

Stock Symbol : 3686



Danen Technology Corporation

2017 Annual Report

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.

Website of Annual Report:

Market Observation Post System: <http://mops.twse.com.tw/mops/web/index>

Corporate website: <http://www.danentech.com>

Print date : May 21st, 2018

1. Spokesperson and deputy Spokesperson:

Spokesperson: Wu, Yu-Yi

Title: Senior Vice President

Tel: (03)473-8788

E-mail address: pr@danentech.com

Deputy Spokesperson: Shi, Kai-Yuan.

Title: Manager

Tel: (03)473-8788

E-mail address: pr@danentech.com

2. Addresses and phone numbers of headquarters, branch offices and factories:

(1). Headquarters and Wafer Plant 1

Address: No. 599 Huannan Rd., Guanyin Dist., Taoyuan City, Taiwan

Tel: (03)473-8788

(2). Wafer Plant 2

Address: No. 639 Huannan Rd., Guanyin Dist., Taoyuan City, Taiwan

Tel: (03)473-8788

(3). Wafer Plant 3

Address: No.868 Huannan Rd., Guanyin Dist., Taoyuan City, Taiwan

Tel: (03)473-8788

3. Stock transfer agency:

Name: Agency department of Chinatrust Commercial Bank

Address: F5, No. 83, Sec. 1, Chongqing South Rd, Zhongzheng Dist., Taipei City

Tel: (02)6636-5566 website: <http://www.chinatrust.com.tw>

4. CPA of Financial Report in recent years:

Name of firm: PwC Taiwan

Names of accountants: Lee Hisu-Ling, Zhi, Bing-Jun

Address: F27, No. 333, Sec. 1, Keelung Rd., Taipei City 11012

Tel: (02)2729-6666 website: <http://www.pwc.tw>

5. Names and inquiry methods of oversea exchanges for flotation of securities: None

6. Corporate website: <http://www.danentech.com>

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I. Report to shareholders

To our Shareholders,

The global solar market of 2017 broke through the milestone of 100GW with 25% growth compared with 2016, which was resulted from the explosively growing of China solar market. According to the statistics of industry research institute, the 2017 global champion of grid connected photovoltaic installation volume was China by 52.83GW, the second place was US by 12GW, and the third and fourth market were India and Japan respectively. On the other hand, the domestic market of Taiwan broke through 800MW for the first time with 30% growth per year in past two years.

However, due to the better cost performance, mono c-Si products was supply in short at 1H 2017, thus the related cell and module products were also short supply while the multi c-Si products were over supply, which resulted to the market price dropped almost 15%. The demand of multi c-Si products was not recovered until Q3, since the June 30th deadline of subsidy postponed in China and thus the price of wafer gradually stabilized and recovered. Therefore, the sales revenue of the company was influenced since the market price of multi c-Si wafer dropped significantly. In response to the market situation of 2017, the company not only took selective orders and adjusted capacity utilization at the same time but also adjusted the sales strategy and combination of products flexibly according to the market conditions.

Look into 2018, the global market scale is still estimated up to 100GW by industry research institute and maintaining with growth, in which the main demand driving is still from China. Since the photovoltaic cost is lower and lower, it will drive the demand appearance in other regions. China will still be the major market, but recovering demands from Europe region, including France, Netherlands and Spain will accomplish several large-sized ground power stations continually and on-grid at 2018 Q3, which will be part of the driving forces to maintain the scale of global market reaching 100GW at 2018. Besides, the solar installation target of Taiwan is 20GW at 2025, promoted by the driving plan of policy, which will lead the installation volume with 30% growth yearly and need to reach the level of 2GW to 3GW in coming years. The growing opportunity of domestic market is large in next few years.

Overview the overall development trends of solar energy, the global solar market will continuously demonstrate the growing trend and the supply chain of domestic market in Taiwan will also become stably with growing direction resulted from the green energy promotion of non-nuclear homes policy. Furthermore, the synergy benefits from the upstream and downstream industry chain of Taiwan may have chance to make the solar industry shape of Taiwan becomes more competitive. In response to the industry development trend, the company will carefully make the mid to

long-term operating plans according to the development of industry technology with stable financial shape and flexible operating strategy, and continuously drive cost reduction and improve the quality of products to satisfy the demands of clients and make the business operation of company turn into profitable.

1. 2017 Operating Report

(1) Implementation of Business Plan

Unit: NT\$ K; %

| Item | 2017 | 2016 | Growth rate |
|--------------------------|-----------|-----------|-------------|
| Operating Revenue | 948,607 | 1,370,986 | (30.81%) |
| Gross Profit (loss) | (621,200) | (455,687) | (36.32%) |
| Operating Income (loss) | (688,071) | (534,127) | (28.82%) |
| Income before tax (loss) | (689,447) | (529,711) | (30.16%) |
| Net Income (loss) | (690,750) | (733,644) | 5.85% |
| Total comprehensive loss | (690,750) | (733,644) | 5.85% |
| EPS(NT\$) | (1.98) | (2.10) | 5.71% |

The operating revenue of 2017 was influenced by the weak demand and significant price drop of multi c-Si products at 1H 2017.

(2) Budget implementation

The disclosure of 2017 budget implementation is not necessary since the company did not public the prediction.

(3) Financial Status and Profitability

Unit: NT\$ K; %

| Item | | 2017 | 2016 | |
|------------------|--|-------------------|---------|---------|
| Financial Status | Ratio of liabilities to assets (%) | 8.60 | 6.15 | |
| | Long fund to bank property and equipment (%) | 137.56 | 137.20 | |
| Solvency | Current ratio (%) | 332.29 | 587.67 | |
| | Quick ratio (%) | 275.97 | 492.74 | |
| Profitability | Return on assets (%) | (19.21) | (16.74) | |
| | Return on stockholder's equity (%) | (20.76) | (18.16) | |
| | Issued capital ratio (%) | Operating Income | (19.68) | (15.24) |
| | | Income before tax | (19.72) | (15.01) |
| | Net income percentage (%) | (72.82) | (53.51) | |
| | EPS(NT\$) | (1.98) | (2.10) | |

(4) Status of research and development

In 2017, research and development teams have dedicated to new materials and new technology development process, the specific results are as follows:

- A. Process optimization for crystallization efficiency coupled with the improvement of customer's cell process, to further improve the conversion efficiency of multi-solar cell to be more than 19.6%.
- B. Optimize the power efficiency of furnace and improve the yield rate of ingot to reduce 3% power consumption and achieve the target of cost reduction, energy saving, carbon reduction, and environment friendly.
- C. Through the development of material recycle technology, enhanced the usage of recycled materials, effectively reduced manufacturing costs and maintained the commitment of quality.

2. Highlights of 2017 Business Operation Plan

(1) Operating guidelines and Prospect

- A. Catch the technology development and high efficient product demand trends, stabilize and strengthen the position of product market.
- B. Strengthen the cooperation with strategic customers, control the timing of key product and technology development.
- C. Maintain a solid relationship with major raw material suppliers to ensure that no shortage of major material supply.
- D. Strengthen the industrial cooperation strategy and put in necessary resources to enhance the competitiveness of company products and market opportunity.

(2) Number of sales forecast and its basis

Unit : mt

| Product | Number of sales forecast |
|---|--------------------------|
| Multi c-Si Solar Products (including wafers) | 2,200 |

The number of sales forecast for the year 2017 is based on customers' demands and market trends, meanwhile taking into consideration of supply chain price change and the sales target was finalized according to the Company's manufacturing capacity utilization plan.

(3) Sales and production policy

- A. Control the industry's highest conversion efficiency and quality of wafer technology to enhance the value to meet customer demand in high efficiency products for maintaining the market position of the products.
- B. Improve the performance of products to meet the market's high-end demand and growth. Stabilize existing strategic customer relationships, and actively expand the relationship of new potential customers.
- C. Strengthen the development of new technologies and materials' production application,

and promote new generation wafer to make a further enhancement in quality and efficiency of products.

(4) Future development strategy

- A. Through optimizing production equipment and process to improve the productivity of key technology significantly in reducing the cost of production.
- B. Introduce new slicing technology for improving the productivity of wafer, and drive production cost lower aggressively.
- C. Develop manufacturing technology of new generation wafer, and improve the conversion efficiency effectively of wafer to satisfy the demand of clients.
- D. Strengthen the collaboration among different businesses, make technical cooperation with key partners of the supply chain, and actively invest in mid to long-term strategic technology to grasp opportunities of future business development and value.

(5) Influence by external environment, laws & regulations and the overall business operation environment

Owing to the climate changes intensified in the major regions of the world, disaster avalanched, and the rapid growth of energy demands increased in emerging countries, the needs for traditional energy sources such as oil, natural gas and coal continues to increase and these traditional energy resources are drying up. Therefore, the search for alternative energy is absolutely the key issue of world's economic development and important industrial topics. As solar energy is an inexhaustible energy. Looking to the future, under the carbon reduction agreement reached by the Paris Climate Summit, the policy support and development of the major countries in the world continue to set policies and supports into the alternative energy industry, coupled with the promoting policy “2025 renewable energy development target” which will lead the market expectable. Furthermore, all solar energy supply chain manufacturers actively improve product quality and reduce cost, which will be able to drive solar industry, a long-term development with great prosperity.

Finally, I would like to thank all shareholders for the support and encouragement to Danen Technology, on behalf of all my colleagues and members of the board, I would like to express the most sincere appreciations and thanks again.

| | |
|--------------------------|-----------------|
| Chairman | Fang, Jenn-Ming |
| President | Fang, Jenn-Ming |
| Chief Accounting manager | Wu, Yu-Yi |

II. Company profile

1. Date of Incorporation:

November 9th, 2007

2. Company History

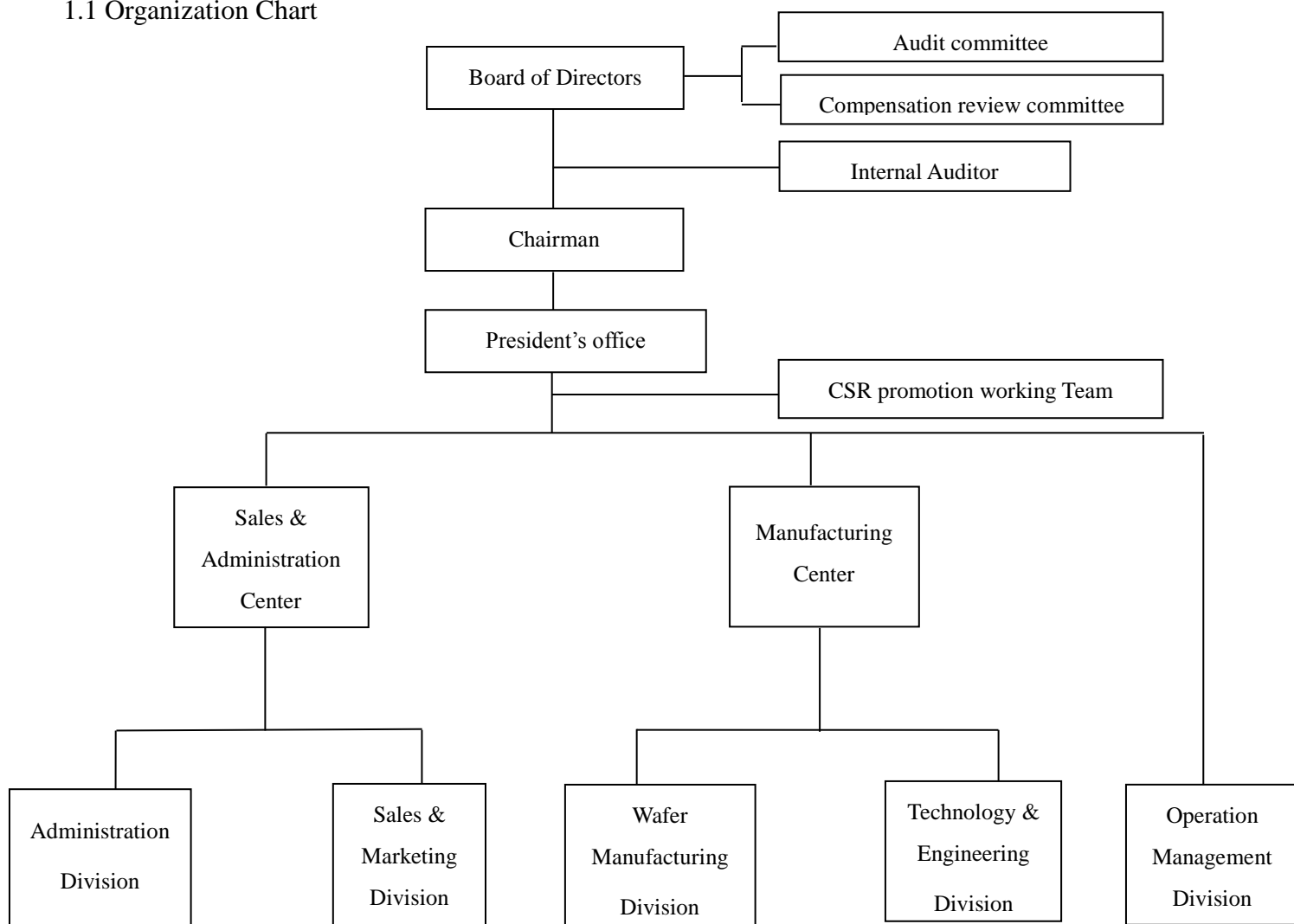
| <u>Date</u> | <u>Milestones</u> |
|-------------|--|
| 2007.11 | Official establishment of Danen Technology Cooperation with NT\$ 1 million start-up capital. |
| 2007.11 | With NT\$ 249 million SPO, after that, the paid-up capital reached NT\$ 250 million. |
| 2007.12 | With NT\$ 65 million SPO, after that, the paid-up capital reached NT\$ 315 million. |
| 2008.02 | Wafer Plant 1 construction started and ground breaking. |
| 2008.03 | With NT\$ 565 million SPO, after that, the paid-up capital reached NT\$ 880 million. |
| 2008.07 | Wafer Plant 1 building finished and the first batch of equipment installation completed and first batch of wafer trials succeeded. |
| 2008.09 | The products passed the verification of customers. |
| 2008.10 | With NT\$ 30 million SPO, after that, the paid-up capital reached NT\$ 910 million. |
| 2008.12 | Won ISO 9001 (2008) certification. |
| 2009.08 | With NT\$ 350 million SPO, after that, the paid-up capital reached NT\$ 1.26 billion. |
| 2009.09 | Application for public offer. |
| 2009.10 | Registered for GEM, code 3686. |
| 2009.12 | Passed certifications of ISO14001 and OHSAS18001. |
| 2010.01 | Received Certificate for Hi-tech Enterprise or Enterprise with Successful Technology with Market potential by MOEA/IDB. |
| 2010.01 | With NT\$ 150 million SPO, after that the paid-up capital reached NT\$ 1.41 billion. |
| 2010.02 | Wafer Plant 2 started to be constructed. |
| 2010.06 | With NT\$ 66,582,000 convertible Equity warrant, after conversion, the paid-up capital reached NT\$ 1,476,582,000. |
| 2010.07 | With NT\$ 168 million SPO, after that, the paid-up capital reached NT\$ 1,644,582,000. |
| 2010.07 | Listed in Taiwan Stock Exchange Corporation. |
| 2010.08 | Wafer Plant 2 was completed. |
| 2011.01 | Wafer Plant 3 started to be constructed. |
| 2011.03 | With NT\$ 368million SPO, after that, the paid-up capital reached NT\$ 2,012,582,000 |
| 2011.08 | SPO from retained earnings with a figure of NT\$ 2,4150,990, after that the paid-in capital reached NT\$ 2,036,732,990 |
| 2011.08 | Top 500 excellent exporters / importers awarded by Ministry of Economic Affairs |
| 2011.10 | 1 st award of the top 500 fastest growing high-tech company in Asia area by Deloitte |
| 2012.10 | 2nd award of the top 500 fastest growing high-tech company in Asia area by Deloitte |

- 2013.02 With NT\$ 600million SPO, after that, the paid-in capital reached NT\$ 2,636,732,990
- 2013.04 Product and provide the highest efficiency and the best yield solar wafer in solar industry
- 2013.07 Issued NT\$ 11.5 million restricted stocks, after capital increase, the paid-up capital reached NT\$ 2,648,232,990
- 2014.02 With NT\$ 850 million SPO, after that the paid-up capital reached NT\$ 3,098,232,990
- 2015.01 Wrote off restricted stocks with a figure of NT\$ 1,475,000, after capital decrease, the paid-up capital reached NT\$ 3,496,757,990
- 2015.12 Wrote off restricted stocks with a figure of NT\$ 180,000, after capital decrease, the paid-up capital reached NT\$ 3,496,267,990
- 2016.04 Rewarded with top 6-20% ranking in 2015 by 2nd corporate governance review
- 2017.04 Rewarded with top 6-20% ranking in 2016 by 3rd corporate governance review
- 2017.04 Investment in Bio-chip & Gene technology company with NT\$155M
- 2018.04 Rewarded with top 6-20% ranking in 2017 by 4th corporate governance review

