levies'	July 1, 2014
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	January 1, 2016
Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.	
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.	
Based on the Group's assessment, the amendments will result in an increase of disclosure information for asset impairment.	

(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 the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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 financial performance based on the Group's assessment.

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 Group 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.
- (c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

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 Revenue from contracts with Customers'

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a 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. 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.

The Group expects to provide additional disclosure to explain the changes in liabilities arising from financing activities.

When adopting the new standards endorsed by the FSC effective from 2018, the Group will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. Further, the Group expects to adopt IFRS 15 using the modified retrospective approach. The significant effects of applying the new standards as of January 1, 2018 are summarised below:

- (a) In accordance with IFRS 9, the Group expects to reclassify available-for sale financial assets and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income, increasing retained earnings, decreasing deferred tax assets, deferred tax liabilities and other equity interest in the amounts of \$1,943,937, \$55,355, \$20,705, \$31,754 and \$44,306, respectively.
- (b) In accordance with IFRS 9, the Group expects to reclassify available-for-sale financial assets in the amount of \$13,156, by increasing financial assets at fair value through profit or loss in the amount of \$13,156.
- (c) In line with the regulations of IFRS 9 on provision for impairment, accounts receivable, investments accounted for using equity method, deferred tax liabilities, retained earnings non-controlling interest and increasing deferred tax assets will have to be reduced by \$10,792 and \$2,267 and \$690, \$8,441, \$1,238 and \$2,690 respectively.

(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 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities 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 (%)		Description
			December 31, 2017	December 31, 2016	
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	Zheng-Yi Technology Corporation	Manufacturing and sales of LED wafers and chips	100	100	
		Investment holding; sales of electronic components	55.96	64.29	Note A
Epistar Corporation	GaN Ventures Co., Limited				
Epistar Corporation	EPICryatal Investment Inc.,	Professional investment	100	100	Note D
Epistar Corporation	SH Optotech Co.,Ltd.	Manufacturing and sales of LED wafers and chips	49	49	Note C Note D
Epistar Corporation	HUGA Holding(BVI) Limited	Professional investment	100	100	Note D
Epistar Corporation	Ecoled Venture Co., Limited	Sales of LED lighting products	51.99	51.99	Note D
Epistar Corporation	Bee Rich Corporation	Investment business	100	100	Note F
Epistar Corporation	Full Star Enterprises Limited	Investment business	100	100	Note F
Epistar Corporation	iReach Corporation	Manufacturing, sales, packaging and module design of semiconductor light emitting devices	100	-	Note G
Epistar Corporation	PERFECTLED Investment Corporation	Professional investment	-	-	Note D Note H

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2017	December 31, 2016	
Epistar JV Holding (BVI) Co., Ltd.	LiteStar JV Holding (BVI) Co., Ltd.	Professional investment	80.65	80.65	
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	92.82	
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	3.59	
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	R&D and sales of LEDs	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	
Lighting Investment Ltd.	GaN Ventures Co., Limited	Investment holding; sales of electronic components	7.77	-	Note B

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2017	December 31, 2016	
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	Note F
HUGA Holding (Samoa)	Ecoled Venture Co., Limited	Sales of LED lighting products	48.01	48.01	
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)	Sales of LED lighting products	100	100	
EPI Crystal Investment Inc.	Can Yang Investments Limited	Professional investment	11.86	-	
Bee Rich Corporation	Crystal Light Enterprises Group Limited	Professional investment	100	100	
Bee Rich Corporation	Can Yang Investments Limited	Professional investment	65.64	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	
GaN Ventures Co., Limited	GV Semiconductor Inc.	R&D and sales of electronic components	100	-	Note B

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, 2017.

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

Note D: 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 E: 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.

Note F: Due to its intention not to continue to operate, on August 18, 2017 the company completed the liquidation.

Note G: A preparatory office was set up in December 2017. The registration for the subsidiary's incorporation was completed on January 9, 2018.

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

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.
- (9) Accounts and notes 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:

(a) Financial assets measured at amortised cost

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

(b) 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 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). It excludes borrowing costs 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 held for sale

Non-current assets 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.
- 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. 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	3 ~ 5 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

The Group classifies the 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:

A. Where the conversion options are not exchanged a fixed amount of the bonds for a fixed number of common shares, 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'.

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.

B. 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.

C. 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.

C. Treasury stocks transferred 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 treasury stocks where employees have to pay to acquire those stocks, if employees resign during the vesting period, they must compensate the Group for the difference between the fair value of the equity instruments and their payments on the 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 realized 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 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 business 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 acquiree 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 judgements 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 judgement, 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, 2017, the Group's unrealised loss on available-for-sale financial assets amounted to \$362,677, and recognised impairment losses amounted to \$16,651.

(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(11).

As of December 31, 2017, the Group recognised impaired property, plant and equipment of \$24,348,881 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, 2017, the Group recognized deferred income tax assets amounting to \$3,021,330.

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, 2017, the carrying amount of inventories was \$4,815,378.

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, 2017, the carrying amount of unlisted stocks was \$1,602,311.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand and petty cash	\$ 627	441
Checking accounts and demand deposits	2,639,262	3,176,267
Time deposits	3,115,006	1,614,512
Bonds sold under repurchase agreement	1,081,802	1,209,280
Cash in transit	-	930
	<u>\$ 6,836,697</u>	<u>\$ 6,001,430</u>

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, 2017	December 31, 2016
Current items:		
Financial assets held for trading		
Beneficiary certificates	\$ 249,423	\$ 577,582
Listed equity securities	468,638	480,862
Emerging stocks	1,775	1,775
	719,836	1,060,219
Valuation adjustment of financial assets held for trading	(309,070)	(366,162)
Total	\$ 410,766	\$ 694,057

The Group recognized net gain (loss) of \$99,581 and (\$13,427) for the years ended December 31, 2017 and 2016, respectively.

(3) Non-current available-for-sale financial assets

Items	December 31, 2017	December 31, 2016
Listed equity securities	\$ 653,430	\$ 655,373
Emerging stocks	70,224	165,012
Unlisted equity securities	2,162,279	2,161,797
Beneficiary certificates	-	49,178
Subtotal	2,885,933	3,031,360
Valuation adjustment of available-for-sale financial assets	(362,677)	(299,961)
Accumulated impairment of available-for-sale financial assets	(566,163)	(580,050)
Total	\$ 1,957,093	\$ 2,151,349

The Group recognized \$5,115 and \$145,924 in other comprehensive (gain) loss for fair value change and reclassified (\$61,638) and \$188,890 from equity to loss for the years ended December 31, 2017 and 2016, respectively.

(4) Notes receivable

	December 31, 2017	December 31, 2016
Notes receivable	\$ 1,886,532	\$ 1,011,592
Less: Allowance for bad debts	-	(119,030)
	\$ 1,886,532	\$ 892,562

As of December 31, 2017 and 2016, the Group had outstanding discounted notes receivable amounting to \$3,723,497 and \$2,789,407 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. Those discounted notes receivable were deducted from notes receivable directly.

(5) Accounts receivable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable	\$ 6,778,677	\$ 7,027,080
Less: Allowance for sales returns and discounts	(42,480)	(63,577)
Less: Allowance for bad debts	(113,138)	(132,293)
	<u>\$ 6,623,059</u>	<u>\$ 6,831,210</u>

The Group holds collaterals including bank deposits, commercial papers, financial assets as well as machinery and equipment as security for accounts receivable. The fair value of the collateral held cannot be reasonably estimated by the Group since it is impracticable.

(6) Inventories

	<u>December 31, 2017</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Raw materials	\$ 1,467,248	(\$ 62,998)	\$ 1,404,250
Work in process	1,762,694	(223,499)	1,539,195
Finished goods	2,258,324	(386,391)	1,871,933
Total	<u>\$ 5,488,266</u>	<u>(\$ 672,888)</u>	<u>\$ 4,815,378</u>
	<u>December 31, 2016</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
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	<u>\$ 5,025,903</u>	<u>(\$ 671,066)</u>	<u>\$ 4,354,837</u>

Expense and loss incurred on inventories for the years ended December 31, 2017 and 2016 were as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Cost of goods sold	\$ 17,767,673	\$ 22,746,492
Effect of recoverable amounts written off	(824,054)	\$ -
Loss on decline in market value	344,830	271,751
Loss on idle capacity	510,914	617,769
	<u>\$ 17,799,363</u>	<u>\$ 23,636,012</u>

(7) Investments accounted for using the equity method

	December 31, 2017	December 31, 2016
Associates:		
Nan Ya Photonics Incorporation	\$ 333,422	\$ 240,630
Tekcore Co., Ltd.	67,690	81,694
TE Opto Corporation	45,404	45,992
KAISTAR Lighting (Xiamen) Co., Ltd.	1,531,545	1,480,358
Country Lighting (BVI) Co., Ltd.	91,096	98,745
ProLight Opto Technology Corporation	243,401	259,406
Cosmoled Lighting Ltd.	126,285	142,505
LEDOULUX Sp.Zo.O.	17,316	17,779
Interlight Optotech (Hong Kong) Ltd.	13,349	13,040
Very Optoelectronic (HUI ZHOU)Co., Ltd.	106,748	208,291
SF Light Co., Ltd.	-	14,571
Tops Electrical Technology Co., Ltd.	2,650	3,717
ES-LEDRU LLC.	2,432	2,445
Play Nitride Inc.	157,863	69,106
LEDAZ Co., Ltd.	80,464	64,775
	<u>\$ 2,819,665</u>	<u>\$ 2,743,054</u>

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

Company name	Principal place of business	Shareholding ratio		Nature of relationship	Methods of measurement
		December 31, 2017	December 31, 2016		
KAISTAR Lighting (Xiamen) Co., Ltd.	Mainland China	22.54%	27.13%	Associates	Equity method
Nan Ya Photonics Incorporation	Taiwan	43.26%	43.26%	Associates	Equity method

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

(a) Balance sheet

	<u>KAISTAR Lighting(Xiamen)Co., Ltd.</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current assets	\$ 7,202,858	\$ 2,911,724
Non-current assets	8,427,314	8,179,287
Current liabilities	(7,729,097)	(4,344,141)
Non-current liabilities	(1,106,287)	(1,290,335)
Total net assets	<u>\$ 6,794,788</u>	<u>\$ 5,456,535</u>
Share in associate's net assets	\$ 1,531,545	\$ 1,480,358
Goodwill	<u>-</u>	<u>-</u>
Carrying amount of the associate	<u>\$ 1,531,545</u>	<u>\$ 1,480,358</u>

	<u>Nan Ya Photorrics Incorporation</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current assets	\$ 776,273	\$ 497,298
Non-current assets	93,499	97,859
Current liabilities	(141,913)	(81,425)
Non-current liabilities	(5,406)	(5,762)
Total net assets	<u>\$ 722,453</u>	<u>\$ 507,970</u>
Share in associate's net assets	\$ 312,538	\$ 219,746
Goodwill	<u>20,884</u>	<u>20,884</u>
Carrying amount of the associate	<u>\$ 333,422</u>	<u>\$ 240,630</u>

(b) Statement of comprehensive income

	<u>KAISTAR Lighting(Xiamen) Co., Ltd.</u>	
	<u>Year ended</u>	<u>Year ended</u>
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Revenue	\$ 7,754,940	\$ 3,971,358
Loss for the period from continuing operations	(\$ 113,806)	(\$ 209,997)
Other comprehensive, income, net of tax	<u>-</u>	<u>-</u>
Total comprehensive loss	<u>(\$ 113,806)</u>	<u>(\$ 209,997)</u>
Dividends received from associates	<u>\$ -</u>	<u>\$ -</u>

Nan Ya Photonics Incorporation

	Year ended December 31, 2017	Year ended December 31, 2016
Revenue	\$ 559,789	\$ 564,593
Gain (loss) for the period from continuing operations	\$ 51,709	(\$ 1,132,855)
Other comprehensive income, net of tax	162,773	52,432
Total comprehensive loss	\$ 214,482	(\$ 1,080,423)
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, 2017 and 2016, the carrying amount of the Group's individually immaterial associates amounted to \$954,698 and \$1,022,066, respectively.

	Year ended December 31, 2017	Year ended December 31, 2016
Loss for the year from continuing operations	(\$ 206,028)	(\$ 161,288)
Other comprehensive loss	(11,327)	(311)
Total comprehensive loss	(\$ 217,355)	(\$ 161,599)

D. The investment loss from equity method investees for the years ended December 31, 2017 and 2016 amounted to \$50,851 and \$681,415, respectively.

E. The other comprehensive income (loss) from equity method investees for the years ended December 31, 2017 and 2016 amounted to \$23,954 and (\$101,582), 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, 2017 and 2016 was \$146,392 and \$119,057, 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 and equipment	Office equipment	Leasehold improvements	Others	Construction in progress and equipment to be inspected	Total
At January 1, 2017								
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)	
	<u>\$ 124,661</u>	<u>\$ 8,572,126</u>	<u>\$ 15,883,081</u>	<u>\$ 73,250</u>	<u>\$ 91,456</u>	<u>\$ 174,686</u>	<u>\$ 2,367,371</u>	<u>\$ 27,286,631</u>
<u>2017</u>								
Opening net book amount	\$ 124,661	\$ 8,572,126	\$ 15,883,081	\$ 73,250	\$ 91,456	\$ 174,686	\$ 2,367,371	\$ 27,286,631
Additions	-	5,143	39,356	2,063	7,745	1,544	2,386,467	2,442,318
Disposals	- (20,837)	(55,550)	(285)	-	(2,065)	-	(78,737)	
Reclassified to non-current assets held for sale	- (8,658)	(86,608)	-	-	-	(8,524)	(103,790)	
Reclassifications	-	442,714	1,809,012	13,248	1,414	40,220	(2,223,610)	82,998
Depreciation charge	- (944,699)	(3,775,555)	(35,365)	(23,852)	(60,332)	-	(4,839,803)	
Disaster loss	- (19,118)	(38,054)	-	-	-	-	(57,172)	
Impairment loss	- (28,704)	(274,940)	(211)	-	-	(5,970)	(309,825)	
Net exchange differences	- (40,774)	(51,049)	(535)	(569)	14,937	4,251	(73,739)	
Closing net book amount	<u>\$ 124,661</u>	<u>\$ 7,957,193</u>	<u>\$ 13,449,693</u>	<u>\$ 52,165</u>	<u>\$ 76,194</u>	<u>\$ 168,990</u>	<u>\$ 2,519,985</u>	<u>\$ 24,348,881</u>
At December 31, 2017								
Cost	\$ 124,661	\$ 15,131,618	\$ 40,882,327	\$ 349,727	\$ 178,294	\$ 438,230	\$ 2,526,031	\$ 59,630,888
Accumulated depreciation and impairment	- (7,174,425)	(27,432,634)	(297,562)	(102,100)	(269,240)	(6,046)	(35,282,007)	
	<u>\$ 124,661</u>	<u>\$ 7,957,193</u>	<u>\$ 13,449,693</u>	<u>\$ 52,165</u>	<u>\$ 76,194</u>	<u>\$ 168,990</u>	<u>\$ 2,519,985</u>	<u>\$ 24,348,881</u>

	Land	Buildings and structures	Machinery and equipment	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)
	<u>\$ 263,185</u>	<u>\$ 9,452,385</u>	<u>\$ 21,453,869</u>	<u>\$ 131,281</u>	<u>\$ 125,674</u>	<u>\$ 218,122</u>	<u>\$ 2,751,589</u>	<u>\$ 34,396,105</u>
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	-	47,087	195,364	7,752	6,010	12,654	2,007,795	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	-	1,404,571	723,608	677	6,616	7,799	(2,112,355)	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	<u>\$ 124,661</u>	<u>\$ 8,572,126</u>	<u>\$ 15,883,081</u>	<u>\$ 73,250</u>	<u>\$ 91,456</u>	<u>\$ 174,686</u>	<u>\$ 2,367,371</u>	<u>\$ 27,286,631</u>
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)
	<u>\$ 124,661</u>	<u>\$ 8,572,126</u>	<u>\$ 15,883,081</u>	<u>\$ 73,250</u>	<u>\$ 91,456</u>	<u>\$ 174,686</u>	<u>\$ 2,367,371</u>	<u>\$ 27,286,631</u>

(9) Intangible assets

	<u>Patents</u>	<u>Goodwill</u>	<u>Software</u>	<u>Others</u>	<u>Total</u>
At January 1, 2017					
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)
	<u>\$ 1,558,016</u>	<u>\$ 6,324,659</u>	<u>\$ 117,141</u>	<u>\$ 7,403</u>	<u>\$ 8,007,219</u>
<u>2017</u>					
Opening net book amount	\$ 1,558,016	\$ 6,324,659	\$ 117,141	\$ 7,403	\$ 8,007,219
Additions – acquired separately	108,894	-	56,454	2,822	168,170
Transferred to expense	(410)	-	-	-	(410)
Reclassifications	38,499	-	138	-	38,637
Amortisation charge	(307,257)	-	(44,029)	(2,971)	(354,257)
Net exchange differences	(11,036)	-	(601)	-	(11,637)
Closing net book amount	<u>\$ 1,386,706</u>	<u>\$ 6,324,659</u>	<u>\$ 129,103</u>	<u>\$ 7,254</u>	<u>\$ 7,847,722</u>
At December 31, 2017					
Cost	\$ 2,351,991	\$ 6,324,659	\$ 297,857	\$ 92,391	\$ 9,066,898
Accumulated amortisation and impairment	(966,045)	-	(168,754)	(85,137)	(1,219,936)
	<u>\$ 1,385,946</u>	<u>\$ 6,324,659</u>	<u>\$ 129,103</u>	<u>\$ 7,254</u>	<u>\$ 7,846,962</u>
	<u>Patents</u>	<u>Goodwill</u>	<u>Software</u>	<u>Others</u>	<u>Total</u>
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)
	<u>\$ 1,535,029</u>	<u>\$ 6,324,659</u>	<u>\$ 112,500</u>	<u>\$ 22,449</u>	<u>\$ 7,994,637</u>
<u>2016</u>					
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	<u>\$ 1,558,016</u>	<u>\$ 6,324,659</u>	<u>\$ 117,141</u>	<u>\$ 7,403</u>	<u>\$ 8,007,219</u>
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)
	<u>\$ 1,558,016</u>	<u>\$ 6,324,659</u>	<u>\$ 117,141</u>	<u>\$ 7,403</u>	<u>\$ 8,007,219</u>

Details of amortisation on intangible assets are as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Operating costs	\$ 216,192	\$ 255,251
Selling expenses	6,758	6,423
Administrative expenses	68,673	48,302
Research and development expenses	62,634	67,204
	<u>\$ 354,257</u>	<u>\$ 377,180</u>

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

	Year ended December 31, 2017	Year ended December 31, 2016
Land use right	<u>\$ 260,014</u>	<u>\$ 271,129</u>

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 \$6,464 and \$7,691 for the years ended December 31, 2017 and 2016, respectively.

(11) Impairment of non-financial assets

A. During the years ended December 31, 2017 and 2016, the reallocation of production lines resulted in idles or impairment in the Group's property, plant and equipment and non-current assets classified as held for sale. The Group wrote down the carrying amount of the asset based on the recoverable amount and recognised accordingly an impairment loss of \$377,682 and \$987,848, respectively. The recoverable amount is the property's fair value less costs of disposal. The fair value is classified as a level 3 fair value. The impairment loss is detailed below:

	<u>Year ended December 31, 2017</u>	
	<u>Recognised in profit or loss</u>	
Impairment loss -		
Buildings and structures	\$	29,244
Impairment loss - machinery		280,370
Impairment loss - non-current assets held for sale		67,857
Impairment loss - office equipment		211
	<u>\$</u>	<u>377,682</u>

	Year ended December 31, 2016	
	Recognised in profit or loss	
Impairment loss - buildings and structures	\$	119,686
Impairment loss - machinery		782,100
Impairment loss - non-current assets held for sale		79,558
Impairment loss - office equipment		100
Impairment loss - office facilities		6,404
	\$	<u>987,848</u>

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:

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 assumption used for value-in-use calculations are as follows:

	Year ended December 31, 2017			Year ended December 31, 2016		
	1st year	2~5 years	After 6th year	1st year	2~5 years	After 6th year
Revenue growth	10.09%	2.48%~ 51.37%	0%	9.7%	1.02%~ 50.86%	0%
Gross margin rate	17.20%	19.1%~ 38%	38%	15.4%	19.6%~ 33.6%	33.6%
Discount rate	9.45%	9.45%	9.45%	9.66%	9.66%	9.66%

(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, 2017	December 31, 2016
Property, plant and equipment	\$ 468,142	\$ 588,899
Patents	-	38,499
Total	<u>\$ 468,142</u>	<u>\$ 627,398</u>

B. The assets and liabilities related to plant and equipment of Taoyuan Pingzhen plant building , equipment and Duxing plant building have been reclassified as held for sale for the year ended December 31, 2016. 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 borrowings

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Bank borrowings		
Unsecured borrowings	\$ 700,000	\$ 2,161,250
Interest rate range	<u>0.88%~0.90%</u>	<u>0.92%~2.63%</u>

As of December 31, 2017 and 2016, the Group has endorsements to Episky Corporation (Xiamen) Ltd., Jiangsu Canyang Optoelectronics Ltd., Ecoled Venture Co., Limited and Yen-Rich Opto (Hong Kong) Limited of \$2,741,960 and \$2,959,460, respectively.

(14) Short-term notes and bills payable

	<u>December 31, 2017</u>			
	<u>Rate (%)</u>	<u>Amount</u>	<u>Name of bank</u>	<u>Collaterals</u>
Payables for bankers' acceptance	-	\$ 376,791	BANK OF COMMUNICATIONS INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED	Note 8

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

(15) Bonds payable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Overseas unsecured convertible bonds payable		
Initial amount of issuance	\$ -	\$ 15,773,242
Less: Redemption of bonds payable	-	(1,037,420)
Amounts sold	-	(15,049,400)
Redemption amount on due	-	(459,550)
Effect of exchange rate changes	-	773,128
	<u>\$ -</u>	<u>\$ -</u>

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.

- 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 overseas 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.

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%.

(16) Long-term borrowings

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>December 31, 2017</u>
Bank borrowings		
Secured borrowings	Before October 29, 2022	\$ 302,080
Secured borrowings	Before May 30, 2019	1,300,000
Unsecured borrowings	Before May 30, 2019	453,395
Unsecured borrowings	Before December 30, 2019	302,857
Unsecured borrowings	Before September 3, 2018	350,000
Unsecured borrowings	January 20, 2018 Repay fully at maturity	<u>400,000</u>
		3,108,332
Less: Current portion		(977,277)
Less: Syndicate bank range		(10,196)
		<u>\$ 2,120,859</u>
Interest rate range		<u>0.85%~2.83%</u>

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>December 31, 2016</u>
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 30, 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	<u>500,000</u>
		6,370,980
Less: Current portion		(615,841)
Less: Syndicate bank range		(17,273)
		<u>\$ 5,737,866</u>
Interest rate range		<u>1.26%~2.33%</u>

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 bank 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:

(a). 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.

(b). 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.

(c). The balance of Tranche (A) and Tranche (B) cannot exceed the total credit line.

(d). 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):

(a) Current ratio more than or equal to 100%;

(b) Debt ratio less or equal to 100%;

(c) Times interest earned ratio no less than 400%;

(d) 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.

(17) Pensions

A. (a) The Company has a 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:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligations	(\$ 380,000)	(\$ 332,180)
Fair value of plan assets	<u>239,145</u>	<u>223,785</u>
Net defined benefit liability	<u>(\$ 140,855)</u>	<u>(\$ 108,395)</u>

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

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
<u>2017</u>			
Balance at January 1	(\$ 332,180)	\$ 223,785	(\$ 108,395)
Current service cost	(1,703)	-	(1,703)
Interest (expense) income	(5,804)	4,029	(1,775)
Past service cost	<u>670</u>	<u>-</u>	<u>670</u>
	<u>(339,017)</u>	<u>227,814</u>	<u>(111,203)</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(1,807)	(1,807)
Change in demographic assumptions	(326)	-	(326)
Change in financial assumptions	(27,733)	-	(27,733)
Experience adjustments	<u>(12,924)</u>	<u>-</u>	<u>(12,924)</u>
	<u>(40,983)</u>	<u>(1,807)</u>	<u>(42,790)</u>
Pension fund contribution	-	13,138	13,138
Paid pension	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31	<u>(\$ 380,000)</u>	<u>\$ 239,145</u>	<u>(\$ 140,855)</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>2016</u>			
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)
	<u>(343,203)</u>	<u>220,570</u>	<u>(122,633)</u>
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
	<u>3,958</u>	<u>(1,990)</u>	<u>1,968</u>
Pension fund contribution	-	12,270	12,270
Paid pension	7,065	(7,065)	-
Balance at December 31	<u>(\$ 332,180)</u>	<u>\$ 223,785</u>	<u>(\$ 108,395)</u>

(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, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Discount rate	<u>1.25%</u>	<u>1.75%</u>
Future salary increases	<u>2.00%</u>	<u>2.00%</u>

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:

	Discount rate		Future salary increases	
	Increase 25%	Decrease 25%	Increase 25%	Decrease 25%
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 14,193)	\$ 14,912	\$ 14,763	(\$ 14,125)
December 31, 2016				
Effect on present value of defined benefit obligation	(\$ 13,130)	\$ 13,818	\$ 13,748	(\$ 13,130)

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 2017 and during 2016 are the same.

- (f) Expected contributions to the defined benefit pension plans of the Group for the next year ending December 31, 2018 amounts to \$13,840.
- (g) As of December 31, 2017, the weighted average duration of that retirement plan is 15 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., EPISKY Corporation (chanzhou) LTD, Luxlite (Shenzhen) Corporation Limited, Epicrystal Corporation (Changzhou) Ltd., United LED Shandong Corporation, EPIRICH (Guangzhou) Co., Ltd, 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, 2017 and 2016 were \$184,294 and \$194,938, respectively.

(18) Share-based payment

A. For the years ended December 31, 2017 and 2016, the Group'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)
Treasury stock transferred to employees	2017.09.26	20,000	2 years	(Note 4)

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.

i. 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.

- ii. 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.
- iii. 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.

Note 4: The Board of Directors adopted a resolution to transfer 20,000 thousand treasury stocks to employees with a subscription price of NT\$26.9 and without transfer restriction during the meeting on September 26, 2017. If employees resign during the vesting period, they are obliged to compensate for the difference between closing market price and the subscription price on the date of security delivery which is under the discretion of the Chairperson.

B. Details of the share-based payment arrangements are as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
	No. of options (in thousands)	No. of options (in thousands)
Employee restricted shares outstanding at beginning of the period	-	7,930
Shares forfeited	-	(7,930)
Employee restricted shares outstanding at end of the period	-	-

- C. The first issuance of employee restricted shares did not restrict rights of common shares and dividend participation. The shares were measured at fair value of NT\$61.5 using the closing market price of the Company's shares at the grant date. The weighted average share price was NT\$61.21 at measurement date.
- D. The second issuance of employee restricted shares did not restrict rights of common shares and dividend participation. The shares were measured at fair value of NT\$56.0 using the closing market price of the Company's shares at the grant date. The weighted average share price was NT\$56.25 at measurement date.
- E. Huga Optotech Inc.'s first issuance of employee restricted shares that transferred to the Company did not restrict rights of common shares and dividend participation. The shares were measured at fair value of NT\$9.76 using the closing market price of Huga Optotech Inc.'s shares at the grant date. The weighted average share price was NT\$9.67 at measurement date. A subsequent share conversion has changed the fair value into NT\$51.9 using the closing market price of the Company's shares at the date of modification to the vesting conditions. The weighted average share price was NT\$52.36 at measurement date.

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

	<u>Year ended December 31, 2017</u>	<u>Year ended December 31, 2016</u>
Equity-settled	\$ 27,906	\$ -

Note A: 30% upon completion of 1 year' service; 60% upon completion of 2 years' service; 100% upon completion of 3 years' service.

G. For the years ended December 31, 2017 and 2016, the share-based payment arrangements of the Company's subsidiary, United LED Corporation (Hong Kong) Limited, are as follows:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Quantity granted (thousand shares)</u>	<u>Vesting conditions</u>
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.

H. Details of the share-based payment arrangements are as follows:

	<u>Year ended December 31, 2017</u>		<u>Year ended December 31, 2016</u>	
	No. of shares	Weighted-average	No. of shares	Weighted-average
	(in thousands)	exercise price (in US dollars)	(in thousands)	exercise price (in US dollars)
Options outstanding from beginning to the end of the period	<u>1,048,700</u>	\$ 0.0001	<u>1,048,700</u>	\$ 0.0001
Options exercisable at end of the period	<u>1,048,700</u>		<u>1,048,700</u>	

I. 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:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Share Price (US dollars)</u>	<u>Weighted average exercise price (US dollars)</u>	<u>Expected exercise volatility</u>	<u>Expected terms</u>	<u>Risk free interest rate</u>	<u>Weighted average fair value (US dollars) per share</u>
Employee stock option	2010.08.01	\$ 0.872	\$ 0.0001	49.89~ 59.39%	1~3 years	0.29%~ 0.84%	\$ 0.8719

(19) Long-term deferred revenue (shown under "Other non-current liabilities")

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Government grants revenue	\$ 734,607	\$ 901,492
Deferred technical services revenue	<u>5,104</u>	<u>7,768</u>
	<u>\$ 739,711</u>	<u>\$ 909,260</u>

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, 2017 and 2016 were \$163,542 and \$165,410 (shown under "Other revenue"), respectively.

B. In 2009 and 2015, the Company signed a technical permission and technical support contract

with Litefield Corporation (Dalian) LTD, and recognises technical services revenue over the contract periods. Technical services revenue recognised for the years ended December 31, 2017 and 2016 were \$2,663 and \$2,948, respectively.