III. Corporate Governance Report

1. Organization

1.1 Organization Chart



1.2 Major Corporate Functions

| Department | Functions |
|----------------------------|---|
| Internal Auditor | (1) Assist functional Departments in adjusting and correcting errors during the implementation of rules and systems. (2) Establish systematic and institutionalized regulations to assess and audit the operation risks and deficiencies. (3) Conduct auditing on regular or irregular basis to ensure the operation performance and the progresses of improvement in all aspects of business operation. (4) Execute all inspections of Internal control and auditing affairs assigned by the managements. |
| CSR promotion working team | (1) Establish, review policy and system for corporate social responsibility working targets. |

| | |
|-----------------------------------|---|
| | <p>(2) Promote related businesses and activities for corporate social responsibility.</p> <p>(3) Routine report to BOD for CSR activities.</p> |
| Administration Division | <p>(1) Responsible for the purchases of supplies, materials and equipments, planning and execution regard to insurance, import and export related affairs.</p> <p>(2) General administration service, asset management and public affairs' planning and execution.</p> <p>(3) Plant, office automation and planning for IT related software and hardware systems.</p> <p>(4) Budget control, capital plan and bank related management work.</p> <p>(5) Cost accounting, taxation and financial report preparation and analysis work.</p> <p>(6) BOD and shareholder meeting's preparation work and post handling.</p> |
| Sales & Marketing Division | <p>(1) New product promotion, marketing strategy and optimization of product planning.</p> <p>(2) Product application, new markets and new customers development.</p> <p>(3) Customer relationships and annual sales plan execution.</p> <p>(4) Management of accounts' receivables, sales return, agents and distributors plan.</p> |
| Wafer Manufacturing Division | <p>(1) Manufacturing capacity plan, expansion management and execution.</p> <p>(2) Production cost reduction, productivity improvement and product quality control.</p> <p>(3) Strengthen personnel training and improve work quality and discipline.</p> <p>(4) Achieve all SHE targets setting by Safety, Health and Environmental regulations.</p> |
| Technology & Engineering Division | <p>(1) Product conversion efficiency, yield improvement and product quality improvement.</p> <p>(2) Key material, process and equipment evaluation and introduction.</p> <p>(3) Production output stability and equipment performance improvement.</p> <p>(4) Conduct costs control and power consumption savings to reduce the manufacturing costs effectively.</p> <p>(5) Plan and execution of facility system work and performance.</p> |
| Operation Management Division | <p>(1) Establish and manage the system of employee recruitment and assignment.</p> <p>(2) Planning and implementation of compensation and incentive programs.</p> <p>(3) Establishment and management of intellectual property and reward system.</p> <p>(4) The management of IP dispute resolution and related matters concerning legal litigation.</p> <p>(5) Planning and management of operational risk analysis and risk reduction strategy.</p> |

2. Directors, Supervisors and Management Team

2.1 Directors and supervisors

March 31th, 2018 unit: one thousand share;%

| Title | Nationality/ Country of Origin | Name | Gender | Date Elected | Term (Years) | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience (Education) | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship | | |
|-------------------|--------------------------------------|--------------------|--------|-----------------|-----------------|-----------------------|------------------------------|------|-------------------------|------|-----------------------------------|------|---|---|---|---|--|------|---------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | kinship |
| Chairman | R.O.C. | Fang, Jenn-Ming | male | 2017.5.26 | 3 | 2007.11.05 | 5,116 | 1.46 | 5,116 | 1.46 | 1,012 | 0.29 | 0 | 0 | 1.M.B.A of MIT 2.Graduate of Physics Department of Tsinghua University 3.Wafer Plant assistant vice-president of Winbond 4.Marketing executive of memory BU of Winbond | President of Danen Technology Cooperation | N/A | N/A | N/A |
| Vice- Chairman | R.O.C. | Jen, Chao-Ming | male | 2017.5.26 | 3 | 2009.11.27 | 953 | 0.27 | 953 | 0.27 | 6,377 | 1.82 | 0 | 0 | 1..M.A. Tech. M of MIT 2.Graduate of EE Department of University of Missouri Columbia 3.Business and Product Marketing Director and Director of Strategy and Investment of Quanta Computer | 1.Independent director of Howteh Technology 2. Supervisor of Centillion Taiwan Corporation | N/A | N/A | N/A |
| Director | R.O.C. | Chuang, Bi-Yang | male | 2017.5.26 | 3 | 2017.5.26 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1. Master of business administration of West Texas A&M University, USA) 2.Master of Science from National Tsing Hua University 3.B.S. from National Tsing Hua University 4.Supervisor of Taimide Tech. INC. 5.Director and president of Onstatic | Director and CEO of Trillion Science Inc. | N/A | N/A | N/A |

| Title | Nationality/ Country of Origin | Name | Gender | Date Elected | Term (Years) | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience (Education) | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship | | |
|-------------------------|--------------------------------------|-------------------|--------|-----------------|-----------------|-----------------------|------------------------------|---|-------------------------|---|-----------------------------------|---|---|--|--|---|--|------|---------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | kinship |
| | | | | | | | | | | | | | | Tech Co. 6. Chairman and President of ASIA UNION ELECTRONIC CHEMICAL CROP. 7. Director of UPC Technology Corp. | | | | | |
| Independent Director | R.O.C. | Tsai, Wen-Jing | male | 2017.5.26 | 3 | 2009.11.27 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1.Master of NCCU 2. Graduate of Accounting Department of Taiwan University 3. Vice director of Ching-Long CPA Firm 4. Manger of Deloitte 5. CEO of Tax system department in Certified Public Accountant Association 6. Vice chair of Tax system department in Certified Public Accountant Association | 1. Director of KW CPAs Firm 2. Supervisor of MESSOA 3. Independent director of Applied BioCode Corporation. | N/A | N/A | N/A |
| Independent Director | R.O.C. | Lin, Her-Yuan | male | 2017.5.26 | 3 | 2014.6. 18 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1. MSEE of University of Missouri。 2. Biological bachelor of mechanical and electronic of National Taiwan University 3. General manager of Industrial Technology Investment Cooperation 4. Senior vice-president of WK Technology Fund. 5. Senior vice-president of AsiaVest Partners 6. Senior manager of Intel Cooperation | 1. President of Industrial Technology Investment Corporation 2. Independent director of Ushine Photonics Corporation 3. Director of S2C TECH INC. 4. Director of GVT Fund GP Ltd. 5. Director of ITIC. 6. Director of Golden Asia Fund Ventures Ltd. 7. Director of inergy Technology Inc. | N/A | N/A | N/A |

| Title | Nationality/ Country of Origin | Name | Gender | Date Elected | Term (Years) | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience (Education) | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship | | |
|-------------------------|--------------------------------------|------------------|--------|-----------------|-----------------|-----------------------|------------------------------|---|-------------------------|---|-----------------------------------|---|---|---|---|---|--|------|---------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | kinship |
| | | | | | | | | | | | | | | | 8. Director of TMI Holding Corporation 9. Director of Gridow Inc 10. Director of HWTrek Corporation | | | | |
| Independent Director | R.O.C. | Chao, Yi-long | male | 2017.5.26 | 3 | 2014.6.18 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1.Doctor of Business Administration of Ohio State University 2. MS of Business school of National Taiwan University. 3. BS of Chemical Engineering of National Taiwan University 4. State Economic and Trade Commission of R.O.C. 5. Dean of International Business school of National Taiwan University and director of Institute 6. President and vice-president of Consumer Report. 7. Deputy Secretary General of Consumer Foundation, R.O.C. | 1. Professor of National Taiwan University school of Management 2. Independent director of Ruentex Development Co., Ltd. 3. Independent director of Taiwan Tobacco and Liquor Co. | N/A | N/A | N/A |

| Title | Nationality/ Country of Origin | Name | Gender | Date Elected | Term (Years) | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience (Education) | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship | | |
|-------------------------|--------------------------------------|-------------------|--------|-----------------|-----------------|-----------------------|------------------------------|------|-------------------------|---|-----------------------------------|---|---|---|---|---|--|------|---------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | kinship |
| Independent Director | R.O.C. | Su, Tsung-Tsan | female | 2017.5.26 | 3 | 2017.5.26 | 52.4 | 0.01 | 0 | 0 | 0 | 0 | 0 | 0 | 1.International Senior Managers Program (ISMP) / Harvard Business School, USA 2.Doctor of Philosophy / Princeton University, USA 3.Bachelor of Science / National Tsing-Hua University 4.Director of Material and Chemical Research Laboratories, ITRI 5.Supervisor of Nanotechnology Development Center, ITRI 6.Director of planning division, ITRI | 1. Director of Nanotechnology Industry Development Association. 2.Director of Safety and Health Technology Center | N/A | N/A | N/A |

2.1.1 Major shareholders of institutional shareholders: none

2.1.2 Major shareholders of the Company's major institutional shareholders: none

2.1.3 Professional qualifications and independence analysis of directors:

| Names | Criteria | Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience | | | Independence Criteria(Note) | | | | | | | | | | Number of Other Public Companies in Which the Individual is currently 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 Specialist 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 Areas 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 | |
| Fang, Jenn-Ming | — | — | ✓ | — | — | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Jen, Chao-Ming | — | — | ✓ | ✓ | — | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 |
| Chuang, Bi-Yang | — | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Tsai, Wen-Jing | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 |
| Lin, Her-Yuan | — | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Chao, Yi-long | ✓ | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 2 |
| Su, Tsung-Tsan | — | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |

Note: Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

- (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. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
- (7) Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises power pursuant to Article 7 of the "regulations governing the establishment and exercise of power of remuneration committees of companies whose stock is listed on the TWSE or traded on the TPEX".
- (8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (9) Not being a person of any conditions defined in Article 30 of the Corporate Law.
- (10) Not a governmental, institutional person or its representative as defined in Article 27 of the Corporate Law.

2.2 Management Team

March 31th, 2018 Unit: shares

| Title | Nationality / Country of Origin | Name | Gender | Date Effective | Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience (Education) | Other Position | Managers who are Spouses or Within Two Degrees of Kinship | | |
|--------------------------|---------------------------------|-----------------|--------|----------------|--------------|-------|-----------------------------|-------|-------------------------------------|----|---|----------------|---|------|---------|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | kinship |
| President | R.O.C. | Fang, Jenn-Ming | male | 2008.01.02 | 5,116,409 | 1.46% | 1,012,000 | 0.29% | 0 | 0% | MBA of MIT BS of Physics Department of Tsinghua University Assistant vice-president of Winbond Wafer Plant Business executive of Winbond memory product BU | N/A | N/A | N/A | N/A |
| Vice President | R.O.C. | Wu, Yu-Yi | male | 2016.10.01 | 55,000 | 0.02% | 0 | 0% | 0 | 0% | BS of Accounting Department of Soochow University Executive director of Finance and Accounting of Merk Administrative vice president of Finance and Accounting of Manz Financial accountant of Optimax, vice president of Administrative Office CFO of APEX | N/A | N/A | N/A | N/A |
| Assistant Vice President | R.O.C. | Wang, Jung-Chun | male | 2016.10.01 | 643,564 | 0.18% | 0 | 0% | 0 | 0% | BS of EE department of CYCU Director of Process integration Division of Winbond Director of outsourcing service of memory products of Winbond Electronics Corporation Director of QA Division of Winbond | N/A | N/A | N/A | N/A |

2.3 Compensation of directors, supervisors, president, and vice President

2.3.1 Compensation of directors

Unit: NT\$ thousands

| Title | Name | Remuneration | | | | | | | | Ratio of Total Remuneration (A+B+C+D) to Net Income (%) | | Relevant Remuneration Received by Directors Who are Also Employees | | | | | | | | Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%) | | Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary | | |
|----------------------|-----------------|-----------------------|---|-------------------|---|------------------------|---|----------------|---|---|---|--|---|-------------------|---|---|---|-------------|---------|---|-------|---|-------------|--|
| | | Base Compensation (A) | | Severance Pay (B) | | Bonus to Directors (C) | | Allowances (D) | | | | Salary, Bonuses, and Allowances (E) | | Severance Pay (F) | | Profit Sharing- Employee Bonus (G)(note2) | | | | | | | | |
| | | The company | All companies in the consolidated financial statements(note1) | The company | Companies in the consolidated financial statements(note1) | The company | Companies in the consolidated financial statements(note1) | The company | Companies in the consolidated financial statements(note1) | The company | Companies in the consolidated financial statements(note1) | The company | Companies in the consolidated financial statements(note1) | The company | Companies in the consolidated financial statements(note1) | The company | Companies in the consolidated financial statements(note1) | The company | | Companies in the consolidated financial statements | | | The company | Companies in the consolidated financial statements |
| | | | | | | | | | | | | | | | | | | Cash | Stock | Cash | Stock | | | |
| Chairman | Fang, Jenn-Ming | 1,242 | - | - | - | - | - | 14 | - | (0.18%) | - | 4,495 | - | - | - | - | - | - | - | (0.83%) | - | - | | |
| Director | Jen, Chao-Ming | 600 | - | - | - | - | - | 12 | - | (0.09%) | - | - | - | - | - | - | - | - | (0.09%) | - | - | | | |
| Director | Chuang, Bi-Yang | 311 | - | - | - | - | - | 6 | - | (0.05%) | - | - | - | - | - | - | - | - | (0.05%) | - | - | | | |
| Independent Director | Tsai, Wen-Jing | 240 | - | - | - | - | - | 20 | - | (0.04%) | - | - | - | - | - | - | - | - | (0.04%) | - | - | | | |
| Independent Director | Lin, Her-Yuan | 240 | - | - | - | - | - | 20 | - | (0.04%) | - | - | - | - | - | - | - | - | (0.04%) | - | - | | | |
| Independent Director | Chao, Yi-long | 240 | - | - | - | - | - | 18 | - | (0.04%) | - | - | - | - | - | - | - | - | (0.04%) | - | - | | | |
| Independent Director | Su, Tsung-Tsan | 140 | - | - | - | - | - | 10 | - | (0.02%) | - | - | - | - | - | - | - | - | (0.02%) | - | - | | | |

Note 1 : The company is exempted from preparing Consolidated Statements.

Note 2 : This statement is not applicable for the company due to losses after tax in 2017.

| Range of compensation | Name of directors | | | |
|----------------------------------|--|--|---|--|
| | Total of (A+B+C+D) | | Total of (A+B+C+D+E+F+G) | |
| | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements |
| Under NT\$ 2,000,000 | Fang, Jenn-Ming, Jen, Chao-Ming, Chuang, Bi-Yang, Tsai, Wen-Jing, Lin, Her-Yuan, Chao, Yi-long, Su, Tsung-Tsan | - | Jen, Chao-Ming, Chuang, Bi-Yang, Tsai, Wen-Jing, Lin, Her-Yuan, Chao, Yi-long, Su, Tsung-Tsan | - |
| NT\$2,000,001 ~ NT\$5,000,000 | - | - | Fang, Jenn-Ming | - |
| NT\$5,000,001 ~ NT\$10,000,000 | - | - | - | - |
| NT\$10,000,001 ~ NT\$15,000,000 | - | - | - | - |
| NT\$15,000,001 ~ NT\$30,000,000 | - | - | - | - |
| NT\$30,000,001~ NT\$50,000,000 | - | - | - | - |
| NT\$50,000,001 ~ NT\$100,000,000 | - | - | - | - |
| Over NT\$100,000,000 | - | - | - | - |
| Total | 7 persons | - | 7 persons | - |

Note1: The Company is exempted from preparing Consolidated Statements

2.3.2 Compensation of supervisors: Not applicable (We have replaced supervisors with audit committee composed by four independent directors selected by general shareholder meeting in 2017)

2.3.3 Compensation of president and vice president:

Units: NT\$ thousands; One Thousand Shares

| Title | Name | Salaries (A) | | Retirement allowance or pension (B) | | Bonuses and special preferential expenses (C) | | Employee rewards(D) (Note2) | | | | Ratio of total amount of A, B, C and D to net profits after tax (Note 3) | | Whether have gained reinvestment career fees from others except for subsidiaries |
|----------------|-----------------|--------------|---|-------------------------------------|---|---|---|-----------------------------|----------------|---|----------------|--|---|--|
| | | Our company | All companies in Financial Statement (Note 1) | Our company | All companies in Financial Statement (Note 1) | Our company | All companies in Financial Statement (Note 1) | Our company | | All companies in Financial Statement (Note 1) | | Our company | All companies in Financial Statement (Note 1) | |
| | | | | | | | | Cash dividends | Cash dividends | Cash dividends | Cash dividends | | | |
| President | Fang, Jenn-Ming | 5,760 | - | 108 | - | 954 | - | - | - | - | - | (0.99%) | - | - |
| Vice President | Wu, Yu-Yi | | | | | | | | | | | | | |

Note1: The Company is exempted from preparing Consolidated Statements

Note2: The Company is exempted from paying employee rewards due to losses after tax in 2017

Compensation range table

| Payroll range of president and vice president in the company | Names of president and vice president | |
|--|---------------------------------------|--|
| | The company | Companies in the consolidated financial statements |
| Under NT\$ 2,000,000 | — | — |
| NT\$2,000,001 ~ NT\$5,000,000 | Fang Jenn-Ming, Wu Yu-Yi | — |
| NT\$5,000,001 ~ NT\$10,000,000 | — | — |
| NT\$10,000,001 ~ NT\$15,000,000 | — | — |
| NT\$15,000,001 ~ NT\$30,000,000 | — | — |
| NT\$30,000,001 ~ NT\$50,000,000 | — | — |
| NT\$50,000,001 ~ NT\$100,000,000 | — | — |
| Over NT\$100,000,000 | — | — |
| Total | 2 persons | — |

Note 1: The Company is exempted from preparing Consolidated Statements

2.3.4 Name of managers who received employee rewards and the distribution conditions: The Company is exempted from distributing employee rewards due to operating losses after tax in 2017.

2.3.5 Compare and report the payroll ratio via profit /loss amount of directors to all company and president/vice president to all company in the recent two years, and explain the relationships between payroll policies, standards and combinations, and the formation, review procedure of payroll, as well as corporation operating performance and future risk factors of the company.

2.3.5.1 The ratio via profit /loss amount of directors to all company and president/vice president to all company of the recent two years in financial statements.

Unit: NT\$ thousands; %

| Title | Total payrolls | | Ratio of total payrolls to net profit/loss after tax | |
|------------------------------|----------------|-----------|--|-----------|
| | Year 2016 | Year 2017 | Year 2016 | Year 2017 |
| BOD directors | 7,574 | 7,608 | (1.03%) | (1.10%) |
| President and vice president | 7,078 | 6,822 | (0.96%) | (0.99%) |

2.3.5.2 The relationships between payroll policies, standards and combinations, and the formation, review procedure of payroll, as well as corporation operating performance and future risk factors of the company .The payrolls of directors are defined and granted by the articles of incorporation, industrial standards and the corporate operating performance and go through an evaluation process of BOD and committee performance, then paid after the approval of Board of directors meeting. No more than 3% profit can be reserved for the board directors in a fiscal year. The payrolls are

including salaries, bonuses and employee stock option certificates, which are based on the functional responsibilities, contributions as well as reference for industrial standards.

3. Implementation of corporate governance:

3.1 Board diversity status:

The status of directors' abilities is as follows :

| Title | Name | Gender | Business management ability | Leadership and Decision-making ability | Knowledge of the industry | Accounting and financial analysis ability | Marketing |
|----------------------|-----------------|--------|-----------------------------|--|---------------------------|---|-----------|
| Chairman | Fang, Jenn-Ming | Male | √ | √ | √ | | |
| Director | Jen, Chao-Ming | Male | √ | √ | √ | | |
| Director | Chuang, Bi-Yang | Male | √ | √ | √ | | |
| Independent director | Tsai, Wen-Jing | Male | √ | √ | | √ | |
| Independent director | Lin, Her-Yuan | Male | √ | √ | √ | | |
| Independent director | Chao, Yi-long | Male | √ | √ | | | √ |
| Independent director | Su, Tsung-Tsan | Female | √ | √ | √ | | |

3.2 Board of directors meeting attendance:

The board of directors convened six meetings in 2017. The directors' attendance status is as follows.

| Title | Name | Attendance in person | By proxy | Attendance Rate in Person (%) | Notes |
|----------------------|-----------------|----------------------|----------|-------------------------------|-------------------|
| Chairman | Fang, Jenn-Ming | 7/7 | 0 | 100.00% | None |
| Director | Jen, Chao-Ming | 7/7 | 0 | 100.00% | None |
| Director | Chuang, Bi-Yang | 3/3 | 0 | 100.00% | 5/26/2017 elected |
| Independent director | Tsai, Wen-Jing | 7/7 | 0 | 100.00% | None |
| Independent director | Lin, Her-Yuan | 6/7 | 0 | 85.71% | None |
| Independent director | Chao, Yi-long | 6/7 | 1 | 85.71% | None |
| Independent director | Su, Tsung-Tsan | 3/3 | 0 | 100.00% | 5/26/2017 elected |
| Independent director | Cheng, Yu | 0/0 | 0 | 0.00% | 1/4/2017 resigned |

Annotations:

- (1) If there are circumstances referred to in Article 14-3 of the Securities and Exchange Act and resolutions of the directors' meetings objected to by independent directors or subject to qualified opinion and recorded or declared in writing, the dates of the meetings, sessions, contents of motion, all independent directors' opinions and the company's response should be specified: None
- (2) The execution in Bills of Interest by directors shall be noted with names of directors, bill contents, reason for avoiding conflicts of interest as well as voting engagements:
Date of board directors meetings: April 11th, 2017 and May 2nd, 2017
Bill contents: Biological chips and systems company investment case and adjust the amount of investment
Directors shall avoid conflicts of interest: Director Jen, Chao-Ming
Reasons for avoiding conflicts of interest and the voting engagements: According to article 206 of Company Act, except the non-participation of director Jen Chao-Ming in the vote, the case was approved without objections after the chairman's seeking for directors' opinions.
- (3) Measures taken to strengthen the functionality of the board:
 - a. The company has appointed personnel to collect and disclose the company information, all the information shall be made public based on the laws and decrees can be properly disclosed in a timely manner to improve information transparency.
 - b. We have approved to stipulate "Evaluation methods for the performance of board of directors meeting and functional committees" at the board director meeting on March 25th, 2015, and planned to conduct year performance evaluation after the end of the year. The performance evaluation results will be completed before the first Board directors meeting and functional committees meeting of following year. The results of 2017 has been presented at the board director meeting held on February 27th, 2018, all the evaluation indicators reached consensus among board members and no improvement action needed at the same period.
 - c. Since 2014, we have replaced supervisors with audit committee, which was composed with all the independent directors. So far, sixteen meetings have been held successfully.

3.3 Audit Committee:

Four independent directors were elected by shareholders' meeting on May 26th, 2017 and we have replaced supervisors with audit committee according to Securities Exchange Act on June 18th, 2014. Total 4 (A) audit committee meetings were held in the previous year. The attendances of the independent directors were as follows:

| Title | Name | Attendance in person (B) | By proxy | Attendance rate in person (%) 【 B / A 】 | Notes |
|----------------------|----------------|--------------------------|----------|--|-------------------|
| Independent director | Tsai, Wen-Jing | 4/4 | 0 | 100.00% | None |
| Independent director | Lin, Her-Yuan | 4/4 | 0 | 100.00% | None |
| Independent director | Chao, Yi-long | 3/4 | 1 | 75.00% | None |
| Independent director | Su, Tsung-Tsan | 2/2 | 0 | 100.00% | 5/26/2017 Elected |
| Independent director | Cheng, Yu | 0/0 | 0 | 0.00% | 1/4/2017 resigned |

Annotations:

- (1) If there are the circumstances referred to in Article 14-5 of the Securities Exchange Act and resolutions which were not approved by the audit committee but approved by two thirds or more of board directors meeting, the dates of meetings, sessions, contents of motion, resolutions of the audit committee and the company's response to the audit committee's opinion should be specified: None
- (2) If there are independent directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified: None
- (3) Communications between the independent directors, the company's chief internal auditor and CPAs (e.g. the items, methods and results of audits in corporate finance or operations, etc.)
 - a. The internal auditors have communicated the result of the audit reports to the members of the audit committee periodically, and have presented the findings of all audit reports in the quarterly meetings of the audit committee. The company's chief internal auditor should inform the members of the audit committee on the regular reporting.
 - b. Under the requirement of Accounting Principle no.39, the company's CPAs have presented the findings or the comments for the annual financial reports in audit committee meeting, The communication matters should cover key audit matters, related insider trading, lawsuit, regulation following , internal control and make sure no discrepancy between CPAs and management team. Beside, CPAs need to have direct E-mail access channel with independent directors to ensure the communication efficiency.

3.4 Corporate governance implementation status and deviations from “The corporate governance best-practice principles for TWSE/TPEX listed companies”

| Assessment item | Implementation status | | | Implementation deviations and the reason(s) |
|---|-----------------------|----|---|---|
| | Yes | No | Explanation | |
| (1) Does Company follow “corporate governance implementation principle” to establish and disclose its corporate governance practices? | ✓ | | The company has established the corporate governance practice regulations according to [Corporate governance best practice principles for TWSE/TPEX listed companies] in 2014 and presented the revision by board directors meeting on November 7th, 2016 which were disclosed on market observation post system and corporate websites. (http://www.danentech.com/investor_cg_more.aspx?ID=5) | None |
| (2) Shareholding structure & shareholder equity a. Does company have internal operation procedures for handling shareholders’ suggestions, concerns, disputes and litigation matters. If yes, have these procedures been implemented accordingly? b. Does company possess the list of major shareholders and beneficial owners of these major shareholders? c. Has the Company built and executed the risk management system and “firewall” between the Company and its affiliates? d. Has the Company established internal rules for prohibiting insider trading on undisclosed information? | ✓ | | a. According to internal operation procedures, the relevant competent departments of the company are responsible for handling the recommendations, doubts, disputes and lawsuits of shareholders related, moreover, we also have spokesman, deputy spokesman and investor E-mail box, audit committee mailbox, accusation letter box for good faith management to make the information disclosure for and communication with interested parties smoothly. The boxes are disclosed on the corporate websites. (http://www.danentech.com/investor_cir.aspx) b. The Company has possessed the name lists of major shareholders and those who actually control the major shareholders, based on the shareholders list provided by stock service agent on a regular basis. And disclose the shareholding status of more than 10% shares big holders regularly under the regulations. c. The company has established [Operating methods for transactions among conglomerates, specific company, and related parties] according to Article 17 of [Corporate governance best practice principles for TWSE/TPEX listed companies]. Besides, we also examine the risk management mechanism and firewall for the financial and business relations with related parties on a regular basis within the company. d. In order to protect the shareholders’ equity and make sure the equality among shareholders into practice, we have passed the [management procedures for preventing insider trading] against directors, managers and employees to regulate relevant conducts. | None |
| (3) Composition and responsibilities of the board directors a. Has the Company established a diversification policy for the composition of its board directors and | ✓ | | a. The company has established multiple guidelines such as gender, expertise as well as background of directors in [Corporate governance practice regulations] and [Method for director elections] according to Article 20 of [Corporate governance best practice principles for TWSE/TPEX listed companies]. Furthermore, we have put the director election | None |

| Assessment item | Implementation status | | | Implementation deviations and the reason(s) |
|---|-----------------------|----|---|---|
| | Yes | No | Explanation | |
| <p>has it been implemented accordingly?</p> <p>b. Other than the compensation committee and the Audit committee which are required by law, does the company plan to set up other Board committees?</p> <p>c. Has the company established methodology for evaluating the performance of its board directors, on an annual basis?</p> <p>d. Does the company regularly evaluate its external accountants' independence?</p> | | | <p>into practice when it is necessary. Please refer to page 9-13 for more details of professional background and expertise of directors.</p> <p>b. The company has established compensation committee and Audit committee based on the laws and by now, there are no other functional committees. The Board will authorize to establish other committees when it is necessary.</p> <p>c. The company has approved and stipulated "Evaluation methods for the performance of Board directors and functional committees" at the board meeting on March 25th, 2015 and conducted yearly performance evaluation in regard to the meeting attendance, meeting engagement, annual training hours and other items of appraises after the end of year. The performance evaluation results will be finished before the first Board meeting and functional committee meeting of following year. Moreover, the 55 evaluation items of 2017 according to "Evaluation methods for the performance of Board meeting and functional committees" have been implemented and finished on January 31th, 2018 and reported on February 27th, 2018 at the board meeting. The evaluation result of board directors performance in 2017 showed us the engagement of Board meeting in company's operations, improvements of resolution quality of Board as well as internal control, all of which have reached consensuses among board directors.</p> <p>d. The company conducts at least one evaluation in independence of CPA annually, which consists of 6 aspects and 18 items including accountant's ethics, impact from self-interests, self-evaluation, familiarity, effects of stress and special circumstances on independence. The evaluation of 2017 has been completed on February 15th, 2017 and the accountant independence statement has been received. Furthermore, the results</p> <p>e. Demonstrated that CPA of the company was equipped with independence. The evaluation result was submitted to audit committee and board meetings for approval on February 24th, 2017. More details for accountant independence statement can refer to attached table 1.</p> | |

| Assessment item | Implementation status | | | Implementation deviations and the reason(s) |
|---|-----------------------|----|---|---|
| | Yes | No | Explanation | |
| (4) Does the company set up a unique department which is dedicated to or assigned with responsibility of corporate governance promotion? | ✓ | | <p>a. According to “Corporate social responsibility best practice principles”, the company established CSR promotion team at January 2015, and focused the work on corporate governance, business integrity policy, set up prevention system and audit the execution, then report to BOD on a regular basis. The promotion team representative are president and vice president, and other members including functional departments such as finance, HR, QA, manufacturing and environmental protection departments; The execution of corporate social responsibilities is based on five aspects, such as corporate governance, employee care, partnership, environmental sustainability and community participation and promote the work within corporate governance, business integrity and CSR.</p> <p>b. The company has assigned a dedicated person, who responsible for BOD and committee requested material and information collection and support BOD and shareholder meetings related affairs. Among these activities, 2 times investor conference, 7 times BOD meetings, prepared and finished all these tasks and activities, and make sure the CSR working team reported to BOD at regular basis.</p> | None |
| (5) Has the company established a channel of communication with its stakeholders and created a stakeholders section on the company website? And respond to stakeholders’ questions on corporate responsibilities subject? | ✓ | | <p>The company has established special communication sections for stakeholders, designated spokesman and deputy spokesman and created E-mail boxes for investors, audit committee and accusation letter mailbox for business integrity. The stakeholders including banks, creditors, employees, suppliers, customers and the interested parties of the company can present recommendations and responses in these special sections to safeguard the interests and rights of stakeholder parties. Specially-assigned personnel in these contact channels are responsible for handling these affairs according to internal procedures. The relevant information are disclosed on the corporate website. (http://www.danentech.com/investor_cir.aspx)</p> | None |
| (6) Has the Company appointed a professional stock agent for shareholders’ meetings? | ✓ | | <p>The Company has entrusted the shareholders’ meeting related affairs to professional stock service agent-- CTBC Bank Co., Ltd.</p> | None |
| (7) Information disclosure a. Has the company established a corporate website to | ✓ | | <p>a. The company has established corporate website (http://www.danentech.com) and apart from disclosing the financial and corporate governance information, we also declare and disclose the business and financial information</p> | None |

| Assessment item | Implementation status | | | Implementation deviations and the reason(s) |
|---|-----------------------|----|--|---|
| | Yes | No | Explanation | |
| disclose information regarding its finance, business and corporate governance status? b. Does the company use other information disclosure channels (such as maintaining an English website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investors conference etc.)? | | | <p>on Market observation post system regularly or irregularly according to the regulations.</p> <p>b. The company has established both Chinese and English websites and designated personnel to perform related work and disclose information according to the responsibilities; the spokesperson in the company is vice president Wu, Yu-Yi and the deputy spokesperson is manager Shi, Kai-Yuan.</p> | |
| (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 and care, 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 BOD directors)? | √ | | <p>a. The company has defined and disclosed corporate governance regulations in the corporate governance section of corporate website, annual report, company regulations and Market Observation Post System and set task force to operate according to the procedures.</p> <p>b. The company has set up employee welfare committee, implemented pension system, conducted employee educational training courses, paid employee group insurance and arranged regular physical examinations and other benefits to promote a more harmonious industrial and labor relations.</p> <p>c. The company has disclosed the corporate information public according to laws and protected the rights and interests of investors.</p> <p>d. The company kept smooth communications with customers and suppliers and maintained good AR/AP positions and relationships with them.</p> <p>e. The company provides training courses information for all the directors from time to time and the directors attend such training courses according to [Implementation procedures of continuing educations for directors and supervisors of TWSE Listed and TPEX listed companies] and all the directors have finished the further training hours regulated by laws in 2017. More details for these training information of our directors can be seen from attached Table 1.</p> <p>f. The company has set up internal control systems and relevant governance methods and handled business according to these systems and regulations.</p> <p>g. The company has purchased liability insurance for directors and managers, and reported to BOD accordingly.</p> <p>h. The company has uploaded meeting handbook of shareholders' meeting and related documents</p> | None |

| Assessment item | Implementation status | | | Implementation deviations and the reason(s) |
|--|-----------------------|----|---|---|
| | Yes | No | Explanation | |
| | | | <p>on Market observation post system 30 days before general shareholder meeting.</p> <p>i. The company has clearly demonstrated the BOD director election nomination system in articles of corporate association.</p> <p>j. The company has uploaded the annual report to Market observation post system 14 days before general meeting since 2016.</p> | |
| <p>(9) The improvement status for the result of corporate governance evaluation announced by Taiwan Stock Exchange corporation</p> <p>a. The company actively disclosed BOD member composition, opinion of independent director in key subject, key resolution of audit committee, the response of the company to audit committee's comments and diversity of BOD. More efforts in the items of 2016 evaluation results, such as item 3.7: The disclosure of independent director's opinion in key subject of BOD meeting and the actions of company to these opinions in annual report. Item 3.9: The disclosure of key resolution of audit committee and the actions of company to Audit committee's opinions. Item 3.16: The policy of BOD diversification set up and disclosed at annual report and website. Item 3.32: The BOD diversity should cover at least one female director.</p> <p>b. The company plan to enhance the disclosure of Chinese version information as well as English version at annual report and website: Item 2.9: If the company upload English version meeting notice 30 days before the shareholder meeting? Item 5.12: If the company set up and disclosed the prosecution system of illegal and immoral behaviors at website?</p> <p>c. The company will follow the new indices of 2018 corporate governance evaluation system, and focus on the necessary improvement of corporate governance dedicated activities, evaluation of BOD directors performance and compensation, the operating structure of corporate governance, employee benefit and right consideration, profit sharing scheme and business integrity information disclosure, and hope to see the execution of corporate governance properly.</p> | | | | |

Accountant Independence Statement

Letter receiving party : Danen Technology Cooperation

Date: February 7th , 2017

Document No.: (2016) Tsu-Hui-Tsung Zi No. 16004801

Our firm is entrusted to audit the 2017 financial statement of the company. We hereby state:

1. The audit staff and CPA of our firm don't have any relation, joint investment or benefit sharing with the company or its stakeholders.
2. The audit staff and CPA of our firm don't hold any position of chairman, director, supervisor, manager or employee in the company or related enterprises.
3. No other disobedience stated in [Code of professional ethics gazette no. 10] that may have impacts on the independence of our firm.