(20) Share capital

A. As of December 31, 2017, 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 \$10,887,014 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):

	2017	2016
At January 1	\$ 1,066,136	\$ 1,071,800
Treasury stock sold by subsidiary company	-	(7,964)
Cancelled employee restricted shares	-	2,300
Treasury stocks transferred to employees	9,700	-
At December 31	<u>\$ 1,075,836</u>	<u>\$ 1,066,136</u>

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) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows:

Year ended December 31, 2017					
Reason for reacquisition	Beginning balance	Increase	Decrease	Ending balance	Book value
Held by subsidiaries	2,565 thousand shares	-	0 thousand shares	2,565 thousand shares	\$ 135,163
Purchase of treasury shares	2,848 thousand shares	-	2,848 thousand shares	0 thousand shares	-
To be reissued to employees	20,000 thousand shares	-	9,700 thousand shares	10,300 thousand shares	273,620
Year ended December 31, 2016					
Reason for reacquisition	Beginning balance	Increase	Decrease	Ending balance	Book value
Held by subsidiaries	5,196 thousand shares	-	2,631 thousand shares	2,565 thousand shares	\$ 135,163
Purchase of treasury shares	2,848 thousand shares	-	-	2,848 thousand shares	39,007
To be reissued to employees	20,000 thousand shares	-	-	20,000 thousand shares	674,551

The decline in reacquisition of dissenting shareholders during the year ended December 31, 2017 was resulted from the retirement of repurchased shares from shareholders who were opposing the takeover of Ningbo Formosa Epitaxy Incorporation during the year ended December 31, 2014.

The decline in reacquisition during the year ended December 31, 2016 was resulted from the retirement of shares acquired from Huga Optotech Inc. and PERFECTLED Investment Corporation and shares previously owned by Ningbo Formosa Epitaxy Incorporation following the takeover.

- (b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.

D. Information of the Company's shares held by subsidiaries – Lighting Investment Corporation is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
	Lighting Investment Corporation	Lighting Investment Corporation
Shares	<u>2,565 thousand shares</u>	<u>2,565 thousand shares</u>
Book value	\$ 135,163	\$ 135,163
Fair value	\$ 115,799	\$ 59,374

(21) Capital surplus

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.

	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 restricted shares
At January 1, 2017	\$41,798,312	\$ 1,585	\$ 836,343	\$ 13,674	\$ 355,379	\$ 10,966
Capital surplus used to offset accumulated deficits	(3,277,291)	(1,585)	-	(13,674)	-	(10,966)
Treasury stocks transferred to employees	-	110,919	-	-	-	-
Compensation cost of share-based payments	-	-	-	-	-	27,906
Retirement of treasury shares	(90,509)	(63,270)	-	-	-	-
Net change in the equity of associates	-	-	-	-	168,908	-
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	105,930	-	-
Acquisition of subsidiaries ' issue of new shares not in proportion to the Group's ownership	-	-	(1,660)	-	-	-
At December 31, 2017	<u>\$38,430,512</u>	<u>\$ 47,649</u>	<u>\$ 834,683</u>	<u>\$ 105,930</u>	<u>\$ 524,287</u>	<u>\$ 27,906</u>

	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	<u>\$41,798,312</u>	<u>\$ 1,585</u>	<u>\$ 836,343</u>	<u>\$ 13,674</u>	<u>\$ 355,379</u>	<u>\$ 10,966</u>	<u>\$ -</u>

(22) Retained earnings (Accumulated deficit)

	2017	2016
At January 1	(\$ 3,303,516)	\$ 241,512
(Loss) profit for the year	1,649,913	(3,546,045)
Remeasurement of defined benefit obligations	(35,687)	1,526
Capital surplus used to offset accumulated deficits	3,303,516	-
Treasury stock sold by subsidiary company	-	(509)
At December 31	<u>\$ 1,614,226</u>	<u>(\$ 3,303,516)</u>

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 21, 2017, the shareholders in their meeting have resolved to offset the deficits amounting to \$3,545,028 with legal reserve of \$241,512 and capital surplus of \$3,303,516.
- F. On June 17, 2016, the shareholders in the annual meeting have resolved offset the deficits of 2016 with legal reserve of \$1,306,352.
- G. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(29).
- H. The earnings appropriation as resolved by the Board of Directors on March 15, 2018 is as follows:

		Year ended December 31, 2017	
		Amount	Dividends per share (in dollars)
Legal reserve	\$	161,423	-
Reversal of special reserve		703,607	-
Cash dividends		749,196	0.688156
		\$ 1,614,226	-

The appropriation of 2017 earnings has not yet been resolved at the shareholders' meeting as of March 15, 2018.

(23) Other equity items

	Currency translation	Unrealized gain or loss on	Total
	differences	available-for-sale financial assets	
At January 1, 2017	(\$ 228,527)	(\$ 276,843)	(\$ 505,370)
Fair value adjustment - Group	-	(62,122)	(62,122)
Fair value adjustment - Associates	-	70,672	70,672
Currency translation differences:			
–Group	(148,789)	-	(148,789)
–Associates	(38,634)	-	(38,634)
At December 31, 2017	(\$ 415,950)	(\$ 268,293)	(\$ 684,243)

	Currency translation differences	Unrealized gain or loss on available-for-sale financial assets	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	<u>(\$ 228,527)</u>	<u>(\$ 276,843)</u>	<u>(\$ 505,370)</u>

(24) Other income and expenses– net

	Year ended December 31, 2017	Year ended December 31, 2016
Other income		
Royalty revenue	\$ 39,643	\$ 80,713
Government grants revenue	172,176	174,598
Other income-other	2,340	552
Total	<u>\$ 214,159</u>	<u>\$ 255,863</u>

(25) Other income

	Year ended December 31, 2017	Year ended December 31, 2016
Rental revenue	\$ 14,903	\$ 10,897
Dividend income	1,448	11,685
Interest income:		
Interest income from bank deposits	49,252	65,292
Net currency exchange (loses) gains	(55,921)	14,638
Other interest income	6,969	9,687
Miscellaneous income	235,684	132,474
Total	<u>\$ 252,335</u>	<u>\$ 244,673</u>

(26) Other gains and losses

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Net gains (losses) on financial assets at fair value through profit or loss	\$ 99,581	(\$ 13,427)
Net losses on financial liabilities at fair value through profit or loss	(6,572)	
Net currency exchange losses	(427,282)	(382,082)
Gains (losses) on disposal of property, plant and equipment	9,766	(501,237)
Gains on disposal of intangible assets	-	849
Gains on disposal of investments	32,015	74,492
Impairment loss on non-financial assets	(377,682)	(987,848)
Impairment losses on financial assets	(16,651)	(395,482)
Miscellaneous losses	(42,459)	(47,445)
Total	<u>(\$ 729,284)</u>	<u>(\$ 2,252,180)</u>

(27) Finance costs

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Interest expense:		
Bank borrowings	\$ 216,860	\$ 266,010
Convertible bonds	-	112,500
Net currency exchange (gains) losses	(35,819)	11,613
Other interest expense	19,028	18,107
	<u>200,069</u>	<u>408,230</u>
Less: Capitalisation of qualifying assets	(1,281)	(4,315)
Finance costs	<u>\$ 198,788</u>	<u>\$ 403,915</u>

(28) Expenses by nature

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Employee benefit expenses	\$ 4,764,668	\$ 4,475,371
Depreciation charges on property, plant and equipment (Note)	4,813,315	5,361,813
Amortisation charges on intangible assets	<u>354,257</u>	<u>377,180</u>
Total	<u>\$ 9,932,240</u>	<u>\$ 10,214,364</u>

Note : Depreciation amounting to \$26,488 and \$11,483 were recognized as a deduction of rental revenue for the years ended December 31, 2017 and 2016, respectively.

(29) Employee benefit expenses

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Wages and salaries	\$ 4,028,994	\$ 3,722,309
Share-based payments	27,906	-
Labor and health insurance expenses	294,041	311,723
Pension costs	187,102	198,786
Other personnel expenses	226,625	242,553
	<u>\$ 4,764,668</u>	<u>\$ 4,475,371</u>

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 year ended December 31, 2017, the employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 15% and 2% of profit after tax in current period after taking into account of factors such as legal reserve, pursuant to the Company's Articles of Incorporation.

Employees' compensation and directors' and supervisors' remuneration was accrued at \$312,528 and \$41,673, respectively. The aforementioned amounts were recognised in salary expenses.

C. For the year ended December 31, 2016, 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.

(30) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Current tax:		
Current tax on profits for the year	\$ 303,983	\$ 55,689
Tax of foreign source income withheld at source	-	12,414
Prior year income tax underestimation	<u>39,330</u>	<u>24,503</u>
Total current tax	<u>343,313</u>	<u>92,606</u>
Deferred tax:		
Origination and reversal of temporary differences	(21,459)	146,213
Effect of income tax from loss carryforward	18,358	(7,627)
Origination and reversal of investment tax credits	<u>(103,035)</u>	<u>26,646</u>
Total deferred tax	<u>(106,136)</u>	<u>165,232</u>
Income tax expense	<u>\$ 237,177</u>	<u>\$ 257,838</u>

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

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Currency translation differences	(\$ 38,388)	(\$ 136,224)
Fair value unrealized (gains) losses on available-for-sale financial assets	(6,355)	27,104
Remeasurement of defined benefit obligations	<u>(7,274)</u>	<u>335</u>
Total	<u>(\$ 52,017)</u>	<u>(\$ 108,785)</u>

B. Reconciliation between income tax expense and accounting profit:

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Tax calculated based on profit before tax and statutory tax rate	\$ 559,222	(\$ 565,589)
Tax of foreign source income withheld at source	-	12,414
Effects from items expenses disallowed and tax exempted income by tax regulation	(280,264)	57,469
Change in assessment of realisation of deferred tax assets	-	710,022
Effect from investment tax credit	(103,035)	26,646
Effect of income tax from loss carryforward	18,358	(7,627)
Effect from Alternative Minimum Tax	3,566	-
Prior year income tax underestimation	<u>39,330</u>	<u>24,503</u>
Income tax expense	<u>\$ 237,177</u>	<u>\$ 257,838</u>

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

2017

	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets:				
– Temporary differences:				
Unrealized inventory loss	\$ 70,475	(\$ 45,319)	\$ -	\$ 25,156
Unrealized exchange loss	-	277	-	277
Unrealized sales returns and discounts	10,891	(1,097)	-	9,794
Bad debt expense	11,534	(376)	-	11,158
Unrealized loss from sales	4,778	171	-	4,949
Investment loss under equity method	498,112	15,633	-	513,745
Impairment loss for non-financial assets	129,138	(25,405)	-	103,733
Loss on valuation of financial assets	59,617	-	52,968	112,585
Impairment loss for financial assets	298	3,186	-	3,484
Deferred revenue	2,066	74,576	-	76,642
Currency translation differences	382,949	-	132,759	515,708
Unrealized pension	14,688	(1,756)	7,274	20,206
Others	289	8,880	-	9,169
Tax losses	1,513,092	(18,358)	-	1,494,734
Investment tax credit	16,955	103,035	-	119,990
Subtotal	<u>\$ 2,714,882</u>	<u>\$ 113,447</u>	<u>\$ 193,001</u>	<u>\$ 3,021,330</u>
– Deferred tax liabilities:				
Unrealized exchange gain	(\$ 42,473)	\$ 42,473	\$ -	\$ -
Unrealized gross profit	(10,918)	10,918	-	-
Bargain purchase gain	(53,275)	17,003	-	(36,272)
Investment gain under equity method	(373,374)	(142,967)	-	(516,341)
Gain on valuation of financial assets	(58,130)	-	(46,613)	(104,743)
Currency translation differences	(298,684)	-	(94,371)	(393,055)
Disaster insurance compensation income	(74,147)	74,147	-	-
Others	(38,501)	(8,885)	-	(47,386)
Subtotal	<u>(\$ 949,502)</u>	<u>(\$ 7,311)</u>	<u>(\$ 140,984)</u>	<u>(\$ 1,097,797)</u>
Total	<u>\$ 1,765,380</u>	<u>\$ 106,136</u>	<u>\$ 52,017</u>	<u>\$ 1,923,533</u>

2016

	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets:				
— Temporary differences:				
Unrealized inventory loss	\$ 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	<u>\$ 2,966,461</u>	<u>(\$ 534,351)</u>	<u>\$ 282,772</u>	<u>\$ 2,714,882</u>
— Deferred tax liabilities:				
Bonds payable	(\$ 80,084)	\$ 80,084	\$ -	\$ -
Unrealized 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	<u>(\$ 1,144,634)</u>	<u>\$ 369,119</u>	<u>(\$ 173,987)</u>	<u>(\$ 949,502)</u>
Total	<u>\$ 1,821,827</u>	<u>(\$ 165,232)</u>	<u>\$ 108,785</u>	<u>\$ 1,765,380</u>

D. Details of the amount the Group is entitled as investment tax credit and unrecognized deferred

tax assets are as follows:

December 31, 2017			
Qualifying items	Unused tax credits	Unrecognised deferred tax assets	Expiry year
Investment credit for stockholder	\$ 99,990	\$ -	2020
Investment credit for stockholder	20,000	-	2021
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

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, 2017				
Year incurred	Amount filed / assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2014	Assessed	\$ 3,948,345	\$ -	2024
2015	Assessed	1,048,266	-	2025
2016	Filed	3,674,572	-	2026
December 31, 2016				
Year incurred	Amount filed / assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2014	Assessed	\$ 3,948,345	\$ -	2024
2015	Assessed	1,048,266	-	2025
2016	Filed	3,674,572	-	2026

Unutilized tax losses from the subsidiary is as follows:

December 31, 2017

Year incurred	Amount filed /		Unrecognised deferred		Expiry year
	assessed	Unused amount	tax assets		
2010	Assessed	\$ 27,889	\$ 27,889		2020
2011	Assessed	17,540	17,540		2021
2012	Filed	175,443	-		2017
2012	Assessed	75,120	75,120		2022
2013	Filed	376,737	-		2018
2013	Assessed	158,353	149,866		2023
2014	Filed	469,858	-		2019
2014	Assessed	39,349	20,247		2024
2015	Filed	496,698	-		2020
2015	Assessed	9,427	-		2025
2016	Filed	626,404	-		2021
2016	Filed	146,835	2,083		2026
2017	Filed	155,454	1,139		2027

December 31, 2016

Year incurred	Amount filed /		Unrecognised deferred		Expiry year
	assessed	Unused amount	tax assets		
2010	Assessed	\$ 45,528	\$ 45,528		2020
2011	Assessed	17,540	17,540		2021
2012	Filed	178,671	-		2017
2012	Assessed	75,120	75,120		2022
2013	Filed	383,669	-		2018
2013	Assessed	158,353	149,866		2023
2014	Filed	478,504	-		2019
2014	Assessed	39,349	20,247		2024
2015	Filed	783,878	-		2020
2015	Assessed	9,427	-		2025
2016	Filed	637,930	-		2021
2016	Filed	146,835	2,083		2026

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

None.

G. 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.

H. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority.

I. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China in February, 2018, the information on unappropriated retained earnings and the balance of the imputation credit account as of December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed.

Unappropriated retained earnings (accumulated deficit) on December 31, 2016:

	<u>December 31, 2016</u>
Deficit incurred in and after 1998	(\$ <u>3,545,028</u>)

J. As of December 31, 2016, the balance of the imputation tax credit account was \$323,059. The creditable tax rate was 0% for the year ended December 31, 2016.

(31) Earnings (losses) per share

	<u>Year ended December 31, 2017</u>		
	<u>Amount after tax</u>	<u>Weighted average number of outstanding ordinary shares (share in thousands)</u>	<u>Losses per share (in dollars)</u>
<u>Basic losses per share</u>			
Profit attributable to the parent	\$ 1,649,913	1,067,492	\$ 1.55
<u>Diluted losses per share</u>			
Profit attributable to the parent	\$ 1,649,913	1,067,492	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	6,922	
Treasury stocks transferred to employees	-	<u>3,850</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 1,649,913</u>	<u>1,078,264</u>	<u>\$ 1.53</u>
	<u>Year ended December 31, 2016</u>		
	<u>Amount after tax</u>	<u>Weighted average number of outstanding ordinary shares (share in thousands)</u>	<u>Losses per share (in dollars)</u>
<u>Basic losses per share</u>			
Losses attributable to the parent	(\$ <u>3,546,045</u>)	1,064,989	(\$ <u>3.33</u>)

(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.

(32) Supplemental cash flow information

A. Investing activities with partial cash payments

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Purchase of property, plant and equipment	\$ 2,442,318	\$ 2,276,662
Add: Opening balance of payable on equipment	1,104,032	977,294
Add: Ending balance of prepayment for equipment	349,388	719,074
Less: Ending balance of payable on equipment	(848,963)	(1,104,032)
Less: Opening balance of prepayment for equipment	(719,074)	(246,090)
Less: Payable on equipment transferred to other income	(121,680)	-
Cash paid during the year	<u>\$ 2,206,021</u>	<u>\$ 2,622,908</u>

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Purchase of intangible assets	\$ 167,410	\$ 396,994
Add: Opening balance of payables	239,116	334,909
Less: Ending balance of payables	(177,597)	(239,116)
Cash paid during the year	<u>\$ 228,929</u>	<u>\$ 492,787</u>

B. Partial cash investing activities

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Sale of property, plant and equipment	\$ 113,766	\$ 1,921,513
Add: Opening balance of receivable	44,505	53,980
Less: Ending balance of receivable	(4,581)	(44,505)
Cash collected in the year	<u>\$ 153,690</u>	<u>\$ 1,930,988</u>

C. Cash received from disposal of ownership interests in subsidiaries

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Disposal proceeds	\$ -	\$ -
Add: Opening balance of receivables	77,400	113,004
Less: Ending balance of receivables	(77,400)	(77,400)
Net cash provided by disposal of subsidiaries	<u>\$ -</u>	<u>\$ 35,604</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Group
Nan Ya Photonics Incorporation	Associates
Tekcore Co., Ltd.	Associates
TE Opto Corporation	Associates
KAISTAR Lighting (Xiamen) Co., Ltd.	Associates
ProLight Opto Technology Corporation	Associates
Cosmoled Lighting Limited	Associates
Very Optoelectronics(HUI ZHOU) Co., Ltd	Associates
Tops Electrical Technology Co., Ltd.	Associates
PlayNitride Inc.	Associates
LEDAZ Co., Ltd.	Associates
Everlight Electronics Co., Ltd. and its subsidiaries	Other related parties
Lite-On Technology Corp. and its subsidiaries	Other related parties (Note)
Seoul Semiconductor Co. ,Ltd.	Other related parties

Note: It ceased to be the Company's other related party beginning on June 17, 2016.

(2) Significant related party transactions and balances

A. Operating revenue:

	Year ended December 31, 2017	Year ended December 31, 2016
Other related parties		
Everlight Electronics Co., Ltd and its subsidiaries	\$ 2,685,924	\$ 3,722,150
Others	1,969	502,603
Subtotal	2,687,893	4,224,753
Associates	2,447,487	1,154,547
Total	<u>\$ 5,135,380</u>	<u>\$ 5,379,300</u>

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, 2017	Year ended December 31, 2016
Associates		
KAISTAR Lighting(Xiamen) Co.,Ltd	\$ 1,090,414	\$ 2,042,100
Others	79,001	481,025
	<u>\$ 1,169,415</u>	<u>\$ 2,523,125</u>

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:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable:		
Other related parties		
Everlight Electronics Co., Ltd. and its subsidiaries	\$ 1,572,987	\$ 2,234,816
Others	-	166
Less: Allowance for sales returns and discounts	(14,479)	-
Subtotal	<u>1,558,508</u>	<u>2,234,982</u>
Associates		
KAISTAR Lighting (Xiamen) Co., Ltd.	638,874	182,463
LEDAZ Co., Ltd.	322,199	142,136
Others	260,176	194,175
Less: Allowance for sales returns and discounts	(652)	(487)
Subtotal	<u>1,220,597</u>	<u>518,287</u>
Total	<u>\$ 2,779,105</u>	<u>\$ 2,753,269</u>

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and bear no interest.

D. Other receivables from related parties:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates	\$ 24,785	\$ 62,821

The other receivables from related parties arise mainly from sales of machinery and equipment and patent licensing transactions.

E. Payables from related parties:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts payable:		
Associates		
KAISTAR Lighting (Xiamen) Co., Ltd.	\$ 395,579	\$ 563,779
LEDAZ Co., Ltd.	325,775	90,156
ProLight Opto Technology Corporation	33,421	81,206
Others	72	40
Subtotal	<u>754,847</u>	<u>735,181</u>
Total	<u>\$ 754,847</u>	<u>\$ 735,181</u>

The payables to related parties arise mainly from purchase transactions. The payables bear no interest.

F. Property transactions:

(a) Purchase of machinery and equipment

	Year ended		Year ended	
	December 31, 2017		December 31, 2016	
	<u>Purchase price</u>	<u>Payables</u>	<u>Purchase price</u>	<u>Payables</u>
Other related parties	\$ 344	\$ 99	\$ 2,260	\$ 1,258
Associates	25,784	-	138,866	94,364
	<u>\$ 26,128</u>	<u>\$ 99</u>	<u>\$ 141,126</u>	<u>\$ 95,622</u>

(b) Disposal of property, plant and equipment

	Year ended		Year ended	
	December 31, 2017		December 31, 2016	
	<u>Sales price</u>	<u>Gain of disposal</u>	<u>Sales price</u>	<u>Gain of disposal</u>
Associates	\$ 2,047	\$ 1,694	\$ 1,260	\$ 183
	<u>\$ 2,047</u>	<u>\$ 1,694</u>	<u>\$ 1,260</u>	<u>\$ 183</u>

G. Other

(a) Related party sales through the company are as follows:

	Year ended	Year ended
	December 31,	December 31,
	2017	2016
Associates	<u>\$ -</u>	<u>\$ 179,894</u>

(b) Royalty income

	Year ended	Year ended
	December 31,	December 31,
	2017	2016
Associates		
KAISTAR Lighting (Xiamen) Co., Ltd.	\$ 27,189	\$ 55,933
Others	823	1,625
	<u>\$ 28,012</u>	<u>\$ 57,558</u>

(c) Other income

	Year ended	Year ended
	December 31,	December 31,
	2017	2016
Associates	<u>\$ 17,358</u>	<u>\$ 4,770</u>

(d) Rental revenue

	Year ended December 31, 2017	Year ended December 31, 2016
Associates	<u>\$ -</u>	<u>\$ 178</u>

(e) Interest income

	Year ended December 31, 2017	Year ended December 31, 2016
Associates	<u>\$ 276</u>	<u>\$ -</u>

(f) Rental expense

	Year ended December 31, 2017	Year ended December 31, 2016
Associates	<u>\$ 316</u>	<u>\$ -</u>

(3) Key management compensation

	Year ended December 31, 2017	Year ended December 31, 2016
Salaries and other short-term employee benefits	\$ 140,719	\$ 71,302
Share-based payment	7,423	-
Post-employment benefits	2,092	1,688
Termination benefits	8	21
Total	<u>\$ 150,242</u>	<u>\$ 73,011</u>

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		Purpose of pledge
	December 31, 2017	December 31, 2016	
Bank deposits (shown in "Other assets- other")	\$ 24,876	\$ -	Payables for bankers' acceptance.
Time deposits (Note) (Shown in "Other assets- other")	154,223	138,053	Lease deposit, customer deposits and payable for banker's acceptance.
Buildings and structures	1,968,149	2,174,677	Long-term borrowings
Machinery and equipment and office equipment	-	201,407	Long-term borrowings(Note)
	<u>\$ 2,147,248</u>	<u>\$ 2,514,137</u>	

Note: On December 28, 2016, the long-term borrowings 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 expenditure contracted for at the balance sheet ate but not yet incurred is as follows:

	December 31, 2017	December 31, 2016
Contracted but not provided		
Property, plant and equipment	<u>\$ 999,146</u>	<u>\$ 1,508,923</u>

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, 2017	December 31, 2016
Not later than one year	\$ 77,958	\$ 82,343
Later than one year but not later than five years	192,249	190,049
Later than five years	345,406	299,492
Total	<u>\$ 615,613</u>	<u>\$ 571,884</u>

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\$ 9.3 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 \$521,018 (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, 2017, the insurance company has assessed that the Group can receive compensation of \$1,600,000 (on which \$1,200,000 has been received).

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. This will increase the Company's deferred tax assets and deferred tax liabilities by \$488,101 and \$190,173, respectively, which will be adjusted in the first quarter of 2018.

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

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 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).

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

i. 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.

- ii 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.
- iii. 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, 2017			
	Foreign currency amount		Book value
	(in Thousands)	Exchange rate	(in Thousands of NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 330,183	29.760	\$ 9,826,241
RMB:NTD	779,526	4.5650	3,558,536
JPY:NTD	447,164	0.2642	118,141
<u>Non-monetary items</u>			
RMB:NTD	386,545	4.5650	1,764,578
USD:NTD	49,599	29.760	1,476,069
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	81,917	29.760	2,437,841
USD:RMB	45,713	6.5342	1,360,415
RMB:NTD	134,705	4.5650	614,928
JPY:NTD	473,345	0.2642	125,058

December 31, 2016

	Foreign currency amount (in Thousands)	Exchange rate	Book value (in Thousands of NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
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
<u>Non-monetary items</u>			
RMB:NTD	393,881	4.6490	1,831,155
USD:NTD	43,199	32.2500	1,393,153
<u>Financial liabilities</u>			
<u>Monetary items</u>			
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

iv 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, 2017			
Unrealized exchange gain (loss)			
	Foreign currency amount (in Thousands)	Exchange rate	Book value (in Thousands of NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ -	29.760	(\$ 127,003)
USD:RMB	205	6.5342	936
RMB:NTD	-	4.5650	41,596
JPY:NTD	-	0.2642	(182)
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	-	29.760	40,954
USD:RMB	3,431	6.5342	15,664
RMB:NTD	-	4.5650	(1,654)
JPY:NTD	-	0.2642	1,225

Year ended December 31, 2016			
Unrealized exchange gain (loss)			
(Foreign currency: functional currency)	Foreign currency		Book value
	amount (in Thousands)	Exchange rate	(in Thousands of NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ -	32.2500	\$ 215,496
USD:RMB	5,985	6.9370	27,826
RMB:NTD	-	4.6490	(33,712)
<u>Financial liabilities</u>			
<u>Monetary items</u>			
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

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

Year ended December 31, 2017			
Sensitivity analysis			
(Foreign currency: functional currency)	Extent of variation	Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 98,262	\$ -
RMB:NTD	1%	35,585	-
JPY:NTD	1%	1,181	-
<u>Non-monetary items</u>			
RMB:NTD	1%	-	17,646
USD:NTD	1%	-	14,761
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	24,378	-
USD:RMB	1%	13,604	-
RMB:NTD	1%	6,149	-
JPY:NTD	1%	1,251	-

Year ended December 31, 2016

Sensitivity analysis

	<u>Extent of variation</u>	<u>Effect on profit or loss</u>	<u>Effect on other comprehensive income</u>
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 106,093	\$ -
USD:RMB	1%	16,728	-
RMB:NTD	1%	32,014	-
<u>Non-monetary items</u>			
RMB:NTD	1%	-	18,312
USD:NTD	1%	-	13,932
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	40,619	-
USD:RMB	1%	30,665	-
RMB:NTD	1%	2,616	-
JPY:NTD	1%	1,214	-

Price risk

- i. 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.
- ii. 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, 2017 and 2016 would have increased/decreased by \$41,077 and \$69,406, respectively, from equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$195,709 and \$215,135, respectively, from equity securities classified as available-for-sale.

Interest rate risk

- i. 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.
- ii. 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 \$2,282 and \$6,855 for the years ended December 31, 2017 and 2016, 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, 2017			
	Outstanding	Excellent	Good	Fair
Notes receivable	\$ 1,693,748	\$ 10,321	\$ 165,397	\$ 17,066
Accounts receivable	2,001,062	3,682,716	2,853,670	408,191
Other receivables	208,015	732	14,659	612,379
Long-term accounts receivable	-	-	-	370
	<u>\$ 3,902,825</u>	<u>\$ 3,693,769</u>	<u>\$ 3,033,726</u>	<u>\$ 1,038,006</u>
	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
	<u>\$ 2,456,897</u>	<u>\$ 3,527,849</u>	<u>\$ 2,700,453</u>	<u>\$ 1,886,430</u>

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 (accounts receivable and other receivables) that were past due not impaired is as follows:

	December 31, 2017	December 31, 2016
Up to 30 days	\$ 338,057	\$ 764,451
31 to 90 days	100,378	285,009
91 to 180 days	12,897	60,274
Over 181 days	17,470	13,125
	<u>\$ 468,802</u>	<u>\$ 1,122,859</u>

v. The analysis of financial assets that had been impaired is as follows:

	<u>2017</u>		
Notes receivable	Individual provision	Group provision	Total
At January 1	\$ 119,030	\$ -	\$ 119,030
Reversal of impairment	(6,023)	-	(6,023)
Write-offs during the year	(113,007)	-	(113,007)
At December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>2017</u>		
Accounts receivable	Individual provision	Group provision	Total
At January 1	\$ 48,363	\$ 83,930	\$ 132,293
Provision for impairment	-	14,502	14,502
Reversal of impairment	(12,120)	(14,893)	(27,013)
Write-offs during the year	(4,822)	-	(4,822)
Effects of foreign exchange	-	(1,822)	(1,822)
At December 31	<u>\$ 31,421</u>	<u>\$ 81,717</u>	<u>\$ 113,138</u>

	<u>2016</u>		
Notes receivable	Individual provision	Group provision	Total
At January 1	\$ 119,852	\$ -	\$ 119,852
Reversal of impairment	(822)	-	(822)
At December 31	<u>\$ 119,030</u>	<u>\$ -</u>	<u>\$ 119,030</u>

	<u>2016</u>		
Accounts receivable	Individual provision	Group provision	Total
At January 1	\$ 51,518	\$ 55,009	\$ 106,527
Provision for impairment	9,334	34,841	44,175
Reversal of impairment	-	(8)	(8)
Write-offs during the year	(12,489)	(949)	(13,438)
Effects of foreign exchange	-	(4,963)	(4,963)
At December 31	<u>\$ 48,363</u>	<u>\$ 83,930</u>	<u>\$ 132,293</u>

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, 2017 and 2016, the Group held money market position of \$7,247,463 and \$6,695,487, 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-settle 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, 2017	<u>Less than 1 year</u>	<u>Between 1 and 5 years</u>	<u>Between 5 and 7 years</u>	<u>Over 7 years</u>
Short-term borrowings	\$ 700,000	\$ -	\$ -	\$ -
Short-term notes and bills payable	376,791	-	-	-
Notes payable	74,172	-	-	-
Accounts payable	3,168,772	-	-	-
Other payables	4,037,846	-	-	-
Long-term borrowings (including current portion)	1,023,906	2,156,696	-	-
Long-term accounts payable (including current portion)	-	130,438	-	-
Other financial liabilities	46,939	2,030	-	533