PwC Taiwan

Lee, Hsiu-Ling

Accountant

Zhi, Bing-Jun

Attached Table 1: The Implementation of Director Continuing Education of Year 2017:

| Title | Name | Date | Host by | Training/Speech Title | Duratio |
|-------------------------|--------------------|-----------------------|---|--|---------|
| Director | Fang, Jenn-Ming | 21.04.2017~21.04.2017 | Securities & futures market foundation | Insider trading and corporate social responsibility forum | 3 hours |
| | | 11.09.2017~11.09.2017 | Financial research and training institute | Corporate governance sustainability UBS 2017 | 3 hours |
| Director | Jen, Chao-Ming | 25.10.2017~25.10.2017 | Taiwan corporate governance association | 13 th International corporate governance forum | 6 hours |
| Director | Chuang, Bi-Yang | 04.08.2017~04.08.2017 | Securities & futures market foundation | Insider stock trading regulation and restriction seminar | 3 hours |
| | | 11.09.2017~11.09.2017 | Financial research and training institute | Corporate governance sustainability UBS 2017 | 3 hours |
| Independent director | Tsai, Wen-Jing | 17.01.2017~17.01.2017 | Taiwan CPA association, ROC | Financial report benchmark of 1 st time disclosure | 3 hours |
| | | 07.04.2017~07.04.2017 | Taiwan CPA association, ROC | Audit practice of transfer price setting | 3 hours |
| | | 07.08.2017~07.08.2017 | Taiwan CPA association, ROC | Update regulations of accounting practice | 3 hours |
| Independent director | Lin, Her-Yuan | 25.10.2017~25.10.2017 | Taiwan corporate governance association | 13 th International corporate governance forum | 3 hours |
| | | 17.11.2017~17.11.2017 | Securities & futures market foundation | Insider trading and corporate social responsibility forum | 3 hours |
| Independent director | Chao, Yi-long | 27.07.2017~27.07.2017 | Financial staff training institute of MOF | Regulations of corporate governance and obligation of directors | 3 hours |
| | | 28.07.2017~28.07.2017 | Taiwan corporate governance association | Director's role playing in the rapid change of Hi-Tech. environment | 3 hours |

| | | | | | |
|----------------------|----------------|--------------------------|---------------------------------------|--|---------|
| Independent director | Su, Tsung-Tsan | 04.08.2017 ~04.08. 2017 | Securities & Futures Institute | Insider trading Regulations seminar | 3 hours |
| | | 11.09. 2017 ~11.09. 2017 | Taiwan Academy of Banking and Finance | Corporate Governance and Sustainability Certification Course, UBS 2017 | 3 hours |
| | | 30.11. 2017 ~30.11. 2017 | Securities & Futures Institute | Corporate Governance and Securities Regulations | 3 hours |
| | | 30.11. 2017~30.11. 2017 | Securities & Futures Institute | Secretarial system of BOD and new Regulations of Corporate Governance | 3 hours |

3.5 Composition, responsibility and operation of the compensation committee

The company has established compensation committee and stipulated [Statute of compensation committee] after the resolution approved by BOD meeting at October 25th, 2011. Then, the 4th compensation committee was set up at August 9th, 2017. The committee is responsible for refining compensation systems of directors and managers. The information of committee members and operation activities can be seen as follows:

3.5.1 Professional qualifications and independence analysis of compensation committee members

| Title (Note1) | Name | Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience | | | Independence Criteria (Note2) | | | | | | | | Number of other public companies in which the Individual is concurrently serving as an compensation committee member | Remarks |
|----------------------|----------------|--|---|---|-------------------------------|---|---|---|---|---|---|---|--|---------|
| | | 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 specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company | Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | |
| Independent director | Lin, Her-Yuan | | | √ | √ | √ | √ | √ | √ | √ | √ | √ | 0 | N/A |
| Independent director | Tsai, Wen-Jing | | √ | | √ | √ | √ | √ | √ | √ | √ | √ | 0 | N/A |
| Independent director | Chao, Yi-long | √ | | | √ | √ | √ | √ | √ | √ | √ | √ | 2 | N/A |

Note 1: The identity category refers to director, independent director or others.

Note 2: The members who are in line with the following conditions two years before selection and during tenure.

(1) Not an employee of the company or its affiliates

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

3.5.2 Operation information of compensation committee

3.5.2.1 There are three members in compensation committee of the company.

3.5.2.2 Tenure of current committee members: from August 9th, 2017 to May 25th, 2020. The company held 2 committee meetings in 2017, the attendance can be seen below:

| Title | Name | Attendance in person(B) | By proxy | Attendance rate (%) 【 B / A 】 | Remarks |
|------------------|----------------|-------------------------|----------|----------------------------------|--------------------------|
| Convener | Lin, Her-Yuan | 2/2 | 0 | 100 | 08/03/2017 Re-elected |
| Committee member | Tsai, Wen-Jing | 2/2 | 0 | 100 | N/A |
| Committee member | Chao, Yi-long | 2/2 | 0 | 100 | N/A |
| Committee member | Cheng, Yu | 0/0 | 0 | 0 | 04/01/2017 discharged |

Other mentionable items:

- (1) If the board meeting declines or modifies the recommendation of the compensation committee, it should specify the date of meeting, session, content of the motion, resolution by the board meeting, and the company's response to compensation committee's opinion (eg., the compensation approved by the board meeting exceeds the proposal of the compensation committee, the condition and cause of the difference shall be specified): None.
- (2) If resolutions of the compensation committee are objected by members or subject to a opinion reservation recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.

3.6 Fulfillment of social responsibility

| Evaluation Item | Implementation status | | | Deviations from “the corporate social responsibility best-practice principles for TWSE/TPEX listed companies” and the reasons |
|---|-----------------------|----|--|---|
| | Yes | No | Abstract Explanation | |
| <p>(1) Corporate governance implementation</p> <p>a. Does the company set up its corporate social responsibility policy and review the results of the implementation?</p> <p>b. Does the company provide education and training on corporate social responsibility on a regular basis?</p> <p>c. Does the company establish dedicated (or concurrent) department, and first-line managers authorized by the board to be in charge of the corporate social responsibility and reporting to the board?</p> <p>d. Does the company establish a reasonable compensation policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as set up an effective reward and disciplinary system?</p> | √ | | <p>a. Based on the approval of board meeting, the company has established the rule of practice on corporate social responsibility on November 5, 2014 and revised on March 25, 2015. And was disclosed on the company's internal and external websites and public information observatories.</p> <p>Follow the corporate governance evaluation rule set up by government, the company promote corporate social responsibility activities by the promotion team and management function including HR and IT groups promote and enhance the knowledge of social responsibility, traffic safety, environmental protection, fire prevention, health, corporate governance training, insurance knowledge information technology and corporate operations to all employees. There were 79 items of professional and knowledge-sharing education and training courses were held in the year of 2017, with a total attendance of 328 persons and around 1.9 courses per participant. The average satisfaction rate of the course survey was 88 points and 116 times by self-learning. Besides, the employee health examination arranged by SHE department, and total 9 times done on the</p> | None; accord with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies |

| Evaluation Item | Implementation status | | | Deviations from “the corporate social responsibility best-practice principles for TWSE/TPEX listed companies” and the reasons |
|-----------------|-----------------------|----|--|---|
| | Yes | No | Abstract Explanation | |
| | | | <p>training courses of safety, environmental related. Corporate governance, insurance and management knowledge issued by HR department each month. IT and legal information sharing issued by IT and legal departments via monthly basis. The company was awarded with (6% to 20%) good rankings in corporate governance evaluation by government in consecutive 3 years (2015-2017) and will continue to devote resources for the promotion of corporate social responsibility.</p> <p>b. The company provides the education and training on a regular basis, and announced “The promotion post of corporate social responsibility “and try to build in the concept of corporate social responsibility to all employees and share these activities to board directors through meetings.</p> <p>c. Follow the “ Regulations of best practice for corporate social responsibility “,the company established a dedicated corporate social responsibility team, the management representatives including president and vice president, other members are heads of all functional departments such as finance, HR, QA, manufacturing and environmental protection departments, promote the activities of corporate social responsibilities based on five aspects, i.e. corporate governance, employee care, stakeholder relationship, environmental sustainability and community participation, and the promotion results shall be reported to board meetings on a</p> | |

| Evaluation Item | Implementation status | | | Deviations from “the corporate social responsibility best-practice principles for TWSE/TPEX listed companies” and the reasons |
|--|-----------------------|----|---|---|
| | Yes | No | Abstract Explanation | |
| | | | regular basis. d. The company has established “Regulations on salary payment” and “Performance evaluation and appraisal regulations “ as the bases of reasonable compensation policies, and make sure a clear and effective rewards and punishment rules can be followed, and confirm the major compensation policy and top managements’ reward can be reviewed by compensation committee, and all the employee performance appraisal work can be worked through by key performance indicators (KPI) and half year performance evaluation task, and these activities can be tied up together with employee welfare and corporate social responsibility. The company also clearly declare with 5% profit sharing to employees in the corporate articles of association. | |
| (2) Development of sustainable environment a. Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment? b. Does the company establish proper environmental management systems based on the characteristics of their industries? c. Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon | √ | | a. The company has set up recycled water processing system, successively recycled the process waste water for second time use. As for the wastes (waste cutting oil) produced during manufacturing, we recycle it 100% for reuse, making the resources recyclable and be effectively used again, not only cost saving but also reduce the negative impacts and loads on the environment. The company also reduce the 15.82M kw/hr electricity usage successfully through all power saving activities. b. The company has completed the establishment of ISO14001 environmental management system at November 2009, we take the spirit of continuous improvement on contamination prevention, work through the PDCA cycle, and consider environmental aspect evaluation | None; accord with corporate social responsibility best practice principles for TWSE/TPEX listed companies |

| Evaluation Item | Implementation status | | | Deviations from “the corporate social responsibility best-practice principles for TWSE/TPEX listed companies” and the reasons |
|--|-----------------------|----|--|---|
| | Yes | No | Abstract Explanation | |
| reduction? | | | and go through internal and external audit, try to implement all possible environmental protection actions. c. The company planned to save 1% electricity power per year, after the integration of all power saving activities, achieved 2.21% saving in power consumption per unit, and reduced CO2 emission by 8552 tons. The CO2 emission volume achieved 32,324 and 23,771 tons respectively. The power consumption reduction activities kept moving through process improvement and hardware system retrofit actions, expect to see the electricity power consumption can save more than 1% . | |
| (3) Preserving public welfare a. Does the company formulate management policies and procedures according to relevant regulations and the international convention of human rights? b. Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions? c. Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis? d. Does the company setup a communication channel and | √ | | a. The company has stipulated “Regulations on HR regulations” to make sure the gender equality, working rights and prevention of racism and sexism for employees , all these concerns are secured according labor act and on the basis of international labor rights principles. b. The company has set up employee complaint mail box on external and internal websites (http://www.danentech.com/investor_cir.aspx) and there are dedicated personnel to handle the complaints according to complaint handling procedures in a timely and effective manner. c. The company has stipulated code of practice on labor safety and health] to protect the health and safety of employees; in order to make sure the safety and health of working environment for employees, we outsource examinations on working environment every six months | None; accord with corporate social responsibility best practice principles for TWSE/TPEX listed companies |

| Evaluation Item | Implementation status | | | Deviations from “the corporate social responsibility best-practice principles for TWSE/TPEX listed companies” and the reasons |
|--|-----------------------|----|---|---|
| | Yes | No | Abstract Explanation | |
| <p>mechanism with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations which may have impacts on them?</p> <p>e. Does the company provide its employees with career development and training sessions?</p> <p>f. Does the company establish the consumer protection mechanisms and appealing procedures regarding research development, procurement, manufacturing, operating and service?</p> <p>g. Does the market promotion for service and product label of the company meet with relevant regulations and international standards?</p> <p>h. Does the company review and evaluate the records of suppliers’ impact on the environment and society before making business partnerships?</p> <p>i. Do the contracts between the company and its major suppliers involve termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impacts on the environment and society?</p> | | | <p>and undertake safe and healthy educations for employees regularly; in order to ensure the physical and psychological health of employees, we hire professional doctors in the factories to provide health consultancy in addition to the nursing staff. Besides, we also offer free annual physical examination for employees .The company promote actively the safety and health of employees, in addition to the OHSAS18001 certificate, we request for regular checks on the safety tools and environmental monitoring work.</p> <p>d. The company arranged regular labor relationship meetings, set up mail box and held tea party on special events, purpose to let employees have good chances to deliver messages. In addition to announce monthly operating result to disclose market information and major business condition. At the same time, the company announce and deliver information through training and information sharing channel to achieve complete communication purpose to all employees.</p> <p>e. The company set up complete training system and education plan, review and renew training plan for new on board employees, including on job training, professional skill, safety and environmental training courses, not only internal courses but also outside training, diversified education and training to ensure the ability of employee in their career development.</p> <p>f. The company has assigned sales and marketing division to be responsible for customer complaints, and set up guideline of product quality management, confirm the quality level at outgoing criteria, starting from the customer PO confirmation,</p> | |

| Evaluation Item | Implementation status | | | Deviations from “the corporate social responsibility best-practice principles for TWSE/TPEX listed companies” and the reasons |
|-----------------|-----------------------|----|---|---|
| | Yes | No | Abstract Explanation | |
| | | | <p>customer complaint management and account receivables and RMA procedures all are in the regulations of the company, purpose to ensure to protect customer’s interest, product quality confirmation, RMA and customer’s complaint are all in the management’s scope, and make sure customer satisfaction meet the target of business operation. Product and service mail box is sited in the corporate web site, a dedicated personnel is assigned to handle customer and product related service. http://www.denentech.com/investor_cir.aspx)</p> <p>g. The company follows all regulations and international standards in product and service promotion material, no cheating, misleading, false information or any damage, behavior could hurt customer’s interests and trust.</p> <p>h. The purchasing group of the company always evaluates whether the suppliers to build partnership with, have any negative records of impact to environment and society and all documents and records can be found at suppliers’ basic information. QC system of the company will undertake all indicators that affect environment and the society including “whether the supplier has ISO 14001 system certificate, and make sure whether its SHE management system, and operation impacts on the environment and executed audit activities and record all the information in the company.</p> <p>i. The company has evaluated the corporate social responsibilities and environmental impacts of major suppliers and have noted in the purchasing orders and contracts, to emphasis if suppliers involve in the violation of social and environmental</p> | |

| Evaluation Item | Implementation status | | | Deviations from “the corporate social responsibility best-practice principles for TWSE/TPEX listed companies” and the reasons |
|--|-----------------------|----|--|---|
| | Yes | No | Abstract Explanation | |
| | | | responsibilities that lead to negative impacts, the contract shall be terminated at any time. | |
| (4) Enhancing information disclosure a. Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System? | √ | | The company has established a special section for corporate social responsibility on the company website and disclose relevant corporate social responsibility information on annual report, website and Market Observation Post System (http://www.danentech.com/csr.aspx) | None; accord with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies |
| (5) If the company stipulates its own corporate social responsibility practice regulation according to “corporate social responsibility best practice principles for TWSE/TPEX listed companies”, it shall clearly state the differences between the actual execution result and its regulations: None, accord with corporate social responsibilities best practice principles for TWSE/TPEX listed companies. | | | | |
| (6) Other important information to facilitate better understanding of the company’s corporate social responsibility practices : a. The company invest in new process, expect to reduce the power consumption and production waste significantly. b. The company produce solar wafers, a renewable and green technology, we focus and dedicate in environmental protection work, promote actively in electricity saving and CO2 reduction for all employees. c. By now, the waste water and gases produced during the manufacturing process are treated by the pollution-prevention equipment before being discharged and the industrial wastes are entrusted to the qualified treatment agencies that are verified by competent authorities to avoid negative impacts on the environment. d. For the promotion of safety and health policies, in addition to relevant regulations of environment, safety and health, we also certificated with OHSAS 18001. e. The company has formulated regulations on safety and health to make sure health and safety of employees are assured. | | | | |
| (7) A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions: None | | | | |

3.7 Ethical corporate management and implementation:

| Evaluation Items | Implementation Status | | | Deviations from “The ethical corporate management best-practice principles for TWSE/TPEX listed companies” and reasons |
|--|-----------------------|----|--|--|
| | Yes | No | Abstract Illustration | |
| <p>(1) Establishment of ethical corporate management policies and programs</p> <p>a. Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?</p> <p>b. Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?</p> <p>c. Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in article 2, paragraph 7 of the ethical corporate management best-practice principles for TWSE/TPEX listed companies?</p> | √ | | <p>a. The company has stipulated “Ethical corporate management best practice principles” and “Ethics operating procedures and business behavior standards” to regulate directors, independent directors, managers and employee’s behavior and implemented the relevant regulations of Company act, Securities exchange act, relevant decrees and regulations of TWSE/TPEX listed companies based on the basic principle of ethical management. BOD directors and senior managers also take active part in the training courses in terms of ethic management, recognized the decrees and put ethical management into effect.</p> <p>b. The company undertakes business activities based on the principles of fairness and good faith. In order to implement ethical management policies and prevent dishonesty behavior, we have established “Procedures for ethical management and guidelines for conduct” to regulate operation procedures, guidelines for conducts, punishment for violations as well as appeal systems and made into effective. Besides, by proceeding regular education and training for employees, we advocated the spirit of ethical management. The company also arranged 2 times training courses for manager level in ethical management regulations and company rules, we also publish ethical management information sharing to all employees every month. All BOD directors attend insider trading and corporate social responsibility forum and related</p> | None; accord with ethical corporate management best practice principles for TWSE/TPEX listed companies |

| Evaluation Items | Implementation Status | | | Deviations from “The ethical corporate management best-practice principles for TWSE/TPEX listed companies” and reasons |
|--|-----------------------|----|--|--|
| | Yes | No | Abstract Illustration | |
| | | | <p>training courses, the company will continue to promote the ethical management and prevent dishonesty behavior in the new fiscal year.</p> <p>c. The company’s “Procedure for ethical management and Guidelines for Conduct” has clear demonstrated that the personnel within the company shall return or refuse the benefits provided by others directly or indirectly or interests promised to be given in any form or under any names and need report to supervisors immediately and inform the dedicated group to handle, actions to follow “ Procedures for ethical management and guidelines for conduct”. Furthermore, there are impeach mechanism and relevant penalties to effectively prevent the personnel from giving or taking illegitimate benefits or offering illegitimate political contributions along with the relevant internal control systems.</p> | |
| <p>(2) Fulfill business integrity</p> <p>a. Does the company evaluate business partners’ ethical records and include ethics-related clauses in business contracts?</p> <p>b. Does the company establish an exclusively (or concurrently) dedicated group which in charge of corporate integrity, and supervised by the board?</p> <p>c. Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?</p> <p>d. Has the company established</p> | <p>✓</p> | | <p>a. The company will always evaluate whether the suppliers, customers or other parties with business contacts have records of dishonesty before establishing partnerships with them. And clearly demonstrate in the contract if the suppliers violate the environmental and social responsibilities and cause negative impacts on the environment and society, the contract will be terminated or removed at any time to make sure the fulfillment of ethical management policies.</p> <p>b. The president office is assigned for stipulating corporate ethical management policies, supervising the implementation of regulations as well as reporting to the board of directors meeting regularly.</p> <p>c. The company has approved the</p> | <p>None; accord with Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies</p> |

| Evaluation Items | Implementation Status | | | Deviations from “The ethical corporate management best-practice principles for TWSE/TPEX listed companies” and reasons |
|---|-----------------------|----|---|--|
| | Yes | No | Abstract Illustration | |
| <p>effective systems for both accounting and internal control to facilitate ethical corporate management, these corporate activities audited by either internal auditors or CPAs on a regular basis?</p> <p>e. Does the company regularly hold internal and external education and trainings on business operation integrity?</p> | | | <p>“Procedures for ethical management and guidelines for conduct” by the board meeting at 2014, clearly described the conditions of interest contradictions, required relevant personnel to avoid these contradictions and implemented according to the procedures, in case of contradictions between personal interests and corporate rights and interests. The company also set up audit committee mail box, ethical management and employee complaint mail boxes, dedicated group was assigned for handing these appeals.</p> <p>d. The company has established accounting systems according to IAS standards and stipulated internal control systems based on “Criteria for the establishment of internal control system for listed companies], set up internal auditing group to undertake risk evaluation and audit activities according to planned scheme. In addition, we conduct comprehensive self-assessment along with all departments within the company during the period of annual self-assessment of internal control system and reported the assessment results to audit committee and board meetings on a regular basis.</p> <p>e. The company has intensified the promotion of relevant policies of ethical management by internal network and deliver a handbook of work ethical regulations, conduct ethical working practices, and arrange annual training courses for internal education and adopt external training when necessary.</p> | |
| <p>(3) Prosecution system and operation</p> <p>a. Does the company establish a clear prosecution system and</p> | √ | | <p>a. The company has stipulated “Procedure for ethical management and guidelines for conduct” and reward for the impeach according to the</p> | None; accord with Ethical Corporate Management Best Practice Principles |

| Evaluation Items | Implementation Status | | | Deviations from “The ethical corporate management best-practice principles for TWSE/TPEX listed companies” and reasons |
|--|-----------------------|----|--|--|
| | Yes | No | Abstract Illustration | |
| <p>reward/punishment system as well as a convenient hotline? Can the accused be reached by an appropriate person for follow-up?</p> <p>b. Does the company establish standard operating procedures for prosecution and related confidential process?</p> <p>c. Does the company provide proper whistle-blower protection?</p> | | | <p>seriousness of the cases. Moreover, there are president mailbox for internal impeach and audit committee mailbox, ethical management impeach mailbox and employee complaints mailbox for external impeaches, which will be handled by dedicated group according to the complaints mailbox handling procedures.</p> <p>b. The company has stipulated handling procedures for complaints and clearly stated that the dedicated assigned authorities to keep confidential for all the complaints and prosecutions. Standard procedure is announced at the corporate website.</p> <p>c. The personnel handled with impeaches are required to keep the identity of prosecutors with highly confidential in a written statement and the company protects the prosecutors away from being improperly treated because of impeaches.</p> | for TWSE/GTSM Listed Companies |
| <p>(4) Intensify information disclosure</p> <p>a. Does the company disclose its ethical corporate management policies and the results of its implementation on the company’s website and MOPS?</p> | √ | | <p>The company has disclosed the contents of ethical corporate management best practice principles and stipulated on corporate website (http://www.danentech.com/investor_cg_more.aspx?ID=5) and Market Observation Post System</p> | None; Accord with ethical corporate management best practice principles for TWSE/TPEX listed companies |
| <p>(5) If the company has established the ethical corporate management policies based on the ethical corporate management best-practice principles for TWSE/TPEX listed companies, please describe any discrepancy between the policies and implementations: No difference; Accord with ethical corporate management best practice principles for TWSE/TPEX listed companies The company has stipulated “ethical corporate management best practice principles” and “Ethics and professional standards” to regulate directors, independent directors, managers and employees and implemented the relevant regulations decrees of company act, securities exchange act, relevant laws and regulations for TWSE/TPEX listed companies based on the basic principle of ethical management. Directors and senior managers also take active part in</p> | | | | |

| Evaluation Items | Implementation Status | | | Deviations from “The ethical corporate management best-practice principles for TWSE/TPEX listed companies” and reasons |
|--|-----------------------|----|-----------------------|--|
| | Yes | No | Abstract Illustration | |
| the training courses in terms of ethic management and regulated by the laws and decrees to put ethical management into effective. | | | | |
| (6) Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., Review and amendment of its policies). The company BOD meeting approved and established [ethical corporate management best practice principles] and [Procedures for ethical management and guidelines for conduct] at 2014, and made an amendment at the resolution of Board meeting on March 25 th , 2015 which was approved at general shareholders meeting of year 2015. | | | | |

3.8 Corporate governance guidelines and regulations

Please refer to our corporate website (Investor service/corporate governance) for more details regarding corporate governance.

http://www.danentech.com/en/investor_cg.aspx

3.9 Other important information regarding corporate governance

None

3.10 Internal control systems

3.10.1 Statement of internal control system:

**Statement of internal control system
of
Danen Technology Corporation**

Date: February 27th, 2018

The self-assessment results of 2017 internal control system of the company are hereby stated as follows:

- A. The company has indeed realized that it's the responsibility of board of directors, managers to establish, execute as well as maintain the internal control system and the company has established this system, which targets at providing reasonable guarantee for operating results and efficiency (including profits, performance and asset security), and report with reliability, real time, transparency as well as the realization of goals that are in accordance with relevant laws and decrees.
- B. In spite of the flawless designs, the internal control system still has its own limitations and it can only provide reasonable and effective guarantees for the above three goals; furthermore, the effectiveness of the internal control system varies with the changes of environment and conditions. However, the internal control system of the company designed with self-supervision, can take immediate adjustments to make up the recognized deficiency.
- C. The company has based on the "regulations governing for the corporate internal control system established based on "Regulations for establishment of internal control systems in public companies" (hereinafter referred to as Regulations) to judge the effectiveness of the design and execution of internal control system. The judging items adopted are also known as the procedures for management and control, which is divided into five parts i.e. (1) Environmental control, (2) Risk assessment, (3) Control operations, (4). Information and communication and (5) Monitoring operations. Each part is composed by several sub-items. Please refer to "Regulations" for more details of above mentioned items.
- D. The company has adopted the above mentioned judging items for internal control system to assess the effectiveness of designs and fulfillment of internal control system.
- E. The company can safely conclude that understanding operating results, efficiency and the realization of goals, reliability, real time, transparency as well as the design and execution of internal control system in line with relevant laws and decrees are effective based on the aforementioned assessment results of internal control system (including the supervision and management of subsidiaries) carried out on December 31th, 2017.
- F. This Statement is the main content of the annual report and prospectus and will be made public. Any fraud, camouflage and other illegitimate affairs in the statement will bear the legal liabilities regulated in article 20, 32, 171 and 174 of securities exchange act.

G. We hereby declare: This statement has approved by board meeting on February 27th, 2018. Seven directors were presented at the Board, none opposed to this statement and the contents of this statement have reached consensuses.

Danen Technology Corporation

Chairman: Fang, Jenn-Ming

President: Fang, Jenn-Ming

3.10.2 Those who entrust Internal Control System project review to accountants shall disclose the CPA Audit Report: None.

3.11 Whether the company and personnel within the company were punished, the personnel has penalized by the company in recent years and as of the date of Annual Report publication; whether there were significant errors and improvements:

None

3.12 The important resolutions of shareholders' meeting and Board of Directors in recent years and periods as of the date of Annual Report publication:

3.12.1 Major Resolutions of Shareholders' Meeting and Board Meetings:

(1) Important Resolutions of 2016 Annual Shareholders' Meeting

| Date | Item | Major resolutions |
|------------|----------------------------------|---|
| 2017/05/26 | shareholders' meeting of Yr.2017 | 1、Approval for 2016 Annual Business Report and Financial Statements. 2、Approval for the Proposal of 2016 Deficit Compensation of loss. 3、Approval for the amendments to the “Guidelines for Handling Acquisition and Disposal of Assets”. 4、Elections of board of directors. Election of the fifth board of directors (including independent directors) director: James Fang director: Benjamin Jen director: Pi-Yang Chung independent director: Wen-Ching Tsai independent director: Her-Yuan Lin independent director: Yi-Long Chao independent director: Tsung-Tsan Su term:2017/05/26~2020/05/25 5、Approved the cancellation of the prohibition of non-compete clauses of directors |

(2) Important Resolutions of Board of Directors

| Date | Item | Major resolutions | Item listed in the provisions of Article 14-3 of the Securities and Exchange Act | Against opinion from independent directors |
|------|------|-------------------|--|--|
| | | | | |

| Date | Item | Major resolutions | Item listed in the provisions of Article 14-3 of the Securities and Exchange Act | Against opinion from independent directors |
|-----------|---|---|--|--|
| 2017/5/2 | The 19 th session of the 4 th board meeting | 1、 Approved the unaudited financial statements for the first quarter ended March 31, 2017 2、 Proposed not to distribute the 2nd restricted employee stock option. 3、 Approval for executing loan agreements with banks All of resolutions: Any of opinion from independent Directors : None Executions of independent directors' opinion : None Resolution approved by: all of Directors 4、 Approved the amendment of Investment amount of Biochip and System solution company. All of resolutions: Any of opinion from independent Directors : None Executions of independent directors' opinion : None Resolution approved by: all of directors except director Jen, Chao-Ming for conflicts of interest | V V V V | None |
| 2017/5/26 | The 1 st session of the 5 th board meeting | 1、 Election of chairman and vice chairman of BOD Any of opinion from independent directors : None Executions of independent directors' opinion : None Resolution approved by: all of directors | V | None |
| 2017/8/9 | The 2 nd session of the 5 th board meeting | 1、 Approved the unaudited financial statements for the second quarter ended June 30, 2017. 2、 Approval for executing loan agreements with banks. 3、 Approved the amendments to the 2017 business plan. 4、 Approved the proposal of committee members of compensation committee. 5、 Approved the amendment of the audit committee charter. 6、 Approved the amendment of the rules for board of directors meeting procedure. All of resolutions: Any of opinion from independent directors : None Executions of independent directors' opinion : None Resolution approved by: all of directors. | V V V V V V | None |

| Date | Item | Major resolutions | Item listed in the provisions of Article 14-3 of the Securities and Exchange Act | Against opinion from independent directors |
|-----------|--|--|--|--|
| 2017/11/8 | The 3 th session of the 5 th board meeting | 1、 Approved proposal of 2018 internal auditing plan. 2、 Approved the financial statements for the third quarter ended September 30, 2017. 3、 Approved the future loan facility plan for applying loan arrangements with banks. 4、 Approval for 2017 year-end bonus grant plan of key managers. All of resolutions: Any of opinion from independent directors : None Executions of independent directors' opinion : None Resolution approved by: all of directors. | V V V V | None |
| 2018/2/27 | The 4 th session of the 5 th board meeting | 1、 Approved the declaration of “Statement of 2017 internal control system”. 2、 Approved the purchase of directors liability insurance policy. 3、 Approved the 2017 annual operation report and financial statements. 4、 Approved the proposal of 2017 annual deficit compensation for loss. 5、 Approved the change of certified public accountant for internal adjustments within the certifying accounting firm and accountant audit fee of Year 2018 6、 Approval for executing loan agreements with banks. 7、 Approval for executing loan agreements with banks. 8、 Approval for executing loan agreements with banks. All of resolutions: Any of opinion from independent directors : None Executions of independent directors' opinion : None Resolution approved by: all of directors. | V V V V V V V | None |
| 2018/3/13 | The 5 th session of the 5 th board meeting | 1、 Approved the 2018 business plan. 2、 Approved the capital investment plan of equipment modification. All of resolutions: Any of opinion from independent directors : None Executions of independent directors' opinion : None Resolution approved by: all of directors. 3、 The implementation plan of IFRS 16 “Lease”. This resolution: Any of opinion from independent directors : None Executions of independent directors' | V V V | None |

| Date | Item | Major resolutions | Item listed in the provisions of Article 14-3 of the Securities and Exchange Act | Against opinion from independent directors |
|------|------|---|--|--|
| | | opinion : None Resolution approved by: all of directors 4、 Approved the convening of 2018 general shareholder's meeting. All of resolutions: Any of opinion from independent directors : None Executions of independent directors' opinion : None Resolution approved by: all of directors. | V | |

3.12.2 The execution of resolutions of shareholders' meeting of 2017

3.12.2.1 Acknowledged the business report and financial statement of year 2016

Execution result: Approved

3.12.2.2 Acknowledged the deficit off-setting of year 2016

Execution result: Approved and handled with relevant accounts according to regulations.