Non-derivative financial liabilities:

December 31, 2016	<u>Less than 1 year</u>	<u>Between 1 and 5 years</u>	<u>Between 5 and 7 years</u>	<u>Over 7 years</u>
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)	721,740	5,825,635	55,120	-
Long-term accounts payable (including current portion)	-	176,640	-	-
Other financial liabilities	2,930	570	-	-

- 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 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, 2017 and 2016 is as follows:

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 160,288	\$ 198	\$ -	\$ 160,486
Beneficiary certificates	250,280	-	-	250,280
Available-for-sale financial assets				
Equity securities	330,403	24,379	1,602,311	1,957,093
Total	<u>\$ 740,971</u>	<u>\$ 24,577</u>	<u>\$ 1,602,311</u>	<u>\$ 2,367,859</u>
December 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
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	<u>\$ 966,353</u>	<u>\$ 42,295</u>	<u>\$ 1,836,758</u>	<u>\$ 2,845,406</u>

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. The following chart is the movement of Level 3 for the years ended December 31, 2017 and 2016:

	<u>Equity securities</u>
At January 1, 2017	\$ 1,836,758
Gain recognised in, profit or loss	13,888
Loss recognised in other comprehensive income	(137,739)
Disposal in the year	(119,196)
Transfers into level 2	<u>8,600</u>
At December 31, 2017	<u>\$ 1,602,311</u>

	<u>Equity securities</u>
At January 1, 2016	\$ 1,544,534
Loss recognised in profit or loss	(175,458)
Gain recognised in other comprehensive income	175,303
Acquired in the year	385,546
Disposal in the year	(86,427)
Effects of foreign exchange	<u>(6,740)</u>
At December 31, 2016	<u>\$ 1,836,758</u>

- F. For the year ended December 31, 2016, there was no transfer between Level 1 and Level 2.
- G. Given that the stocks of Lustrous Technology, Ltd. is no longer publicly traded, and that the stocks of Tera Xtal Technology Corporation ceased to be traded in emerging stock market since March 1 and June 17, 2017, the Group transferred the fair value from Level 2 into 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:

	<u>Fair value at December 31, 2017</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instrument:					
Unlisted shares	\$ 998,564	Market comparable companies	Price to earnings ratio multiple	1.05~2.65	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;
Unlisted shares	554,073	Market comparable companies	Price to earnings ratio multiple	29.42~32.74	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;
Unlisted shares	49,674	Market comparable companies	Enterprise value to operating income ratio multiple	40.51	The higher the multiple value, the higher the fair value;
			Discount for lack of marketability	20%	The higher the discount for lack of marketability, the lower the fair value;

	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	\$ 676,815	Market comparable companies	Price to earnings ratio multiple Discount for lack of marketability	0.69~3.48 20%~30%	The higher the multiple, the higher the fair The higher the discount for lack of marketability, the lower the fair
Unlisted shares	465,083	Market comparable companies	Price to earnings ratio multiple Discount for lack of marketability	42.96~45.48 20%	The higher the multiple, the higher the fair value; The higher the discount for lack of marketability, the lower the fair
Unlisted shares	650,402	Market comparable companies	Enterprise value to operating income ration multiple Discount for lack of marketability	0.38~76.27 20%~40%	The higher the multiple, the higher the fair value; The higher the discount for lack of marketability, the lower the fair
Private equity fund investment	44,458	Net asset value	Discount for lack of marketability	Not applicable	The higher the net asset value, the higher the fair value;

J. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

		December 31, 2017			
		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%	\$ -	\$ -	\$ 16,023 (\$ 16,023)

			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)

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: None.

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 5.

H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 6.

I. Trading in derivative instruments undertaken during the reporting periods: None.

J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 8.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 9.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 10.

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:

	Year ended December 31, 2017	Year ended December 31, 2016
Revenues from external customers	\$ 25,270,616	\$ 25,539,163
Segment profit (loss)	1,686,213	(4,012,752)
Segment profit (loss) including :		
Interest revenue	300	89,617
Interest expense	(198,788)	(403,915)
Depreciation and amortisation	(5,200,524)	(5,758,167)
Investment loss under equity method	(50,851)	(681,415)
Income tax expense	(237,177)	(257,838)
Segment assets	66,985,669	69,097,434

(3) Information on products and services

	Year ended December 31, 2017	Year ended December 31, 2016
Sales revenue	\$ 24,878,115	\$ 25,379,165
Service revenue	21,380	6,968
OEM revenue	337,513	90,925
Other operating revenue	33,608	62,105
Total	<u>\$ 25,270,616</u>	<u>\$ 25,539,163</u>

(4) Geographical information

Geographical information for the years ended December 31, 2017 and 2016 is as follows:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	\$ 5,052,664	\$ 25,368,891	\$ 5,884,192	\$ 27,980,235
China	14,555,026	6,936,617	11,728,241	8,588,686
HK	207,493	796,187	1,364,940	75,896
Korea	1,548,148	-	1,472,998	-
Others	3,907,285	27,050	5,088,792	29,884
Total	<u>\$ 25,270,616</u>	<u>\$ 33,128,745</u>	<u>\$ 25,539,163</u>	<u>\$ 36,674,701</u>

(5) Major customer information

Major customers information of the Group for the years ended December 31, 2017 and 2016 is as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
	Revenue	Revenue
Customer A	\$ 2,685,924	\$ 3,722,150

EPISTAR CORPORATION AND SUBSIDIARIES

Loans to others
Year ended December 31, 2017

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 1

No.	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2017	Balance at December 31, 2017	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	\$ 1,755,080	\$ 863,040	\$ 863,040	2.57%	Short-term financing	\$ -	Working capital	\$ -	None	\$ -	\$ 5,137,918	\$ 15,413,754	Note 1
1	Episky Corporation (Xiamen) Ltd.	United LED Shandong Corporation	Other receivables -related parties	Y	294,241	27,390	-	4.35%	Short-term financing	-	Working capital	-	None	-	1,085,465	1,356,831	Note 2
2	Episky Corporation (Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd	Other receivables -related parties	Y	525,120	273,900	-	4.35%	Short-term financing	-	Working capital	-	None	-	1,085,465	1,356,831	Note 2
3	Epicrystal(Changzhan) Co., Ltd.	Jiangsu Canyang Optoelectronics Ltd	Other receivables -related parties	Y	365,200	365,200	-	4.35%	Short-term financing	-	Working capital	-	None	-	872,715	1,309,073	Note 3

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.

Note 3: In accordance with Epicrystal (Changzhou) Co., Ltd.'s Procedures for Provision of Loans: the limit on loans granted to a single party is 20% of its net equity, and the ceiling on total loans granted is 30% of its net equity.

EPISTAR CORPORATION AND SUBSIDIARIES
Provision of endorsements and guarantees to others
Year ended December 31, 2017

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	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, 2017	Outstanding endorsement/ guarantee amount at December 31, 2017	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	\$ 5,137,918	\$ 1,895,210	\$ 1,432,520	\$ -	-	2.79	\$ 10,275,836	Y	N	Y	
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd	3	5,137,918	1,086,120	1,071,360	452,352	-	2.09	10,275,836	Y	N	Y	
0	Epistar Corporation	Ecoled Venture Co., Limited	3	5,137,918	91,260	89,280	-	-	0.17	10,275,836	Y	N	N	
0	Epistar Corporation	Yen-Rich Opto (Hong Kong) Limited	3	5,137,918	161,250	148,800	-	-	0.29	10,275,836	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, 2017

Table 3
Expressed in thousands of NTD
(Except as otherwise indicated)

Securities held by	Marketable securities	Relationship with the securities issuer	As of December 31, 2017				Footnote
			Number of shares	Book value	Ownership (%)	Fair value	
Epistar Corporation	E&E Japan Co.Ltd. (Stock)	None	140	\$ 2,143	17.07	\$ 2,143	
Epistar Corporation	NATEC CORPORATION (Stock)	None	120,000	1,747	6.00	1,747	
Epistar Corporation	Esleds Co.,Ltd. (Stock)	None	1,000	148	10.00	148	
Epistar Corporation	Lynk Labs (Stock)	None	92,523	11,711	7.45	11,711	
Epistar Corporation	Internatrix Corporation (Stock)	None	5,000,000	13,156	2.82	13,156	
Epistar Corporation	Advanced Photoelectronic Technology Limited (Stock)	None	1,339,235	358,589	11.68	358,589	
Epistar Corporation	Brilliance Semiconductor Inc. (Stock)	None	208,333	-	0.78	-	
Epistar Corporation	Mentor Data Systems Inc. (Stock)	None	1,173,120	-	4.99	-	
Epistar Corporation	Limatatech Co., Ltd. (Stock)	None	900,000	-	3.33	-	
Epistar Corporation	Chi Lin Optoelectronics Co., Ltd. (Stock)	None	8,557,675	-	9.00	-	
Epistar Corporation	Dominant Opto Technologies Sdn. Bhd. (Stock)	None	11,000,000	554,072	10.00	554,072	
Epistar Corporation	POWERLIGHTEC CO., LTD (Stock)	None	141,730	-	17.53	-	

As of December 31, 2017

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	\$ 90,749	3.86	\$ 90,749				
Epistar Corporation	XENIO CORPORATION (stock)	None	Available-for-sale financial assets-non-current	7,878	-	0.06	-				
Epistar Corporation	Edison Opto Corp. (Stock)	None	Available-for-sale financial assets-non-current	9,424,000	145,130	7.12	145,130				
Epistar Corporation	Phecda Technology Co., Ltd. (Stock)	None	Available-for-sale financial assets-non-current	600,000	5,580	2.11	5,580				
Epistar Corporation	Elit Fine Ceramics Co., Ltd. (Stock)	None	Available-for-sale financial assets-non-current	2,200,000	-	4.68	-				
Epistar Corporation	NanoCrystal Technology Inc. (Stock)	None	Available-for-sale financial assets-non-current	6,000,000	-	11.11	-				
Epistar Corporation	OSTENDO TECHNOLOGIES,INC. (Stock)	None	Available-for-sale financial assets-non-current	67,500	-	4.50	-				
Episky Corp.(Xiamen) Ltd.	China Firstar Optoelectronic Materials Co., Ltd. (Stock)	None	Available-for-sale financial assets-non-current	Cash RMB7,500,000	32,056	15.00	32,056				
Episky Corp.(Xiamen) Ltd.	APT Electronics Co., Ltd.(Stock)	None	Available-for-sale financial assets-non-current	4,678,240	66,667	1.18	66,667				
Episky Corp.(Xiamen) Ltd.	China Crystal Technologies Co.,Ltd.(Stock)	None	Available-for-sale financial assets-non-current	8,064,516	69,806	4.08	69,806				
Lighting Investment Corp.	Advanced Photoelectronic Technology Limited (Stock)	None	Available-for-sale financial assets-non-current	148,804	39,836	1.30	39,836				
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	266,892	-	8.99	-				
Lighting Investment Corp.	TERA XTAL TECHNOLOGY CORPORATION (Stock)	None	Available-for-sale financial assets-non-current	795,000	-	0.42	-				
Lighting Investment Corp.	FormoLight Technologies Inc. (Stock)	None	Available-for-sale financial assets-non-current	2,038,230	13,014	10.00	13,014				

As of December 31, 2017

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.	XENIO CORPORATION (Stock)	None	Available-for-sale financial assets-non-current	16,462	\$ -	0.13	\$ -	
Lighting Investment Corp.	Howtech Technology Co., Ltd. (Stock)	None	Financial assets at fair value through profit or loss	379,910	6,231	0.76	6,231	
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	18,920	2.72	18,920	
Lighting Investment Corp.	Edison Opto Corp. (Stock)	None	Financial assets at fair value through profit or loss	5,851,182	90,108	4.42	90,108	
Lighting Investment Corp.	Epistar Corporation (Stock)	Parent company	Financial assets at fair value through profit or loss	2,564,755	115,799	0.24	115,799	Note
Lighting Investment Corp.	Rigidtech Microelectronics Corp. (Stock)	None	Financial assets at fair value through profit or loss	17,753	198	0.02	198	
Lighting Investment Corp.	Taishin Ta-Chong Money Market Fund(Beneficiary certificates)	None	Financial assets at fair value through profit or loss	356,660	5,037	N/A	5,037	
Lighting Investment Corp.	Taishin 1699 Money Market Fund (Beneficiary certificates)	None	Financial assets at fair value through profit or loss	1,727,550	23,230	N/A	23,230	
Lighting Investment Ltd.	LEDLITEK Co.,LTD. (Stock)	None	Available-for-sale financial assets-non-current	41,500	63,599	5.15	63,599	
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	-	
EPI Crystal Investment Inc.	Edison Opto Corp. (Stock)	None	Available-for-sale financial assets-non-current	6,138,000	94,525	4.64	94,525	
EPI Crystal Investment Inc.	Rigidtech Microelectronics Corp. (Stock)	None	Available-for-sale financial assets-non-current	1,687,500	18,799	2.34	18,799	
EPI Crystal Investment Inc.	Advanced Photoelectronic Technology Limited (Stock)	None	Available-for-sale financial assets-non-current	223,214	59,755	1.95	59,755	

As of December 31, 2017

Securities held by	Relationship with the securities issuer		General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
	Marketable securities	None						
EPI Crystal Investment Inc.	LeDiamond Opto Corporation (Stock)	None	Available-for-sale financial assets-non-current	1,100,000	\$ 7,861	16.92	\$ 7,861	
EPI Crystal Investment Inc.	LEDITEK Co., Ltd. (Stock)	None	Available-for-sale financial assets-non-current	50,000	76,626	6.20	76,626	
EPI Crystal Investment Inc.	De-an Venture Capital Co., Ltd. (Stock)	None	Available-for-sale financial assets-non-current	2,000,000	20,769	10.77	20,769	
EPI Crystal Investment Inc.	Jih Sun Money Market Fund (Beneficiary certificates)	None	Financial assets at fair value through profit or loss	5,551,929	81,766	N/A	81,766	
EPI Crystal Investment Inc.	Eastspring Inv Well Pool Money Market Fund (Beneficiary certificates)	None	Financial assets at fair value through profit or loss	2,314,756	31,306	N/A	31,306	
EPI Crystal Investment Inc.	Nomura Taiwan Money Market (Beneficiary certificates)	None	Financial assets at fair value through profit or loss	6,715,381	108,941	N/A	108,941	
EPI Crystal Investment Inc.	Global Communication Semiconductor, LLC (Stock)	None	Financial assets at fair value through profit or loss	531,000	45,029	0.66	45,029	
Epistar JV Holding (BVI) Co., Ltd.	Evertop (Fujian) Optoelectronics Co., Ltd. (Stock)	None	Available-for-sale financial assets-non-current	Cash USD2,500,000	57,180	10.00	57,180	
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	153,575	8.97	153,575	

Note : Shown as treasury stocks of Epistar Corporation.

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, 2017

Investor	Marketable securities	General ledger account	Balance as at January 1, 2017 (Note)			Addition			Disposal			Balance as at December 31, 2017 (Note)		
			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	Jin Sun Mooney Market Fund(Beneficiary certificates)	Financial assets at fair value through profit or loss	-	\$ -	-	52,684,972	\$ 774,500	-	52,684,972	\$ 774,819	\$ 774,500	319	\$ -	
Epistar Corporation	Eastspring Investments Well Pool Money Market Fund(Beneficiary certificates)	Financial assets at fair value through profit or loss	-	-	-	62,279,778	841,000	-	62,279,778	841,274	841,000	274	-	
Epistar Corporation	Allianz Global Investors Taiwan Money Market Fund (Beneficiary certificates)	Financial assets at fair value through profit or loss	-	-	-	30,780,454	383,000	-	30,780,454	383,098	383,000	98	-	
Epistar Corporation	CTBC Hwa-win Money Market Fund (Beneficiary certificates)	Financial assets at fair value through profit or loss	-	-	-	27,424,963	300,000	-	27,424,963	300,100	300,000	100	-	
EPISKY Corporation (Changzhou) LTD	CR Yuanta Money Market Fund B Class(Beneficiary certificates)	Financial assets at fair value through profit or loss	-	-	-	452,357,624	2,065,013	-	452,357,624	2,073,814	2,065,013	8,801	-	
Epicystal Corporation (Changzhou) Ltd.	CR Yuanta Money Market Fund B Class(Beneficiary certificates)	Financial assets at fair value through profit or loss	-	-	-	786,267,944	3,589,313	-	786,267,944	3,607,785	3,589,313	18,472	-	
Jiangsu Canrany Optoelectronics Ltd.	CR Yuanta Money Market Fund B Class(Beneficiary certificates)	Financial assets at fair value through profit or loss	-	-	-	72,741,853	332,067	-	72,741,853	332,191	332,067	124	-	

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

Note : Ending balances included gain (loss) on valuation of financial assets.

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, 2017

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 5

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount (\$)	Percentage of total purchases (sales)	Differences in transaction terms			Notes/accounts receivable (payable)	Footnote
						Unit price	Credit term	Balance		
Epistar Corporation	Everlight Electronics Co., Ltd. and subsidiaries	Director of the Company	Sales	(2,677,442)	12	150 days after month-end	N/A	\$ 1,553,955	17	Note 2
Epistar Corporation	LEDAZ Co., Ltd.	Note 1	Sales	(679,939)	3	90 days after month-end closing	N/A	321,547	4	
Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd	The Company's indirectly owned subsidiary	Sales	(404,389)	2	90 days after month-end closing	N/A	123,235	1	
Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	The Company's indirectly owned subsidiary	Sales	(2,764,550)	13	180 days after month-end closing	N/A	1,102,228	12	
Epistar Corporation	Episky Corp.(Xiamen) Ltd.	The Company's indirectly 100% owned subsidiary	Sales	(1,401,904)	6	180 days after month-end closing	N/A	762,523	9	
Epistar Corporation	Epicrystal (Changzhou) Co., Limited	The Company's indirectly owned subsidiary	Sales	(1,338,969)	6	90 days after month-end closing	N/A	320,787	4	
Epistar Corporation	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 1	Sales	(424,932)	2	90 days after month-end closing	N/A	115,819	1	
Epistar Corporation	TE Opto Corporation	Note 3	Sales	(593,627)	3	105 days after month-end closing	N/A	129,111	1	
Epistar Corporation	Cheng Yi Corporation	Subsidiary of the Company	Purchases	303,539	2	90 days after month-end closing	N/A	(65,886)	3	
Epistar Corporation	Episky Corporation (Changzhou) Ltd.	The Company's indirectly 100% owned subsidiary	Purchases	2,783,670	22	30 days after month-end closing	N/A	(168,582)	7	
Epistar Corporation	Episky Corp.(Xiamen) Ltd.	The Company's indirectly 100% owned subsidiary	Purchases	975,720	8	60 days after month-end closing	N/A	(23,579)	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
Epistar Corporation	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	\$ 754,386	6	150 days after month-end	N/A	Normal	164,930	6	
Epistar Corporation	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 1	Purchases	465,091	4	120 days after month-end closing	N/A	Normal	(109,309)	4	
Episky Corp.(Xiamen) Ltd.	Epistar Corporation	The Company's indirectly 100% owned subsidiary	Sales	(975,720)	18	90 days after month-end closing	N/A	Normal	23,579	1	
Episky Corp.(Xiamen) Ltd.	Luxlite (Shenzhen) Corporation Limited	Note 3	Sales	(2,150,582)	39	90 days after month-end closing	N/A	Normal	1,124,839	49	
Episky Corp.(Xiamen) Ltd.	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 3	Sales	(216,856)	4	90 days after month-end closing	N/A	Normal	366,415	16	
Episky Corp.(Xiamen) Ltd.	Lighting Investment Ltd.	Note 3	Purchases	244,534	5	90 days after month-end closing	N/A	Normal	(51,799)	3	
Episky Corp.(Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	Note 3	Purchases	1,819,562	40	90 days after month-end closing	N/A	Normal	(857,041)	45	
Episky Corp.(Xiamen) Ltd.	Epistar Corporation	The Company's indirectly 100% owned subsidiary	Purchases	1,401,904	31	90 days after month-end closing	N/A	Normal	(762,523)	40	
Episky Corp.(Xiamen) Ltd.	Epistar Corporation	Note 3	Purchases	239,421	5	90 days after month-end closing	N/A	Normal	(108,736)	6	
Episky Corp.(Xiamen) Ltd.	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 3	Purchases	102,208	2	90 days after month-end closing	N/A	Normal	(37,667)	2	
Epistar Corporation	Epistar Corporation (Changzhou) Ltd.	Note 3	Sales	(2,587,689)	72	90 days after month-end closing	N/A	Normal	1,218,430	71	
Epistar Corporation	Epistar Corporation	The Company's indirectly owned subsidiary	Sales	(754,386)	21	30 days after month-end closing	N/A	Normal	164,930	10	
Epistar Corporation	Epistar Corporation (Xiamen) Ltd.	Note 3	Sales	(239,421)	7	90 days after month-end closing	N/A	Normal	108,736	6	

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
Episcrystal (Changzhou) Co., Ltd.	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	\$ 1,338,969	46	90 days after month-end	N/A	Normal	320,787	54	
Episcrystal (Changzhou) Co., Ltd.	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 3	Purchases	139,330	5	90 days after month-end closing	N/A	Normal	(40,464)	7	
Episky Corporation (Changzhou) Ltd.	Epistar Corporation	The Company's indirectly 100% owned subsidiary	Sales	(2,783,670)	60	30 days after month-end closing	N/A	Normal	168,582	12	
Episky Corporation (Changzhou) Ltd.	Episky Corp.(Xiamen) Ltd.	Note 3	Sales	(1,819,562)	39	90 days after month-end closing	N/A	Normal	857,041	62	
Episky Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd	Note 3	Purchases	1,515,719	37	90 days after month-end closing	N/A	Normal	(401,554)	25	
Episky Corporation (Changzhou) Ltd.	Episcrystal (Changzhou) Co., Limited	Note 3	Purchases	2,587,689	63	90 days after month-end closing	N/A	Normal	(1,218,430)	75	
Luxlite (Shenzhen) Corporation Limited	HUIZHOU VERY LIGHT SOURCE TECHNOLOGY CO.,LTD	Note 3	Sales	(166,838)	3	90 days after month-end closing	N/A	Normal	73,622	4	
Luxlite (Shenzhen) Corporation Limited	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	2,764,550	56	120 days after month-end closing	N/A	Normal	(1,102,228)	49	
Luxlite (Shenzhen) Corporation Limited	Episky Corp.(Xiamen) Ltd.	Note 3	Purchases	2,150,582	44	90 days after month-end closing	N/A	Normal	(1,124,839)	51	
Jiangsu Canyang Optoelectronics Ltd	Episky Corporation (Changzhou) Ltd.	Note 3	Sales	(1,515,719)	92	90 days after month-end closing	N/A	Normal	401,554	36	
Jiangsu Canyang Optoelectronics Ltd	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 3	Sales	(168,306)	10	90 days after month-end closing	N/A	Normal	135,200	12	
Jiangsu Canyang Optoelectronics Ltd	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	404,389	34	90 days after month-end closing	N/A	Normal	(123,235)	34	
Lighting Investment Ltd.	Episky Corp.(Xiamen) Ltd.	Note 3	Sales	(244,534)	79	90 days after month-end closing	N/A	Normal	51,799	82	

Purchaser/seller	Transaction		Differences in transaction terms				Notes/accounts receivable (payable)				
	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
Lighting Investment Ltd.	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 3	Purchases	\$ 309,172	100	90 days after month-end	N/A	Normal	109,221	100	
Cheng Yi Corporation	Epistar Corporation	Subsidiary of the Company	Sales	(303,539)	100	90 days after month-end closing	N/A	Normal	65,886	100	

Note 1: Associates accounted for using equity method by the Company's subsidiary.

Note 2: The collection term for Everlight Electronics Co., Ltd. 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.

EPSTAR CORPORATION AND SUBSIDIARIES

Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more
December 31, 2017

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2017			Total	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful debts
			Accounts receivable	Other receivable	Amount			Action taken			
Epistar Corporation	Everlight Electronics Co., Ltd. And Subsidiaries	Director of the Company	\$ 1,553,955	\$ -	\$ 1,553,955	1.41	\$ 153,157	Note 1	\$ 491,499	\$ (14,479)	
Epistar Corporation	LEDAZ Co., Ltd.	Investee company accounted for using equity method by the Group's subsidiary	321,547	-	321,547	2.93	-	-	117,060	(652)	
Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	The Company's indirectly owned subsidiary	123,235	896,215	1,019,450	0.40	-	-	-	-	
Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	The Company's indirectly owned subsidiary	1,102,228	17,194	1,119,422	1.38	186,920	Note 1	241,945	-	
Epistar Corporation	Episky Corporation (Xiamen) Ltd.	The Company's indirectly 100% owned subsidiary	762,523	10,409	772,932	2.93	-	-	205,765	-	
Epistar Corporation	Epicrystal (Changzhou) Co., Ltd.	The Company's indirectly owned subsidiary	320,787	23,989	344,776	4.42	-	-	125,976	-	
Epistar Corporation	KAISTAR Lighting (Xiamen) Co., Ltd.	Investee company accounted for using equity method by the Group's subsidiary	115,819	18,985	134,804	3.43	5,194	Note 1	71,125	-	
Epistar Corporation	TE Opto Corporation	Investee company accounted for under the equity method	129,111	218	129,329	5.73	55	Note 1	11,708	-	
Episky Corp.(Xiamen) Ltd.	Luxlite (Shenzhen) Corporation Limited	Note 2	1,124,839	-	1,124,839	3.70	101,449	Note 1	265,712	-	
Episky Corp.(Xiamen) Ltd.	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 2	366,415	-	366,415	1.17	58,413	Note 1	152,769	-	
Epicrystal (Changzhou)Co., Ltd.	EPISKY Corporation (Changzhou) LTD	Note 2	1,218,430	-	1,218,430	3.15	-	-	274,056	-	

Table 6

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2017			Overdue receivables			Allowance for doubtful debts
			Accounts receivable	Other receivable	Total	Turnover rate	Amount	Action taken	
EpiCrystal (Changzhou)Co., Ltd.	Epistar Corporation	The Company's indirectly owned subsidiary	\$ 164,930	\$ -	164,930	2.95	\$ -	-	\$ 112,877
EpiCrystal (Changzhou)Co., Ltd.	Episky Corp.(Xiamen) Ltd.	Note 2	108,736	-	108,736	4.19	4,506	-	4,506
EpiCrystal (Changzhou)Co., Ltd.	Jiangsu Canyang Optoelectronics Ltd	Note 2	152	366,545	366,697	0.01	12	Note 1	1,395
EPISKY Corporation (Changzhou) LTD	Epistar Corporation	The Company's indirectly 100% owned subsidiary	168,582	-	168,582	9.26	-	-	168,582
EPISKY Corporation (Changzhou) LTD	Episky Corp.(Xiamen) Ltd.	Note 2	857,041	-	857,041	4.25	26,776	Note 1	293,432
Jiangsu Canyang Optoelectronics Ltd	EPISKY Corporation (Changzhou) LTD	Note 2	401,554	-	401,554	4.40	-	-	297,149
Jiangsu Canyang Optoelectronics Ltd	KAISTAR Lighting (Xiamen) Co., Ltd.	Note 2	135,200	-	135,200	2.05	-	-	8,891

Note 1: The Group endeavored to pursue the overdue amounts. Epistar has received \$128,528, \$186,920, \$1,116 and \$55 from Everlight, Luxlite (Shenzhen), Kaistar and TE Opto in subsequent collection, respectively; Episky (Xiamen) has received \$101,449 and \$58,413 from Luxlite (Shenzhen) and Kaistar, respectively; Episky (Changzhou) has received \$26,776 from Episky (Xiamen) in subsequent collection; EpiCrystal (Changzhou) has received \$4,506 and \$12 from Episky (Xiamen) and Jiangsu Canyang in subsequent collection, 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, 2017

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction		Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount		
0	Epistar Corporation	Cheng Yi Corporation	1	Cost of goods sold	\$ 303,539	Conducted in the ordinary course of business with terms similar to those with third parties	1.20
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	1	Sales	404,389	Conducted in the ordinary course of business with terms similar to those with third parties	1.60
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	1	Accounts receivable	123,235	Conducted in the ordinary course of business with terms similar to those with third parties	0.18
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	1	Other receivable	896,215	Based on contract terms	1.34
0	Epistar Corporation	Episky Corporation (Changzhon) Ltd.	1	Cost of goods sold	2,783,670	Conducted in the ordinary course of business with terms similar to those with third parties	11.02
0	Epistar Corporation	Episky Corporation (Changzhon) Ltd.	1	Accounts payable	168,582	Conducted in the ordinary course of business with terms similar to those with third parties	0.25
0	Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	1	Sales	2,764,550	Conducted in the ordinary course of business with terms similar to those with third parties	10.94
0	Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	1	Accounts receivable	1,102,228	Conducted in the ordinary course of business with terms similar to those with third parties	1.65
0	Epistar Corporation	Episky Corporation (Xiamen) Ltd.	1	Sales	1,401,904	Conducted in the ordinary course of business with terms similar to those with third parties	5.55
0	Epistar Corporation	Episky Corporation (Xiamen) Ltd.	1	Cost of goods sold	975,720	Conducted in the ordinary course of business with terms similar to those with third parties	3.86