3.12.2.3 Revised part of articles of [Guidelines for handling acquisition and disposal of assets]

Execution result: Approved

3.12.3 Major Resolutions of Audit committee's Meeting

| Date | Item | Major resolutions | Item listed in the provisions of Article 14-5 of the Securities and Exchange Act | the resolution approved by the directors of more than 2/3 without the approval of the audit committee |
|----------|---|--|--|---|
| 2017/5/2 | The 13 th session of the 1 st audit committee | 1、 Approved the unaudited financial statements for the first quarter ended March 31, 2017 2、 Proposed not to distribute the 2nd restricted employee stock option. All of resolutions: Approved by audit committee Executions of audit committee's opinion : None | V V | None |

| Date | Item | Major resolutions | Item listed in the provisions of Article 14-5 of the Securities and Exchange Act | the resolution approved by the directors of more than 2/3 without the approval of the audit committee |
|-----------|--|--|--|---|
| 2017/8/9 | The 1 st session of the 2 nd audit committee | 1、 Approved the unaudited financial statements for the second quarter ended June 30, 2017. Approved by audit committee Executions of audit committee's opinion : None | √ | None |
| 2017/11/8 | The 2 nd session of the 2 nd audit committee | 1、 Approved proposal of 2018 internal auditing plan. 2、 Approved the financial statements for the third quarter ended September 30, 2017. All of resolutions: Approved by audit committee Executions of audit committee's opinion : None | √ √ | None |
| 2018/2/27 | The 3 th session of the 2 nd audit committee | 1、 Approved the declaration of "Statement of 2017 internal control system". 2、 Approved the 2017 annual operation report and financial statements. 3、 Approved the Proposal of 2017 annual deficit compensation for loss. 4、 Approved the change of certified public accountant for internal adjustments within the certifying accounting firm and accountant audit fee of year 2018 All of resolutions: Approved by audit committee Executions of audit committee's opinion : None | √ √ √ √ | None |

3.13 Major issues of record or written statements made by any director or supervisor dissent to important resolutions approved by the board meeting:

None

3.14 Resignation or dismissal of the company's key individuals, including the chairman, CEO, and heads of accounting, finance, internal audit and R&D:

None

4. Information regarding the company's accountant fee

4.1 Audit Fee

| Accounting Firm | Name of CPA | | Period Covered by CPA's Audit | Remarks |
|-----------------|----------------|---------------|-------------------------------|---------|
| PwC Taiwan | Lee, Hsiu-Ling | Zhi, Bing-Jun | 2017.1.1~2017.12.31 | None |

Unit: NT\$ thousands

| Public-fund items | | Audit Fee | Non-audit Fee | Total |
|-------------------|--------------------------------|-----------|---------------|-------|
| Notch of amount | | | | |
| 1 | Under NT\$ 2,000,000 | √ | √ | √ |
| 2 | NT\$2,000,001 ~ NT\$4,000,000 | | | |
| 3 | NT\$4,000,001 ~ NT\$6,000,000 | | | |
| 4 | NT\$6,000,001 ~ NT\$8,000,000 | | | |
| 5 | NT\$8,000,001 ~ NT\$10,000,000 | | | |
| 6 | Over NT\$100,000,000 | | | |

4.2 The company with any conditions below shall disclose the items listed below

4.2.1 Those non-audit fees paid for CPA, accounting firm of CPA and for the related enterprises are more than one quarter of audit fees shall be disclosed, including the amount of audit and non-audit fees and non-audit services:

Unit: NT\$ thousands

| Accounting Firm | Name of CPA | Audit fee | Non-audit Fee | | | | | Period covered by CPA's audit | Remarks |
|-----------------|----------------|-----------|------------------|----------------------|----------------|--------|----------|-------------------------------|-------------------------------|
| | | | System of design | Company registration | Human resource | Others | Subtotal | | |
| PwC Taiwan | Lee, Hsiu-Ling | 1,902 | 0 | 0 | 0 | 20 | 20 | 2017 | To provide other information. |
| | Zhi, Bing-Jun | | | | | | | | |

4.2.2 Those enterprises that paid audit fees for change of accounting firm and the amounts of audit fees are less than the ones of prior year should disclose the audit fees before and after changes and the reasons: None

4.2.3 Those enterprises whose audit fees decrease more than half of the ones of prior year shall disclose the reduction amounts, percentage and reasons: None

5. Replacement of CPA:

None

6. Whether the chairman, president, manager responsible for financing or accounting have held posts in the accounting firm of CPA or in its related enterprises within recent year:

None

7. Shareholding alienation and changes of directors , supervisors, managers and the shareholders with more than 10% shares in recent year and up to the date of Annual Report publication

7.1 Changes in equity of directors, supervisors, managers as well as major shareholders

Unit: share

| Title | Name | Year 2017 | | As of March 31 th , 2018 | |
|--------------------------|---------------------|---|---|---|---|
| | | Increments and decrements of shares holding | Increments and decrements of pledged shares | Increments and decrements of shares holding | Increments and decrements of pledged shares |
| Chairman | Fang, Jenn-Ming | 0 | 0 | 0 | 0 |
| Vice Chairman | Jen, Chao-Ming | 0 | 0 | 0 | 0 |
| Director | Jhuang, Bi-Yang | 0 | 0 | 0 | 0 |
| Independent Director | Tsai, Wen-Ching | 0 | 0 | 0 | 0 |
| Independent Director | Lin, Her-Yuan | 0 | 0 | 0 | 0 |
| Independent Director | Chao, Yi-long | 0 | 0 | 0 | 0 |
| Independent Director | Su, Tzung-Tsan | 0 | 0 | 0 | 0 |
| Vice President | Wu, Yu-Yi | (95,000) | 0 | 0 | 0 |
| Assistant Vice President | Wang, Jung-Chun | (83,000) | 0 | 0 | 0 |
| Manager | Fan Chiang, Kun-Yan | 0 | 0 | 0 | 0 |

7.2 Shares Trading with Related Parties: None

7.3 Shares Pledge with Related Parties: None

8. The information of relationships among the top 10 shareholders

March 31th, 2018 Unit: One Thousand share; %

| Name | Current Shareholding | | Spouse's/minor's shareholding | | Shareholding by nominee arrangement | | Name and relationship between the company's top Ten shareholders, or spouses or relatives within two degrees | | Remarks |
|---|----------------------|-------|-------------------------------|-------|-------------------------------------|---|--|---------|---------|
| | Shares | % | Shares | % | Shares | % | Name | Kinship | |
| Liang, Chi-Chen | 5,789 | 1.66% | — | — | — | — | — | — | — |
| Hung, Wen-Chin | 5,183 | 1.48% | 2,147 | 0.61% | — | — | — | — | — |
| Fang, Jenn-Ming | 5,116 | 1.46% | 1,012 | 0.29% | — | — | — | — | — |
| Investment account of security (DFA) trustee by Citibank | 3,989 | 1.14% | — | — | — | — | — | — | — |
| DFA Sub-fund of Emerging Markets Small Cap Fund trustee by Citibank | 2,771 | 0.79% | — | — | — | — | — | — | — |
| Chen, Yu-Lian | 2,444 | 0.70% | — | — | — | — | — | — | — |
| Lin, Chien-Chang | 2,049 | 0.59% | — | — | — | — | — | — | — |
| Liu, Lian-Chun | 1,726 | 0.49% | — | — | — | — | — | — | — |
| Li, Yan-Jhong | 1,500 | 0.43% | — | — | — | — | — | — | — |
| Fund trustee by Standard Chartered Bank | 1,320 | 0.38% | — | — | — | — | — | — | — |

9. The shares of the same reinvestment enterprises held by directors, supervisors, managers of the company or the enterprises directly or indirectly controlled by the company, and consolidating the shares and shareholding ratio:

None

IV. Capital overview

1. Capital and shares

1.1 Source of Capital

1.1.1 Issued Shares

Unit: One Thousand share; NT\$ thousands

| Month/ Year | Par Value (NT\$) | Authorized Capital | | Paid-in Capital | | Remark | | |
|----------------|------------------------|--------------------|---------------------------|-----------------|-------------------------------|--|--|--------|
| | | Shares | Amount(NT\$ thousands) | Shares | Amount(N T\$ thousands) | Sources of Capital | Capital Increased by Assets Other than Cash | Other |
| November 2007 | 10 | 25,000 | 250,000 | 100 | 1,000 | Capital establishment | None | Note1 |
| November 2007 | 10 | 25,000 | 250,000 | 25,000 | 250,000 | Capital increase | None | Note2 |
| December 2007 | 10 | 120,000 | 1,200,000 | 31,500 | 315,000 | Capital increase | None | Note3 |
| March 2008 | 10 | 120,000 | 1,200,000 | 88,000 | 880,000 | Capital increase | None | Note4 |
| October 2008 | 30 | 120,000 | 1,200,000 | 91,000 | 910,000 | Capital increase | None | Note5 |
| August 2009 | 18 | 180,000 | 1,800,000 | 126,000 | 1,260,000 | Capital increase | None | Note6 |
| January 2010 | 32 | 180,000 | 1,800,000 | 141,000 | 1,410,000 | Capital increase | None | Note7 |
| June 2010 | 10 | 180,000 | 1,800,000 | 147,658.2 | 1,476,582 | Execution of Employee Stock Option Certificates | None | Note8 |
| July 2010 | 50 | 180,000 | 1,800,000 | 164,458.2 | 1,644,582 | Capital increase | None | Note9 |
| March 2011 | 59 | 280,000 | 2,800,000 | 201,258.2 | 2,012,582 | Capital increase | None | Note10 |
| August 2011 | 10 | 280,000 | 2,800,000 | 203,673.2 | 2,036,732 | Capital increase from surpluses | None | Note11 |
| February 2013 | 14.09 | 280,000 | 2,800,000 | 263,673.2 | 2,636,732 | Capital increase | None | Note12 |
| July 2013 | 0 | 280,000 | 2,800,000 | 264,823.3 | 2,648,233 | Restricted stocks | None | Note13 |
| February 2014 | 15.46 | 350,000 | 3,500,000 | 349,823.3 | 3,498,233 | Capital increase | None | Note14 |
| January 2015 | 0 | 350,000 | 3,500,000 | 349,675.8 | 3,496,758 | Capital decrease of restricted stocks | None | Note15 |
| December 2015 | 0 | 350,000 | 3,500,000 | 349,626.8 | 3,496,268 | Capital decrease of restricted stocks | None | Note16 |

Note 1: Date of approval and registration and document No. are November 9th, 2007 and Ri-Fu-Chan-Ye Zi No. 09691818000 respectively.

Note 2: Date of approval and registration and document No. are December 18th, 2007 and Ri-Fu-Chan-Ye Zi No. 09693594700 respectively.

Note 3: Date of approval and registration and document No. are January 14th 2008 and Ri-Fu-Chan-Ye Zi No. 09780124600 respectively.

Note 4: Date of approval and registration and document No. are April 9th, 2008 and Ri-Jing-Shou-Shan Zi No. 09701082540 respectively

Note 5: Date of approval and registration and document No. are October 24th, 2008 and Ri-Jing-Shou-Shan Zi No. 09701271840 respectively.

Note 6: Date of approval and registration and document No. are August 27th, 2009 and Ri-Jing-Shou-Shan Zi No. 09801192040 respectively.

Note 7: Date of approval and registration and document No. are February 3rd, 2010 and Ri-Jing-Shou-Shan Zi No. 09901022670 respectively.

Note 8: Date of approval and registration and document No. are July 8th, 2010 and Ri-Jing-Shou-Shan Zi No. 09901145830 respectively.

Note 9: Date of approval and registration and document No. are August 9th, 2010 and Ri-Jing-Shou-Shan Zi No. 09901176690 respectively.

Note 10: Date of approval and registration and document No. are April 6th, 2011 and Ri-Jing-Shou-Shan Zi No. 10001064740 respectively.

Note 11: Date of approval and registration and document No. are August 12th, 2011 and Ri-Jing-Shou-Shan Zi No. 10001187300 respectively.

Note 12: Date of approval and registration and document No. are February 18th, 2014 and Ri-Jing-Shou-Shan Zi No. 10201029210 respectively.

Note 13: Date of approval and registration and document No. are July 17th, 2014 and Ri-Jing-Shou-Shan Zi No. 10201143450 respectively.

Note 14: Date of approval and registration and document No. are February 11th, 2014 and Ri-Jing-Shou-Shan Zi No. 10301019530 respectively.

Note 15: Date of approval and registration and document No. are January 17th, 2015 and Ri-Jing-Shou-Shan Zi No. 10301260750 respectively.

Note 16: Date of approval and registration and document No. are December 11th, 2015 and Ri-Jing-Shou-Shan Zi No. 10401262780 respectively.

1.1.2 Types of shares

Unit: One Thousand share

| Types of shares | Authorized capital stock | | | Note |
|-------------------------|---------------------------|------------------------|----------|----------------------------|
| | Outstanding capital stock | Unissued capital stock | In total | |
| Registered common stock | 349,626.8 | 373.2 | 350,000 | Shares of public companies |

1.1.3 Related information of shelf registration system: None

1.2 Status of shareholders

March 31th, 2018 Unit: person, share; %

| Shareholders' structure Numbers | Government agencies | Financial institutions | Other juridical persons | Foreign institutions & natural persons | Domestic natural persons | Treasury shares | Total |
|------------------------------------|---------------------|------------------------|-------------------------|--|--------------------------|-----------------|-------------|
| Number of Shareholders | 0 | 0 | 43 | 52 | 39,524 | 0 | 39,619 |
| Shareholding (shares) | 0 | 0 | 1,180,492 | 14,442,860 | 334,003,447 | 0 | 349,626,799 |
| Percentage | 0.00% | 0.00% | 0.34% | 4.13% | 95.53% | 0.00% | 100.00% |

1.3 Shareholding Distribution Status

March 31th, 2018 Unit: share; %

| Class of shareholding (Unit: Share) | Number of shareholders | Shareholding (Shares) | Percentage |
|--|------------------------|-----------------------|------------|
| 1-999 | 14,009 | 229,092 | 0.07% |
| 1,000-5,000 | 15,350 | 36,917,816 | 10.56% |
| 5,001-10,000 | 4,572 | 37,689,467 | 10.78% |
| 10,001-15,000 | 1,484 | 18,874,787 | 5.40% |
| 15,001-20,000 | 1,328 | 25,085,847 | 7.18% |
| 20,001-30,000 | 1,039 | 27,154,815 | 7.77% |
| 30,001-40,000 | 481 | 17,316,259 | 4.95% |
| 40,001-50,000 | 349 | 16,526,909 | 4.73% |
| 50,001-100,000 | 608 | 44,694,782 | 12.77% |
| 100,001-200,000 | 243 | 34,868,934 | 9.97% |
| 200,001-400,000 | 100 | 27,326,885 | 7.82% |
| 400,001-600,000 | 24 | 11,614,492 | 3.32% |
| 600,001-800,000 | 11 | 7,536,836 | 2.16% |
| 800,001-1000,000 | 4 | 3,768,732 | 1.08% |
| 1,000,001 or over | 17 | 40,021,146 | 11.44% |
| Total | 39,619 | 349,626,799 | 100.00% |

1.4 List of major shareholders

March 31th, 2018 Unit: share; %

| Names of major shareholders | Shares | Shares held | Shareholding ratio (%) |
|---|--------|-------------|------------------------|
| Liang, Chi-Chen | | 5,788,640 | 1.66% |
| Hung, Wen-Chin | | 5,182,603 | 1.48% |
| Fang, Jenn-Ming | | 5,116,409 | 1.46% |
| Investment account of security (DFA) trusted by Citibank | | 3,989,000 | 1.14% |
| DFA Sub-fund of Emerging Markets Small Cap Fund trusted by Citibank | | 2,771,000 | 0.79% |
| Chen, Yu-Lian | | 2,443,756 | 0.70% |
| Lin, Chien-Chang | | 2,048,706 | 0.59% |
| Liu, Lian-Chun | | 1,725,960 | 0.49% |
| Li, Yan-Jhong | | 1,500,000 | 0.43% |
| Fund trusted by Standard Chartered Bank | | 1,320,000 | 0.38% |
| Total | | 31,886,074 | 9.12% |

1.5 Market price, net worth, earnings, and dividends per share

Unit: NT\$

| Items | Years | | 2016 | 2017 | 01/01/2018-03/31/2018 (Note 8) |
|------------------------------------|-----------------------------|----------------------------------|---------|-----------------------|-----------------------------------|
| | | | | | |
| Market price per share (Note 1) | Highest market Price | | 11.30 | 8.48 | 7.74 |
| | Lowest market Price | | 6.11 | 5.70 | 6.00 |
| | Average market Price | | 8.19 | 7.03 | 6.75 |
| Net Worth per Share (Note2) | Before distribution | | 10.50 | 8.53 | 8.01 |
| | After distribution | | 10.50 | Yet to be distributed | Yet to be distributed |
| Surpluses per share | Weighted average shares | | 349,627 | 349,627 | 349,627 |
| | Surpluses per share(Note 3) | | (2.10) | (1.98) | (0.51) |
| Dividends per share | Cash dividends | | - | - | - |
| | Stock | Dividends from Retained Earnings | - | - | - |

| | | | | | |
|-----------------------------|--|--------------------------------|--------|--------|---------|
| | Dividends | Dividends from capital surplus | - | - | - |
| | Accumulated undistributed dividends (Note 4) | | - | - | - |
| Investment rewards analysis | Price/earnings ratio (Note 5) | | (3.90) | (3.55) | (13.24) |
| | Price/dividend ratio (Note 6) | | - | - | - |
| | Cash dividend yield rate (Note 7) | | - | - | - |

Note 1: Presenting the highest and lowest market values of common stocks of each year and calculating average market values according to transaction values and amount of each year.

Note 2: Fill the forms based on issued shares in the year end and according to the distribution resolutions of shareholders' meeting of coming year.

Note 3: If the retroactive adjustments are necessary due to stock grants and other reasons, the surpluses per share before and after adjustment shall be presented.

Note 4: If the issue terms of equity securities require that the undistributed dividends of previous years that are accumulated and not distributed until the year with surpluses shall be disclosed.

Note 5: Price-earnings ratio=average closing price per share of current year/surplus per share.

Note 6: Capital-interest ratio= average closing price per share of current year/cash dividends per share.

Note 7: Cash dividends yields ratio=cash dividends per share/average closing price per share of current year

Note 8: The information audited by accountant.

1.6 Dividend policy and implementation status

1.6.1 The dividend policies stipulated in the Articles of Corporation

The dividends and bonuses are only available when there are surpluses in the company. The net profits of the company for each annual financial year shall be allocated in the following order:

1.6.1.1 Paying taxes.

1.6.1.2 Offsetting the losses.

1.6.1.3 Set aside ten percent (10%) as legal reserve unless the accumulated amount of such legal reserve equals to the total capital of the company.

1.6.1.4 Setting aside or make any reversal of an amount as Special Reserve pursuant to the applicable rules and requirements of the committees

1.6.1.5 With respect to the earnings available for distribution, i.e. the net profit after the deduction of the items 1.6.1.1 to 1.6.1.4 above plus the previously cumulative undistributed retained earnings, the board meeting may present a proposal to distribute to the shareholders by way of dividends at the regular meeting for approval.

The allocation of the directors' remuneration not exceeding three percentages of the annual earnings and not less than five percentages of employee remuneration and a company may set off losses if any accumulated losses.

Resolutions at a shareholders' meeting for the allocation of the employees' remuneration and directors' remuneration shall be adopted by a majority vote of the directors present, who represent over two-thirds of the directors and report in the meeting.

The allocation of the employee bonuses in the form of cash or shares, the employees entitled to such share bonuses may include employees of the Subordinate Companies satisfying certain criteria.

The industrial environments are changeable and diverse and the corporate life cycle are in the first stage and continued to develop. In order to perfect the financial planning and pursue sustainable development, it's necessary to stipulate the dividend distribution policies. Several factors shall be taken into consideration when it comes to the establishment including future capital expenditure budget and fund demands, the necessity of handling financial problems with surpluses. By doing these can the retained earnings, distributed amounts and the dividends and bonuses distributed to shareholders in cash can be determined. Earnings may be distributed in the form of cash dividends and/or shares, but the cash dividends are prior to any shares, or distribution by the amount of dividends. Share dividends shall comprise a minimum of fifty percent (50%) of the total dividends allocated to Shareholders.

1.6.2 The dividend distribution scheme proposed at this shareholders' meeting

The dividends and bonuses are not available due to zero surpluses in 2017.

The dividends distribution of the company over the years:

The cash dividends and the stock dividends of 2010 distributed in 2011 are NT\$ 201,258 thousand and NT\$ 24,151 thousand respectively and the total amount distributed accounts for 47.07% of the profits after tax.

There were zero after-tax profits between 2012 and 2016, therefore, the dividends distributions are not available according to Articles of Corporation, and namely the dividend distribution rate was 0%.

1.6.3 Whether the dividend policies are estimated to subject to major changes: None

1.7 The effects the stock grants proposed at this shareholders' meeting exerting on the corporate performance and surpluses per share

This is not applicable due to the unavailability of dividends and bonuses of 2017.

1.8 Remunerations for employees and directors

1.8.1 The percentage and range of remunerations for employees and directors recorded in the Articles of Corporation

The allocation of the directors' remunerations should not exceed three percentages of the annual

earnings and no less than five percentages of employee remuneration and a company may set off losses if there are any accumulated losses.

The allocation of the directors and employees' remunerations in the Articles of Corporation mentioned above are the draft mapped out by the board, which needs to be approved at the regular meeting of shareholders.

1.8.2 The handling of difference between estimated allocation amounts and estimated bases of remunerations for employees and directors ; shares calculation bases of employees and directors' remunerations paid in dividends and actual allocation amounts: none.

1.8.3 The remuneration allocation resolutions passed at the Board:

1.8.3.1 Remunerations paid in cash or stocks for employees and directors: none

1.8.3.2 The ratio between compensations for employees paid in stock allocation and after-tax profits in individual or several financial statements; and the ratio between total amount of employees' remunerations and after-tax profits in individual or several financial statements: none.

1.8.4 The actual compensation allocation for employees and directors of prior years (including number of shares, amount and share price distributed), the variances, reasons and handling situations shall be clearly stated if there are differences from the recognizing compensations for employees and directors: none.

1.9 Whether the company has repurchased the shares of its own: None

2. Debt of the company:

None

3. Preferred stock of the company:

None

4. GDR of the company:

None

5. Employee stock option certificates and restricted stocks

5.1 The management of employee stock option certificates yet to expire as of the date of annual report publication and its impacts on the interests and rights of shareholders shall be disclosed: None.

5.2 The names subscription situations of manager with employee stock option certificates and the top ten employees with option-certificate stocks as of the date of annual report publication: None.

5.3 The management status of restricted stocks

The management status of restricted stocks of year 2015:

The proposals for issuing restricted stocks in 2015 have been passed at the shareholders meeting of

2015, yet haven't actually issued as of the date of annual report publication.

5.4 The names subscription situations of manager with employee stock option certificates and the top ten employees with option-certificate stocks: None

6. New share issue under merge or transfer

None

7. Financial plan and execution status

The issued or privately collected negotiable securities of the company previously yet to be finished or finished in recent three years but without expected profits as of one quarter prior to date of Annual Report publication: None.

The use of proceeds for negotiable securities issuance has been finished as of one quarter prior to date of annual report publication.

V. Operational Highlights

1. Business Activities

1.1 Scope of business

1.1.1 Main contents of the business

1.1.1.1 Electronic components manufacturing

1.1.1.2 Electronic material wholesale business

1.1.1.3 Electronic material retain business

1.1.1.4 Any businesses without being prohibited or restricted by laws except licensing business.

1.1.2 Proportion of business

Unit: NT\$ thousands; %

| Items | Year 2016 | | Year 2017 | |
|-------------------------------|-----------|------------|-----------|------------|
| | Amount | Proportion | Amount | Proportion |
| Multi-crystalline solar wafer | 1,328,674 | 96.91 | 763,768 | 80.51 |
| Others | 42,312 | 3.09 | 184,839 | 19.49 |
| In total | 1,370,986 | 100.00 | 948,607 | 100.00 |

1.1.3 Products (services) provided by the company at present

1.1.3.1 6.2-inch Multi-crystalline solar wafer (156.75*156.75mm*190μm).

1.1.3.2 6.2-inch Multi-crystalline solar wafer foundry services.

1.1.3.3 Multi-crystalline solar ingots and bricks.

1.1.4 The new products (services) planned to be developed

High-efficiency Multi-crystalline Diamond-Wiring solar wafers with more than 19.6% average conversion efficiency.

1.2 Industrial overview

1.2.1 Industrial status and development

Since 1990's the global ecological environment pollution and damage have been increasingly serious, in response to the worse conditions, the relevant conventions have been stipulated successively. Governments of all the nations reached a consensus for energy saving and carbon reduction based on Kyoto Protocol and Copenhagen Accord and established an important position for solar energy in future energy supply. In the past ten years, European countries, United States,

Japan and China have encouraged the investment of solar industry by legislation in succession and have subsidized users which made solar industry begin to flourish.

With the technological advancement of solar cells and costs declination, the application of photovoltaic has shifted from space technology, military use to livelihood purposes and it has been widely applied. In our daily life the large-sized power plants are much more commonplace. By now, in some advanced European countries the costs for photovoltaic power generation has come approximately to power consumption costs in prime time. With the further technological revolutions and cost decrease, more and more countries and regions can enjoy a price the same as the one of commercial power. Furthermore, it's easier to connect grids, which is estimated to mobilize the industrial sustainability. The photovoltaic applications so far are much extensive, which can be classified as follows:

Application of solar products and examples

| Items | Application examples |
|---|--|
| Livelihood | Radio, electrical test meter, watch, computer, solar camera, flashlight, battery charger, camping light, household appliance and PV system for power supply of livelihood consumption goods. |
| Road and traffic | Street lamps, traffic signs, road signs, identification lamp, solar electric vehicle charging stations, freeway emergency telephone, emergency telephone in remote road, parking meter, control gate system in parking lot, PV system for sound-proof wall in expressway and PV systems for highway rest area, solar vehicles, level crossing indicator light, bus shelter and rooftop stations. |
| Agriculture, forestry, fishery, pastoral and medical areas. | Farmhouse power supply, PV system of power supply for greenhouse culture, agricultural irrigation, fire sprinkler system, agriculture and animal husbandry greenhouses, fisheries aquaculture pumping ventilation and automatic pet feeder. |
| Communication | PV System for wireless communication, relay base station, emergency telephone relay station, telephone communication power supply and PV system of signal receiver for microwave relay station and radio. |
| Buildings | Household power supply system, emergency power supply system, emergency lighting system, curtain wall, sunshade, dome skylight, and roofing-tile type PV system. |

| Items | Application examples |
|---------------------------------|---|
| Industrial Application | Electrical corrosion prevention of pipeline, power supply PV system pipeline flow meter, market advertising tower, offshore oil platform, power supply PV system for all kinds of measuring stations. |
| Emergency / Disaster Prevention | Duty Command Center, emergency refuge, medical establishments, parks, schools, earthquake observing station, forester observation deck, evacuation indicator, PV system for power supply of water level alarm, river lamp, PV breakwater safety lamp. |
| Power plant | Roof-type, Ground-type and Floating on water Solar power plants. |

Data source: Photovoltaic Information Network, collocated by Danen, March 2018

Solar cells can be divided into two types, namely silicon and non-silicon, according to materials applied and silicon battery can be categorized into three types, i.e. Mono-crystalline silicon, polycrystalline silicon and Mono-crystalline silicon. Among them, Mono-crystalline silicon, polycrystalline silicon belong to crystalline solar cells while Mono-crystalline silicon are applied in thin-film solar cells. The parts made from non-silicon materials can be divided into compound battery, organic and inorganic materials which are applicable to thin-film solar cells.

Classification table of solar cell materials

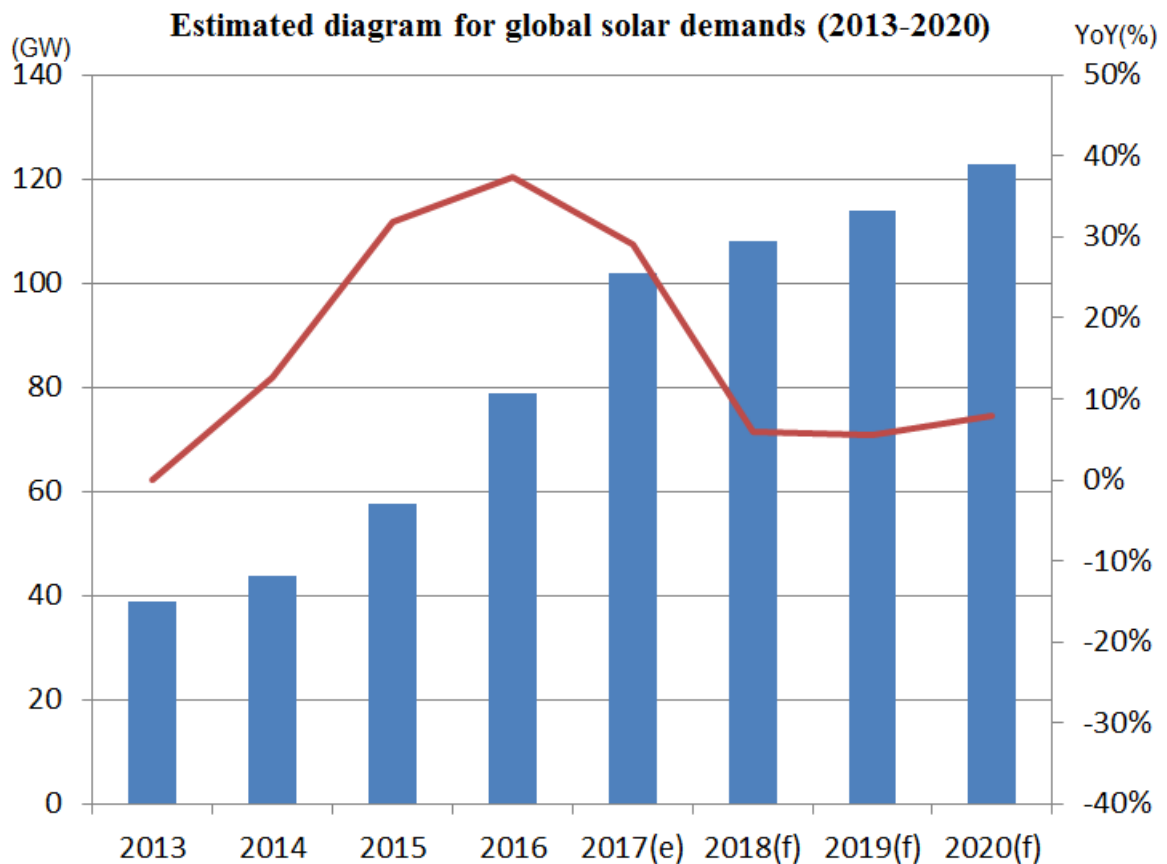
| Types of solar cells | | semiconductor materials | Market module power conversion efficiency |
|---|----------------------|---------------------------|---|
| silicon is the most widely used material in PV system | Crystalline Silicon | Mono-crystalline Silicon | 19~21% |
| | | Multi-crystalline Silicon | 18~19% |
| | Amorphous Silicon | Si, SiC, SiGe, SiH, SiO | 8~10% |
| Compounds are applicable to space and HCPV system | III - V compound | GaAs, InP | 30~45% |
| | Non-III - V compound | CdS, CdTe, CuInse | 12~16% |
| Nano & Organic are applicable to organic solar cells which are still developed and researched at present. | TiO ₂ | | 1~8% |

Data source: Photovoltaic Information Network, collocated by Danen, March 2018

Silicon solar cells, divided into Mono-crystalline Silicon and Multi-Crystalline Silicon, are widely accepted by the market due to excellent durability, higher conversion efficiency and lower average selling price. It has become the mainstream products which account for 90% of market shares. The Mono-crystalline solar cells are made from silicon with high purity grade about 9-11 N which makes its conversion efficiency higher than that of Multi-crystalline solar cells. However, the higher losses, long and sophisticated processing make the costs higher than those of Multi-crystalline solar cells. The Multi-crystalline solar cells require lower purity of silicon materials about 7 to 8 N with a conversion efficiency of 18% to 19%, a little bit lower than Mono-crystalline solar cells. However, it can be rapidly produced without wasting too many materials and the lower costs of raw materials and manufacturing also make it the mainstream products in future crystalline silicon cells. Moreover, thanks to the tendency of cost decline of thin-film solar cells, excellent scratch prevention and light transmission; they can be combined with buildings and applied to external glasses of the building and car windows. Nevertheless, the development potential of it is restricted, due to lower conversion efficiency and shortage of resources compared to other crystalline cells and it can't be well developed unless the conversion efficiency and the product yield are improved. While, according to the estimations by EnergyTrend and other market research institutions, the silicon solar cells will still dominate the market for a period of time in the future.

With the global solar marketing during 2015 to 2017 gradually increasing demands of emerging markets such as India and Chile which made up for the market shares in Europe due to subsidies decrements, the global solar equipment requirements are still showing a trend of growth. Besides, as the market demand growth greater than that of capacity increase, the overall PV industries are gradually restored to stable supply and demands.

According to the survey of IHS, the global solar consumption of 2017 reached 102GW, a growth over unexpected 29% compared to 2016 and the global solar demands of 2018 are expected to be more than 100GW which presents continuous growth. It's important to note that as the world's two largest markets, China and the US, experience a slowdown, after two years' tempered growth will be followed by a stronger market recovery in 2020. Driven by the continuous drop of installation costs and the strong demands in China, US and emerging markets the solar market is still with the space to develop in coming years.



Data source: IHS, collocated by Danen, March 2018

Solar cells and wafers sectors of Taiwan boast the highest competitiveness in domestic PV industry whose output ranks second globally. The Executive Yuan of Taiwan approved “Dawning Green Energy Industry Program” in April 2009 which made PV as development priority and set aside considerable budgets in annual budgets for the industrial development; in order to continue the promotion result of “Dawning Green Energy Industry Program” Executive Yuan projected “Rising Green-Energy Industry Program” in August 2012 which is contributing to strengthening the competitiveness and will be expanded and integrated into guidelines for PV industry promotion to maintain the completeness of domestic supply and demand chain. The output for 2020 is expected to reach NT\$ 500 billion. And the “Renewable Energy Development Act” passed by Legislative Yuan through third reading made solar energy, wind power, biomass energy and nuclear energy as prior development technology, among them, solar energy ranks first regarding the input; in order to promote renewable energy, Executive Yuan has verified and approved the adjusted targeted quantity of renewable energy in 2015 and the targeted renewable energy application amount for 2030 that is set by 2010 was lifted from 10.8 GW to 17.2 GW. The current government has focused on expanding the PV power generation as part of its plan to abandon nuclear power. In terms of targets, Taiwan aims to add 1.52GW of PV capacity between mid-2016 and mid-2018 and

ultimately achieve a cumulative capacity of 20GW in 2025. The Electricity Act Amendment successfully completes the third reading process, highlights Taiwan's determination and efforts in developing the renewable energy and achieving the energy transformation. It is also the most critical step toward Taiwan's 2025 nuclear-free homeland target. Thus, it's possible for solar industry to be next giant industry in Taiwan and Taiwan will play the most important part of the solar energy in manufacturing and technology leadership.