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	Episky Corporation (Xiamen) Ltd.	1	Accounts receivable	762,523	Conducted in the ordinary course of business with terms similar to those with third parties	1.14
0	Epistar Corporation	Epicrystal Corporation (Changzhou) Ltd.	1	Sales	1,338,969	Conducted in the ordinary course of business with terms similar to those with third parties	5.30
0	Epistar Corporation	Epicrystal Corporation (Changzhou) Ltd.	1	Cost of goods sold	754,386	Conducted in the ordinary course of business with terms similar to those with third parties	2.99
0	Epistar Corporation	Epicrystal Corporation (Changzhou) Ltd.	1	Accounts receivable	320,787	Conducted in the ordinary course of business with terms similar to those with third parties	0.48
0	Epistar Corporation	Epicrystal Corporation (Changzhou) Ltd.	1	Accounts payable	164,930	Conducted in the ordinary course of business with terms similar to those with third parties	0.25
1	Cheng Yi Corporation	Epistar Corporation	2	Other expenses	103,533	Based on contract terms	0.41
2	Episky Corporation (Xiamen) Ltd.	Lighting Investment Ltd.	3	Cost of goods sold	244,534	Conducted in the ordinary course of business with terms similar to those with third parties	0.97
2	Episky Corporation (Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Cost of goods sold	1,819,562	Conducted in the ordinary course of business with terms similar to those with third parties	7.20
2	Episky Corporation (Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Accounts payable	857,041	Conducted in the ordinary course of business with terms similar to those with third parties	1.28
2	Episky Corporation (Xiamen) Ltd.	Luxlite (Shenzhen) Corporation Limited	3	Sales	2,150,582	Conducted in the ordinary course of business with terms similar to those with third parties	8.51
2	Episky Corporation (Xiamen) Ltd.	Luxlite (Shenzhen) Corporation Limited	3	Accounts receivable	1,124,839	Conducted in the ordinary course of business with terms similar to those with third parties	1.68
2	Episky Corporation (Xiamen) Ltd.	Epicrystal Corporation (Changzhou) Ltd.	3	Cost of goods sold	239,421	Conducted in the ordinary course of business with terms similar to those with third parties	0.95
2	Episky Corporation (Xiamen) Ltd.	Epicrystal Corporation (Changzhou) Ltd.	3	Accounts payable	108,736	Conducted in the ordinary course of business with terms similar to those with third parties	0.16
3	Episky Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Other receivable	366,545	Based on contract terms	0.55

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)
3	Episky Corporation (Changzhou) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Sales	\$ 2,587,689	Conducted in the ordinary course of business with terms similar to those with third parties	10.24
3	Episky Corporation (Changzhou) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Accounts receivable	1,218,430	Conducted in the ordinary course of business with terms similar to those with third parties	1.82
4	Episky Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Cost of goods sold	1,515,719	Conducted in the ordinary course of business with terms similar to those with third parties	6.00
4	Episky Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Accounts payable	401,554	Conducted in the ordinary course of business with terms similar to those with third parties	0.60

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, 2017

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017			Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016	Number of shares	Ownership (%)	Book value			
Epistar Corporation	Epistar JV Holding (BVI) Co., Ltd.	British Virgin Islands	Professional investment	\$ 7,282,982	\$ 7,282,982	23,416	100.00	\$ 5,753,012	\$ 72,029	\$ 73,817	
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	268,026	(152,564)	(171,822)	
Epistar Corporation	Nan Ya Photonics Incorporation	Taiwan	LED light application	840,381	840,381	18,239,448	40.80	306,279	51,709	21,097	
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	67,690	(66,659)	(14,033)	
Epistar Corporation	TE Opto Corporation	Taiwan	Manufacturing and sales of LED chips and LED lighting facilities	9,200	9,200	920,000	40.00	45,404	15,976	6,391	
Epistar Corporation	ProLight Opto Technology Corporation	Taiwan	Packaging, manufacturing and sales of LED	140,000	140,000	8,000,000	16.81	114,023	(49,321)	(8,384)	
Epistar Corporation	UEC Investment Ltd.	British Virgin Islands	Professional investment	2,162,602	2,162,602	67,300,247	100.00	2,764,932	264,473	262,725	
Epistar Corporation	Lighting Investment Corp.	Taiwan	Professional investment	1,000,000	1,000,000	135,297,086	100.00	838,391	211,386	101,581	
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	1,303	(262)	(128)	
Epistar Corporation	EPI Crystal Investment Inc.	Taiwan	Professional investment	1,158,323	1,158,323	118,000,000	100.00	1,114,608	52,227	52,227	
Epistar Corporation	HUGA Holding (BVI) Limited	British Virgin Islands	Professional investment	589,959	589,959	278,510	100.00	293,197	(33,307)	(33,307)	
Epistar Corporation	Ecoled Venture Co., Limited	Hong Kong	Sales of LED lighting facilities	82,348	82,348	7,189,668	51.99	(1,408)	(47,878)	(24,892)	

		Initial investment amount				Shares held as at December 31, 2017				Investment income (loss) recognised by the Company for the year ended December 31, 2017	
Investor	Investee	Location	Main business activities	Balance as at December 31, 2017	Balance as at December 31, 2016	Number of shares (Note)	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Footnote
Epistar Corporation	GaN Ventures Co., Limited	Hong Kong	Investment holding; sales of electronic components	\$ 166,505	\$ 56,889	10,800,000	55.96	\$ 77,400	\$ 81,147	\$ 47,247	
Epistar Corporation	Bee Rich Corporation	British Virgin Islands	Professional investment	1,754,015	1,754,015	109,472,700	100.00	849,692	1,872	1,912	
Epistar Corporation	Full Star Enterprises Limited	Hong Kong	Professional investment	166,785	166,785	8,660,000	100.00	252,082	6,655	6,655	
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	2,650	(2,268)	(1,067)	
Epistar Corporation	SF Light Co., Ltd.	Taiwan	Sales of LED products	-	14,512	-	-	-	16	8	Note 1
Epistar Corporation	PlayNitride Inc.	British Cayman Islands	Innovative technology licensing and sales of LED related products	68,909	68,909	2,612,500	14.08	60,143	(143,722)	(20,915)	
Epistar Corporation	iReach Corporation	Taiwan	Packaging, module design, manufacturing and sales of LED	70,000	-	7,000,000	100.00	70,001	1	1	
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	2,432	46	23	
Episky Corporation (Xiamen) Ltd.	Epitcrystal 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	155,230	303,499	10,896	
Episky Corporation (Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	China-Changzhou	Manufacturing and sales of LED chips and LED lighting facilities	99,056	99,056	Cash RMB20,000,000	100.00	203,108	49,815	49,815	
Episky Corporation (Xiamen) Ltd.	EPRICH (Guangzhou)Co.,Ltd	China-Guangzhou	Development and sales of LED products	40,382	40,382	Cash RMB8,000,000	100.00	16,334	4,807	4,807	
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	7,062	2,317	2,317	
EPI Crystal Investment Inc.	Crystaluxx S.A.R.L.	Luxembourg	Professional investment	129,114	129,114	32,500	100.00	17,140	(3,380)	(3,380)	
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	293,546	14,482	14,482	

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017		Book value	Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016	Number of shares (Note)	Ownership (%)				
EPI Crystal Investment Inc.	LEDAZ Co., Ltd.	Korea	Engineering service of LED	\$ 23,993	\$ 23,993	44,065	14.01	\$ 29,580	\$ 30,833	\$ 4,321	
EPI Crystal Investment Inc.	Nan Ya Photonics Incorporation	Taiwan	LED light application	40,776	40,776	882,378	1.97	23,509	51,709	1,021	
EPI Crystal Investment Inc.	ProLight Opto Technology Corporation	Taiwan	Packaging, manufacturing and sales of LED	3,082	-	333,000	0.70	4,728	(49,321)	(50)	
EPI Crystal Investment Inc.	Can Yang Investments Limited	Hong Kong	Professional investment	72,436	-	20,400,000	11.86	148,750	1,513	3,241	
Lighting Investment Corp.	Lighting Investment Ltd.	British Virgin Islands	Professional investment	95,220	152,701	45,642	100.00	529,024	152,562	152,562	
Lighting Investment Corp.	Nan Ya Photonics Incorporation	Taiwan	LED light application	9,785	9,785	218,806	0.49	3,634	51,709	253	
Lighting Investment Corp.	ProLight Opto Technology Corporation	Taiwan	Packaging, manufacturing and sales of LED	83,856	83,856	5,829,234	12.25	124,650	(49,321)	(6,109)	
InterLight Optotech Corporation.	Interlight OPotech (HK) Co., Limited	Hong Kong	Packaging, testing and sales of LED	13,385	13,385	429,000	30.00	13,349	4,479	1,344	
UEC Investment Ltd.	Episky (Hong Kong) Ltd.	Hong Kong	Professional investment	2,124,096	2,124,096	68,000,000	100.00	2,768,770	264,951	264,951	
LiteStar JV Holding (BVI) Co., Ltd.	Epicrystal (Hong Kong) Co. Ltd.	Hong Kong	Professional investment	4,040,994	4,040,994	134,600,000	100.00	4,013,504	281,708	281,708	
Lighting Investment Ltd.	Luxlite (HK) Corporation Limited	Hong Kong	Professional investment	91,286	91,286	2,850,000	75.00	304,577	154,138	115,604	
Lighting Investment Ltd.	Epistar (Hong Kong) Limited	Hong Kong	Professional investment	2,556	2,556	82,850	100.00	2,347	(9)	(9)	
Lighting Investment Ltd.	LEDAZ Co., Ltd.	Korea	Engineering service of LED	48,166	48,166	88,460	28.13	50,883	30,833	8,673	
Lighting Investment Ltd.	PlayNitride Inc.	British Cayman Islands	Innovative technology licensing and sales of LED related products	67,230	-	778,541	4.20	60,717	(126,334)	(5,306)	

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017		Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016	Number of shares (Note)	Number of shares					
Lighting Investment Ltd.	GaN Ventures Co., Limited	Hong Kong	Investment holding; sales of electronic components	\$ 64	\$ -	1,500,000	7.77	\$ 10,747	\$ 50,521	\$ (3,925)		
HUGA Holding (SAMOA) Limited	Ecoled Venture Co., Limited	Hong Kong	Sales of LED lighting facilities	24,655	24,655	6,638,461	48.01	(1,300)	(47,878)	(22,986)		
HUGA Holding (BVI) Limited	HUGA Holding (SAMOA) Limited	SAMOA	Professional investment	331,951	331,951	12,451,035	100.00	164,340	(22,875)	(22,875)		
HUGA Holding (BVI) Limited	Bliss High Technology Inc.	SAMOA	Sales of LED chips and LED lighting facilities	-	3,008	-	-	-	3,251	3,251	Note 2	
GaN Ventures Co., Limited	GV Semiconductor Inc.	USA	R&D and sales of electronic components	48,821	-	1,620,000	100.00	28,838	(19,810)	(19,810)		
Full Star Enterprises Limited	PlayNitride Inc.	British Cayman Islands	Innovative technology licensing and sales of LED related products	39,054	39,054	600,000	3.23	37,003	(143,722)	(4,798)		
Epistar JV Holding (BVI) Co., Ltd.	LiteStar JV Holding (BVI) Co., Ltd.	British Virgin Islands	Professional investment	3,046,795	3,046,795	9,682	80.65	3,237,957	281,504	227,032		
Epistar JV Holding (BVI) Co., Ltd.	United LED Corporation (Hong Kong) Limited	Hong Kong	Professional investment	2,029,760	2,029,760	67,000,165	74.86	624,627	(146,567)	(109,721)		
Epistar JV Holding (BVI) Co., Ltd.	Country Lighting (BVI) Co., Ltd.	British Virgin Islands	Professional investment	89,843	89,843	3,060,000	36.43	91,096	(70)	(25)		
Crystaluxx SARL	LEDOLUX Sp.Z.O.O.	Poland	Assembling and sales of LED bulbs	132,456	132,456	154,714	60.00	17,316	(3,896)	(2,337)		
Bee Rich Corporation	Crystal Light Enterprise Group Limited	British Virgin Islands	Professional investment	17,881	17,881	200,000	100.00	26,352	2,953	2,953		
Bee Rich Corporation	Can Yang Investments Limited	Hong Kong	Professional investment	1,733,522	1,733,522	112,893,000	65.64	823,268	1,513	(1,081)		

Note 1: The investee was liquidated on March 7, 2017.

Note 2: The investee was liquidated on August 18, 2017.

EPISTAR CORPORATION AND SUBSIDIARIES
Information on investments in Mainland China

Year ended December 31, 2017

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 9

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from Taiwan to		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	Net income of investee as of December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2017 (Note 2)	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
				Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2017	Taiwan to Mainland China as of December 31, 2017							
Episky Corporation (Xiamen) Ltd.	Manufacturing and sales of LED chips and LED lighting facilities	\$ 2,023,680	2	\$ -	\$ -	\$ 2,023,680	\$ 264,952	100.00	\$ 265,537	\$ 2,787,455	\$ -	2(1)
United LED Shandong Corporation	Manufacturing and sales of LED chips and LED lighting facilities	2,499,840	2	-	-	1,897,200	(146,567)	74.86	(109,720)	623,741	-	2(1)
Epicrystal Corporation (Changzhou) Ltd.	Manufacturing and sales of LED chips and LED lighting facilities	4,315,200	2	-	-	3,202,176	303,499	74.86	227,197	3,236,891	-	2(1)
Luxlite (Shenzhen) Corporation Limited	Sales of LED chips and LED lighting facilities	89,280	2	-	-	66,960	153,533	75.00	115,149	285,919	-	2(1)
KAISTAR Lighting (Xiamen) Co., Ltd.	Manufacturing and sales of LED chips and LED lighting facilities	6,337,572	2	-	-	1,519,546	(113,806)	23.98	(29,112)	1,531,545	-	2(2)
Everlight Electronics (Fujian) Co., Ltd	Manufacturing and sales of LED backlight and related parts	744,000	2	-	-	74,400	-	10.00	-	57,180	-	2(3)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from Taiwan to			Net income of investee as of December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2017 (Note 2)	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
				Accumulated amount of remittance from Mainland China as of January 1, 2017	Amount remitted back to Taiwan for the year ended December 31, 2017	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017						
APT Electronics Co., Ltd.	Main business activities	\$ 1,814,087	3	\$ 103,530	\$ -	\$ 103,530	-	8.99	\$ -	\$ -	-	2(3)
	Developing, manufacture and sale of LED extension and chip, module and light instrument											
China Crystal Technologies Co., Ltd.	Developing, manufacture and sale of gallium arsenide unit crystal and chips	902,799	2	99,893	-	99,893	-	8.97	(49,910)	153,575	-	2(3)
	Developing, manufacture and sale of LED filament, lamp bulb, lighting instrument and applications	593,450	2	176,398	-	176,398	(33,681)	40.00	(13,472)	126,285	-	2(2)
Cosmoted Lighting Limited	Developing, manufacture and sale of LED filament, lamp bulb, lighting instrument and applications	593,450	2	176,398	-	176,398	(33,681)	40.00	(13,472)	126,285	-	2(2)
Ufeco Technology Inc.	Developing and manufacturing LED application and sales of self-product	74,400	2	7,751	-	7,751	-	10.00	-	-	-	2(3)
Very Optoelectronics (HUIZHOU) Co., Ltd.	Research and development, manufacturing and sale of LED packaging; research and development, manufacturing and sale of backlight module, lighting modules and accessories	456,500	2	217,847	-	217,847	48,457	24.00	11,630	106,748	-	2(3)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from			Net income of investee as of December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2017 (Note 2)	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2017	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017						
Ningbo Formosa Epitaxy Incorporation	Main business activities	\$ 5,952	2	\$ 50,093	\$ -	\$ 50,093	100.00	\$ 2,953	\$ 26,352	\$ -	-	2(3)
Jiangsu Canyang Optoelectronics Ltd.	Manufacturing and sales of LED chips and LED lighting facilities Producing and processing LED extension and chip, and manufacturing and sale of interior and exterior illumination	4,761,600	2	1,293,996	71,821	1,365,817	77.50	1,872	858,350	-	-	2(2)

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	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	\$ 10,816,500	\$ 12,318,912	\$ 31,790,347

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. 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, 2017

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 10

Investee in Mainland China	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing		Interest during the year ended December 31, 2017	
	Amount	%	Amount	%	Balance at December 31, 2017	%	Balance at December 31, 2017	Purpose	Maximum balance during the year ended December 31, 2017	Balance at December 31, 2017		Interest rate
Jiangsu Yanyang Optoelectronics Ltd.	\$ 404,389	2	\$ 17,484	2	\$ 123,235	1	\$ 1,071,360	-	\$ 1,755,080	\$ 863,040	2.57%	\$ 19,090
	(6,400)	-	(2,542)	-	(135)	-	-	-	-	-	-	-
Episky Corporation (Changzhou) Ltd.	(2,783,670)	22	-	-	(168,582)	5	-	-	-	-	-	-
Luxlite (Shenzhen) Corporation Limited	2,764,550	11	-	-	1,102,228	12	-	-	-	-	-	-
Episky Corporation (Xiamen) Ltd.	1,401,904	6	57,017	7	762,523	8	1,432,520	-	-	-	-	-
Epicrystal Corporation (Changzhou) Ltd.	(975,720)	8	(6,860)	-	(23,579)	1	-	-	-	-	-	-
	1,338,969	5	29,056	4	320,787	3	-	-	-	-	-	-
KAISTAR Lighting (Xiamen) Co., Ltd.	(754,386)	6	(21,276)	1	(164,930)	5	-	-	-	-	-	-
	424,932	2	-	-	115,819	1	-	-	-	-	-	-
	(465,091)	4	-	-	(109,309)	3	-	-	-	-	-	-

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, 2017 and 2016, 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, 2017 and 2016, 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 reports of 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 judgement, 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.

Key audit matters for the Company's non-consolidated financial statements of the current period are stated as follows:

Evaluation of Impairment Losses of Property, Plant and Equipment, and Intangible assets

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, 2017, the balances of property, plant and equipment, and intangible assets were NT\$17,010,006 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 intangible assets 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 intangible assets, 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 execution 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, 2017, the balances of inventories and the allowance for valuation loss were NT\$3,732,030 thousand and NT\$486,675 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 judgement, 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 obsolete 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 2017 and 2016 financial statements of certain consolidated subsidiaries and equity investments accounted for under the equity method. These equity investments amounted to NT\$1,422,275 thousand and NT\$1,395,693 thousand, representing 2.30% and 2.15% of the total assets as at December 31, 2017 and 2016, 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\$92,972 thousand and NT\$1,183,267 thousand, representing 6.48% and 28.22% of the comprehensive income (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 judgement 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.

Cheng, Ya-Huei
For and on behalf of PricewaterhouseCoopers, Taiwan
March 15, 2018

Hsieh, Chih-Cheng

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
PARENT COMPANY ONLY BALANCE SHEETS
YEARS ENDED DECEMBER 31

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Assets	December 31, 2017		December 31, 2016	
	AMOUNT	%	AMOUNT	%
Current assets				
Cash and cash equivalents	\$ 5,310,043	9	\$ 3,632,418	6
Financial assets at fair value through profit or loss -				
current	-	-	150,009	-
Notes receivable, net	195,064	-	34,427	-
Accounts receivable, net	4,136,510	7	4,818,320	7
Accounts receivable - related parties	4,502,953	7	6,060,195	9
Other receivables	563,629	1	995,883	2
Other receivables - related parties	1,093,895	2	1,253,168	2
Inventories, net	3,245,355	5	2,859,356	4
Prepayments	340,814	-	415,595	1
Non-current assets held for sale - net	468,142	1	627,398	1
Other current assets	97,166	-	68,228	-
Current Assets	<u>19,953,571</u>	<u>32</u>	<u>20,914,997</u>	<u>32</u>
Non-current assets				
Available-for-sale financial assets - noncurrent	1,183,025	2	1,254,447	2
Investments accounted for under equity method	12,878,833	21	12,446,544	19
Property, plant and equipment, net	17,010,006	27	19,174,184	30
Intangible assets	7,684,157	12	7,813,856	12
Deferred income tax assets	2,873,564	5	2,604,001	4
Other non-current assets	385,518	1	644,901	1
Non-current assets	<u>42,015,103</u>	<u>68</u>	<u>43,937,933</u>	<u>68</u>
Total assets	<u>\$ 61,968,674</u>	<u>100</u>	<u>\$ 64,852,930</u>	<u>100</u>

(Continued)

EPISTAR CORPORATION
PARENT COMPANY ONLY BALANCE SHEETS
YEARS ENDED DECEMBER 31

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Liabilities and Equity	December 31, 2017		December 31, 2016	
	AMOUNT	%	AMOUNT	%
Current liabilities				
Short-term borrowings	\$ 700,000	1	\$ 2,000,000	3
Notes payable	24,793	-	22,941	-
Accounts payable	1,679,044	3	1,718,022	3
Accounts payable - related parties	858,269	2	1,596,756	2
Other payables	3,040,775	5	3,062,157	5
Current income tax liabilities	125,287	-	-	-
Long-term liabilities, current portion	863,928	1	523,928	1
Other current liabilities - others	107,843	-	166,922	-
Current Liabilities	<u>7,399,939</u>	<u>12</u>	<u>9,090,726</u>	<u>14</u>
Non-current liabilities				
Long-term borrowings	1,781,905	3	5,249,544	8
Deferred income tax liabilities	1,065,314	2	916,268	1
Other non-current liabilities	342,335	-	322,248	1
Non-current liabilities	<u>3,189,554</u>	<u>5</u>	<u>6,488,060</u>	<u>10</u>
Total Liabilities	<u>10,589,493</u>	<u>17</u>	<u>15,578,786</u>	<u>24</u>
Equity				
Share capital				
Share capital - common stock	10,887,014	18	10,915,492	17
Capital surplus				
Capital surplus	39,970,967	64	43,016,259	66
Retained earnings				
Legal reserve	-	-	241,512	-
Unappropriated retained earnings				
(accumulated deficit)	1,614,226	3	(3,545,028)	(6)
Other equity interest				
Other equity interest	(684,243)	(1)	(505,370)	-
Treasury stocks				
	(408,783)	(1)	(848,721)	(1)
Total equity	<u>51,379,181</u>	<u>83</u>	<u>49,274,144</u>	<u>76</u>
Total liabilities and equity	<u>\$ 61,968,674</u>	<u>100</u>	<u>\$ 64,852,930</u>	<u>100</u>

EPISTAR CORPORATION
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

Items	Years ended December 31			
	2017		2016	
	AMOUNT	%	AMOUNT	%
Sales revenue	\$ 21,954,472	100	\$ 23,442,193	100
Operating costs	(17,589,165)	(80)	(21,158,040)	(91)
Net operating margin	4,365,307	20	2,284,153	9
Unrealized profit from sales	(29,111)	-	(28,104)	-
Realized profit (loss) on from sales	28,104	-	(44,850)	-
Net operating margin	4,364,300	20	2,211,199	9
Operating expenses				
Selling expenses	(221,065)	(1)	(262,343)	(1)
General and administrative expenses	(1,162,016)	(5)	(1,037,228)	(4)
Research and development expenses	(1,529,115)	(7)	(1,373,214)	(6)
Total operating expenses	(2,912,196)	(13)	(2,672,785)	(11)
Other income and expenses - net	155,687	-	209,076	1
Operating loss	1,607,791	7	(252,510)	(1)
Non-operating income and expenses				
Other income	269,803	1	258,327	1
Disaster insurance compensation revenue	400,000	2	1,200,000	5
Other gains and losses	(598,273)	(3)	(1,277,811)	(5)
Net gain on valuation of put options, call options and conversion rights of bonds	-	-	56,931	-
Loss on call of corporate bonds	-	-	(199,386)	(1)
Disaster loss	(57,172)	-	(463,846)	(2)
Finance costs	(97,359)	-	(71,722)	-
Share of gain (loss) of associates and joint ventures accounted for using equity method, net	204,619	1	(3,410,587)	(15)
Total non-operating revenue and expenses	121,618	1	(3,908,094)	(17)
Profit (loss) before income tax	1,729,409	8	(4,160,604)	(18)
Income tax expense	(79,496)	-	614,559	3
Profit (loss) for the year	\$ 1,649,913	8	(\$ 3,546,045)	(15)
Other comprehensive income				
Gains (loss) on remeasurements of defined benefit plans	(\$ 42,790)	-	\$ 1,968	-
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	(171)	-	(107)	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	7,274	-	(335)	-
Components of other comprehensive income that will not be reclassified to profit or loss	(35,687)	-	1,526	-
Other comprehensive income, before tax, available-for-sale financial assets	(23,168)	-	85,237	-
Total Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(200,448)	(1)	(842,868)	(4)
Income tax relating to the components of other comprehensive income	44,743	-	109,120	1
Components of other comprehensive loss that will be reclassified to profit or loss	(178,873)	(1)	(648,511)	(3)
Other comprehensive loss for the year	(\$ 214,560)	(1)	(\$ 646,985)	(3)
Total comprehensive income (loss) for the year	\$ 1,435,353	7	(\$ 4,193,030)	(18)
Basic earnings per share				
Total basic earnings (loss) per share	\$ 1.55		(\$ 3.33)	
Total diluted earnings (loss) per share	\$ 1.53		(\$ 3.33)	

EPISTAR CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Share capital - common stock	Total capital surplus, additional paid-in capital	Retained earnings		Other equity interest		Treasury stocks	Amount
			Legal reserve	Total unappropriated retained earnings (accumulated deficit)	Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets		
For the year ended December 31, 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	-	-	(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 share	(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
For the year ended December 31, 2017								
Balance at January 1, 2017	\$ 10,915,492	\$ 43,016,259	\$ 241,512	\$ 3,545,028	\$ 228,527	\$ 276,843	\$ 848,721	\$49,274,144
Appropriations of 2016 earnings	-	-	(241,512)	241,512	-	-	-	-
Legal reserve used to offset accumulated deficit	-	(3,303,516)	-	3,303,516	-	-	-	-
Additional paid-in capital used to offset accumulated deficit	-	-	-	-	-	-	-	-
Change in investees interest accounted for under equity method	-	168,908	-	-	-	-	-	168,908
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	105,930	-	-	-	-	-	105,930
Treasury shares transferred to employees	-	110,919	-	-	-	-	257,681	368,600
Share-based payment of remuneration costs	-	27,906	-	-	-	-	-	27,906
Retirement of treasury share	(28,478)	(153,779)	-	-	-	-	182,257	-
Change in investees interest accounted by subsidiaries	-	(1,660)	-	-	-	-	-	(1,660)
Profit for the year	-	-	-	1,649,913	-	-	-	1,649,913
Other comprehensive income (loss)	-	-	-	(35,687)	(187,423)	8,550	-	(214,560)
Balance at December 31, 2017	\$ 10,887,014	\$ 39,970,967	\$ -	\$ 1,614,226	\$ 415,950	\$ 268,293	\$ 408,783	\$51,379,181

EPISTAR CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Years ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before tax	\$ 1,729,409	(\$ 4,160,604)
Adjustments		
Adjustments to reconcile profit (loss)		
Depreciation	3,488,145	2,816,000
Amortization	334,510	331,622
Provision for doubtful accounts	(21,198)	10,569
Net gain on financial assets at fair value through profit or loss	(1,063)	(1,142)
Net gain on financial liabilities at fair value through profit or loss	-	(56,931)
Interest expense	97,359	198,335
Interest income	(58,751)	(53,412)
Dividend income	(161)	(177)
Compensation cost of share-based payment	27,906	-
Effect of exchange rate on bonds payable and long-term loans	-	(117,190)
Share of (gain) loss of subsidiaries and associates accounted for under the equity method	(204,619)	3,410,587
Impairment loss on non-financial assets	104,963	543,740
Loss on disposal of property, plant and equipment	3,658	177,399
Gain on disposal of investments	(30,442)	(2,341)
Other income from recognition of long-term deferred revenues	(24,494)	(16,883)
Loss on call of corporate bonds	-	199,386
Impairment loss of financial assets	8,774	366,563
Property, plant and equipment transferred to expenses	2,584	2,745
Intangible assets transferred to expenses	410	-
Prepayment transferred to expenses	8,524	-
Realized (profit) loss from sales	(28,104)	44,850
Unrealized profit from sales	29,111	28,104
Disaster loss	57,172	463,846
Changes in operating assets and liabilities		
Changes in operating assets		
Financial assets held for trading	151,074	290,039
Notes receivable	(154,614)	(6,079)
Accounts receivable	2,254,227	(548)
Other receivables	721,909	(1,135,812)
Other financial assets - current	(28,938)	(4,621)
Inventories	(424,269)	765,394
Prepayments	74,782	36,882
Other non-current assets	(2,923)	(115)
Changes in operating liabilities		
Notes payable	1,851	8,282
Accounts payable	(777,464)	(419,097)
Other payables	242,296	248,823
Other current liabilities	(59,079)	(114,278)
Other non-current liabilities	40,514	10,472
Cash inflow generated from operations	7,563,059	3,864,408
Income tax paid	(22,711)	(16,600)
Interest received	59,934	54,737
Interest paid	(88,606)	(106,203)
Dividend received	10,340	22,318
Net cash flows from operating activities	7,522,016	3,818,660

(Continued)

EPISTAR CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	<u>Years ended December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Increase in other receivables - related parties	(\$ 873,770)	(\$ 918,575)
Decrease in other receivables - related parties	873,770	918,575
Proceeds from disposal of available-for-sale financial assets	70,017	78,776
Acquisition of investments accounted for under the equity method	(179,616)	(216,164)
Effect on initial consolidation of subsidiaries	-	310,255
Proceeds from disposal of investments accounted for using equity method	14,631	-
Shares returned by subsidiaries	-	549,993
Acquisition for property, plant and equipment	(1,499,565)	(2,232,237)
Proceeds from disposal of property, plant and equipment	146,667	1,839,553
Acquisition of intangible assets	(228,103)	(479,777)
(Decrease)increase in refundable deposits paid	<u>1,331</u>	<u>(4,740)</u>
Net cash flows used in investing activities	<u>(1,674,638)</u>	<u>(154,341)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
(Decrease) increase in short-term loans	(1,300,000)	1,800,000
Repayment of long-term loans	(8,433,928)	(3,797,339)
Proceeds from long-term loans	5,300,000	6,450,000
Reacquisition of convertible bonds payable	-	(7,719,990)
Repayment of convertible bonds payable	-	(223,609)
Increase in guarantee deposits received	3,245	311
Proceeds from issuance of treasury stocks for employee	<u>260,930</u>	<u>-</u>
Net cash flows used in financing activities	<u>(4,169,753)</u>	<u>(3,490,627)</u>
Net increase in cash and cash equivalents	1,677,625	173,692
Cash and cash equivalents at beginning of year	<u>3,632,418</u>	<u>3,458,726</u>
Cash and cash equivalents at end of year	<u>\$ 5,310,043</u>	<u>\$ 3,632,418</u>

EPISTAR CORPORATION



Chairman

Biing-Jye Lee