1.2.2 The relationships among up, middle and down streams

| Up, middle and down streams manufacturers | Upstream | Middle stream | Downstream |
|--|---|--|---|
| | Poly Silicon | Silicon Wafer | Solar Cell |
| Domestic manufactures | - | Sino-American Silicon Products Inc., Danen Technology Corporation, Green Energy Technology, Gigastorage Corp., Utech Solar, Co., Ltd. AUO | Motech Industry Corp., E-Ton Solar Tech, Gintech Energy Corp., Neo Solar Power Corp., Tainergy Tech. Co., Ltd, Ever Energy PV Corp., TSEC Corp., Ming Hwei Energy. |
| Foreign manufacturers | Hemlock Wacker OCI GCL TBEA REC Daqo Hanwha Chemical | GCL DAHAI LDK ReneSola Sornid RIETECH LONGi Zhonghuan | Jinko Solar Tongwei Solar YingLi Green Canadian Solar Inc. Trina Solar JA Solar Hanwha Q-cells |
| Number of manufacturer | 10 to 20 | About 20 to 30 (Note) | 30 to 50 |

Data source: collocated by the Company, March 2018

Note: The silicon wafer companies counted only for pure players, integrated enterprises including Jinko, Yingli and Trina are not included in.

1.2.3 Various development trends of products

The power generation costs for current solar power generation system are gradually getting closer to those for traditional energies. Only when the costs of solar power generation system keep dropping down on the conditions that the high conversion efficiency is kept can solar power generation system take place of traditional ones.

The most widely applied solar cells all over the world are crystalline and non-crystalline

silicon. Among them, crystalline silicon account for about 90% market shares and the ratio between Mono silicon and poly silicon is 3:7 changed from the past 2:8 or so. However the poly crystalline solar silicon are estimated to dominate the market in coming years due to high output, low losses during manufacturing as well as the better cost performance.

According to estimations by ITRPV, the product efficiency of mono crystalline solar silicon will be increased by 19.5% to 24% in 2018 and that of poly crystalline solar silicon is estimated to be grown to 18.5% to 22%. The technologies applied in the wafers and cells have been improved, as a result the costs are continuing to be reduced which prolonged the service life of modules to more than 30 years. The industry so far has been dedicating to developing the technologies with respect to silicon wafer quality improvements, cell efficiency betterment as well as cost reductions. Almost all the plants are adopting high-efficiency wafers to improve conversion efficiency, cut down costs expecting to motivate the growth of solar energy industry.

1.2.4 Competition situation

The solar industry of Taiwan are mainly engaging in silicon wafer and cell manufacturing and cutting a striking figure in industry chain by professional division of labor, which is different from the vertical integration of solar energy plants in industry chain of Europe and Mainland China's giant plants. The Chinese solar giants are more competitive compared with those in Europe either in water, electricity or in labor costs. So, after financial storms in 2009, the prices of overall industry chain declined and European giant plant found it hard to compete with Asian ones regarding costs, in consequence, the orders were transferred to Taiwan and Mainland China gradually. Thanks to the talents developed by semiconductors, the superiority and specialization in professional manufacturing, which brings the achievement of excellent conversion efficiency, competitiveness in terms of costs and other favorable advantages owned by Taiwan's manufacturers, the future outlooks of Taiwan's solar industry are still.

1.3 Research and Development

1.3.1 The cost for development and research, successfully developed technologies and products in recent two years and period as of the date of Annual Report publication

1.3.1.1 Costs for development and research

| Items | Years | |
|--|-----------|-----------|
| | Year 2016 | Year 2017 |
| Costs for development and research | 15,525 | 10,925 |
| Operating revenues | 1,370,986 | 948,607 |
| Ratio of R&D costs to operating revenues | 1.13% | 1.15% |

1.3.1.2 The technologies and products successfully developed

| Year | R&D achievement |
|------|---|
| 2009 | Completed the development of solar poly crystalline silicon wafers (180μm). |
| | Successfully developed domestic cutting oils for slicing. |
| | High yield rates in terms of UMG (16%) and Virgin Poly wafers. |
| 2010 | Successfully recycled the cutting oils from waste sizing and reapplied in cutting sizing. |
| | Succeeded in adjusting the angles and shapes of slicer guide wheels to further improve the slicing yield. |
| | Successfully applied the diamond wire in ingot cutting processes to further enhance the capacity of machines. |
| 2011 | Recycled cutting powder from waste cutting sizing and reapplied in the cutting sizing to reduce the wastes. |
| | Completed the assessment of next-generation crystalline growth furnace to further improve the capacity of capacity. |
| | Improved the conversion efficiency of wafers with a growth to more than 16.8%. |
| 2012 | Succeeded in developing the crystal growth manufacturing procedures of cast-mono. |
| | Promoted the wafer conversion efficiency to 17.5%. |
| 2013 | Improved the conversion efficiency rate of poly crystalline silicon wafers to 17.8%, which maintained a leading position in the industry. |
| | Reduced the silicon losses of wafers during slicing processes and enhanced the unit yield of silicon materials by 5%. |
| 2014 | Promoted the yield of ingot by 10% in unit time of the machine by transforming the growth crystal machines. |
| | Reduced the side-effects producing during the manufacturing of growth crystal by introducing new materials and further improved the wafer quality to satisfy the needs of customers with respect to conversion efficiency. |
| | Optimized the manufacturing processes of high-conversion-efficiency wafers along with the betterment of manufacturing procedures of customers' cells to further promote the average conversion efficiency rate to more than 18.6%. |
| 2015 | Reduced deficiency rate of wafer by the optimization of manufacturing procedures of growth crystals along with the betterment of manufacturing procedures of customers' cells to further promote the average conversion efficiency rate to more than 19%. |
| | Effectively reduced the deficiency rate by reforming the tools and the improvement rate reached more than 20%. |
| | Cutting down the costs for slicing manufacturing by introducing new slicing materials and the reduction rate was greater than 8%. |
| 2016 | Through wafer process optimization, we provide new generation product with 19.2% conversion efficiency, from which we can better serve customer's satisfaction. |
| | Collaborate with customer in high end PERC process, work through experiment and electrical parameter's adjustment, we have improved the efficiency by more than 0.8%. |

| | |
|------|--|
| | Through the study and evaluation for slicing material with sufficient experiments to demonstrate consistent result. Effectively cut down the manufacture cost and meet the goal of environment protection after the high ratio recycle of slicing material were introduced into slicing process, cost was effectively reduce higher than 5%. |
| 2017 | Reduced ~3% power consumption by furnace hardware retrofit in order to energy saving and carbon reduction to meet the goal of environment protection. |
| | Through casting process optimization and collaborate with customer in cell process improvement to increase multi wafer efficiency more than 19.6% to fulfill customer's requirement. |

1.3.2 Future research and development

The future research and development plans are based on the current manufacturing technologies and abilities which aim at further improving the existing products to provide better services for customers and optimizing current technologies, developing more applicable products when it comes to niche market to create opportunities in niche markets. The company will continue to develop and research the technologies for new product manufacturing procedures and relevant materials based on superb solar silicon wafer manufacturing technologies:

- 1.3.2.1 Evaluating and introducing the new slicing technology to increase the wafer output per unit, reduce production cost, and improve the wafer conversion efficiency through changing wafer surface property by new wafer surface texturing technology.
- 1.3.2.2 By thinning of the wafer slicing process and verifying by customer site to reduce silicon loss during slicing process, it could further reach the purpose of the manufacturing cost reduction and win-win solution between customers and Danen.

1.4 Long-term and short-term business development schemes

1.4.1 Short-term development schemes

1.4.1.1 To realize production and operation targets.

Strengthen the cooperation with main customers at home and abroad to satisfy the demands of them and securing the supply and demand relations.

1.4.1.2 To establish a solid market position

Take active part in searching for and establishing partnerships regarding technology development with strategic customers, rapidly import the new high-efficiency Diamond-Wiring products to enhance the market position and set up solid sales channels.

1.4.1.3 To ensure the proper supply of silicon raw materials

Continues to establish long-term partnerships with major silicon raw material suppliers, control the costs of raw materials with the aid of best combination and expect to grasp the changes of global raw material supply and demands by market positioning.

1.4.1.4 To expand the market power of high-efficiency products

Speed up the pace of developing technologies of high-efficiency products by strengthening the technical cooperation and communication to maintain the leading position of product technologies throughout the world.

1.4.2 Long-term development schemes

1.4.2.1 To deepen the production technologies of poly crystalline silicon products

Deepen the relevant core technologies of crystalline silicon wafers and input higher-level technological research and product development with more added values to look forward to being the best solar product manufacturer.

1.4.2.2 To intensify the upstream and downstream value integration

Strengthen the upstream and downstream value integration and building partnerships with first-class giant plants in terms of technologies and products at home and abroad. In addition, intensify us the product technologies and improving the popularity and influence of our products in the industry by cooperative alliance.

2. Market and Sales Overview

2.1 Market analyses

2.1.1 Sale territories of major commodities (services)

The sales territories of former products including European areas, US and Mainland China while the major market in recent two years was Taiwan and Mainland China, the sales in domestic and foreign markets were 88% and 11% respectively in 2017.

2.1.2 Market shares and the situations of future market supply & demands and growth

2.1.2.1 Market shares

The products of the company are mainly sold in the most advanced wafer markets and the market positioning is the main factors taken into consideration when it comes to sales, the market shares are expected to be increased gradually after the new Diamond-Wiring technology is enabled.

2.1.2.2 The situations of future market supply & demands and growth

According to the estimation by the research institutions, the power generation costs of PV system in most market regions globally will form competitiveness against traditional electric power in coming years and the motivation for cost reductions will be continued which will drive a

long-term flourishing development of PV industry.

As for market demands growth, according to the “Technology Forecasting Survey” by hundreds of experts issued by a research institution in US that from 2015 to 2020, 30% of global energies will be from alternative energy sources. The alternative energy, especially solar energy is expected to be the mainstream of future energy as results of continual deterioration of climate change and the corresponding practical policies, protocols and regulations stipulated by governments of all the nations and transnational organizations; more and more funds and talents investments which contribute greatly to the growth and development of alternative energies.

2.1.3 Favorable competitive advantages

2.1.3.1 The major members of R&D team within the company are equipped with the professional management experience of semiconductors’ manufacturing processes. Besides, the manufacturing procedures of semiconductors are similar to those of solar wafer and cells which are remarkably beneficial for the future product R&D and the master of applied technologies. In the meantime, most of the members in the team are talents in massive production of poly crystalline silicon wafer which will rapidly promote the development of new products and production capacity with less cost.

2.1.3.2 There are professional managers with at least twenty-year experience in manufacture and technical industry management in operation & management team within the company who are proficient in corporate operation and organization as well as marketing management.

2.1.3.3 We are dedicated to investing in advanced poly crystalline silicon wafer machines and technologies for quality betterment, which are effective in enhancing the quality of solar silicon wafers and making the costs and performance of the products more competitive.

2.1.3.4 We are focusing on mastering the supply resources of upstream silicon materials and establishing good trading and cooperative relationships with world-class silicon raw material supply companies, making sure the proper supply of silicon raw materials and effectively controlling the material costs based on changes of supply and demands.

2.1.4 The favorable or unfavorable factors for long-term development and corresponding measures

2.1.4.1 Favorable factors

2.1.4.1.1 Changeable global ecological environment and increasing environmental awareness

The temperatures are continuing to rise, global climate changing anomalously and the ice melting caused by greenhouse effects as results of human beings’ excessive exploration of natural ecological environments, substantial emission of CO₂. In response to these problems, UN has stipulated the protocols against man-made greenhouse gases emission. Furthermore, the Kyoto Protocol was signed in 1997 and took into effect in 2005. Later the Climate Treaty of

Paris was signed on December 12th, 2015 which was the treaty possessing the right to restrict the greenhouse gases reductions after Kyoto Protocol. The increase of CO₂ emissions has become the main threats for ecological environment. In order to safeguard the living environment of next generations, the carbon emission reductions should be the consensus reached by all the nations globally; and the application of solar energies is one of the important ways to effectively reduce carbon emission.

2.1.4.1.2 Subsidies from all nations cutting down the costs for system installation

The power generation costs of PV system are still higher than other traditional ones because the conversion efficiency technologies of solar cells are yet to be improved. In the early stage of industrial development, the governments have played important roles in installation cost subsidies, Germany, Japan and US are cases in point which has invested in the solar energy industry and encouraged the installation of solar system with relatively high subsidy policies in the early phase and gradually reduced the subsidies or canceled the policies after the solar systems are widely used; in addition, “Renewable Energy Development Act” stipulated by Legislative Yuan through third read in June 2009 and the targeted quantity of renewable energies of 2030 set in 2010 was 10.8 GW which was expanded into 17.2 GW in 2015 including the priority renewable items such as solar energy (8.7GW), wind power (5.2 GW) and biomass energy (0.95 GW as the target) and among them, solar energy ranked first. In 2016, the current government clearly state that the target of nuclear-free homeland will be achieved by 2025. Target the solar energy achieve a cumulative capacity of 20GW in 2025.

2.1.4.1.3 Traditional fossil energies are deficient which has driven the demands of alternative energies

The application of traditional energies tend to increase instead of decrease due to the continual development of major economies in the world, especially in the emerging countries with rapid development rate, the energy demand growth are much higher than developed countries. However the fact is that the global traditional energies i.e. petroleum, natural gases and coals will be used up one day. Take the petroleum as an example, the development of alternative energies has become a significant issue in respect to global economy as the decline of global oil storage amount. While the solar energy is the most important alternative energy that will never be used up, in consequence, it has attracted numerous investments from the countries throughout the world.

In the end of 2017 bids in a 300MW tender in Saudi Arabia breached two US cents per kwh, being record-breaking 1.78567 US cent per kwh. We believes that the day to replace the fossil fuel energy by solar energy will come true soon, as the cost of solar energy will be lower than that of fossil fuel energy, in terms of the power price of 2~3 US cent per kwh.

2.1.4.1.4 Japan's Fukushima nuclear leakage crisis showed the importance of alternative energies

The Fukushima nuclear leakage crisis caused by 3.11 earthquake in 2011 has arisen global concerns about safety of nuclear energy. The doubts about nuclear power safety have promoted all the countries to modify their policies on energies. In a long run, people will be urged to pay more attention to the safe alternative energies which is helpful for the development of solar energy, wind power and renewable energy industries.

2.1.4.2 Unfavorable factors

2.1.4.2.1 Changes in policies of alternative energies in all the countries

Restricted by the influence of economic environment or subsidy policies of all governments, the early industry development is easy to run into imbalance situation between supply and demands. For example, since the end of 2008, the subsidy policies for solar energy was restricted and shrunken in main markets, namely European areas and US due to the negative impacts of financial storms which has dampened the needs of terminal solar system installation. In addition, the government of Mainland China has provided potent political supports after the 12th Five Year Plan, which has resulted in considerable supply, constant falling market prices and further the significant changes in supply and demands.

Corresponding measures:

The company has known for high-quality and competitive products since founded and the constant increase of conversion efficiency, drop of manufacturing costs have made the prices and quality of poly crystalline silicon wafers of the company more competitive in the market. In addition, we are mastering the industrial trends at home and abroad at any time and making best responses such as adjustment of sales strategies, capacity application and high-level flexibility according to market changes. With the continuous decline of solar power generation and the price rise of electricity generated by traditional energies, the solar power generation costs are approaching the traditional ones which will reduce the industrial reliance on political supports gradually.

2.1.4.2.2 Price dumping from Mainland China's enterprises

Due to strong supports from Mainland China governments, the manufacturers are sprung up and expanding the productions in succession. With the supported funds, manpower and political subsidies from all level of governments, the enterprises of Mainland China are seizing the markets with low-price tactics. In spite of the notorious quality, it has really put burden on the manufacturers European countries, US and Taiwan.

Corresponding measures:

The Company is dedicated to producing high quality and performance products and focusing on

advanced markets that are different from the markets with low-price silicon wafers in Mainland China. Furthermore, we took active participation in R&D in recent years and we have made some progresses in material reduction and recycled technologies. In consequence, the manufacturing cost control could be varied from the changes of market price, all of which made The Company competitive compared with the rivals in Mainland China.

2.1.4.2.3 The emergence of other alternative energies

Crystalline solar wafers are the mainstream products at present with 90% market shares. While, thanks to the large size feature, the tendency of cost decline of thin-film solar cells, excellent scratch prevention and light transmission, they can be combined with buildings and play a special role. Nevertheless, the development potential of it is restricted due to lower conversion efficiency compared to other crystalline cells and it can be well developed unless the conversion efficiency and the product yield are improved.

Corresponding measures:

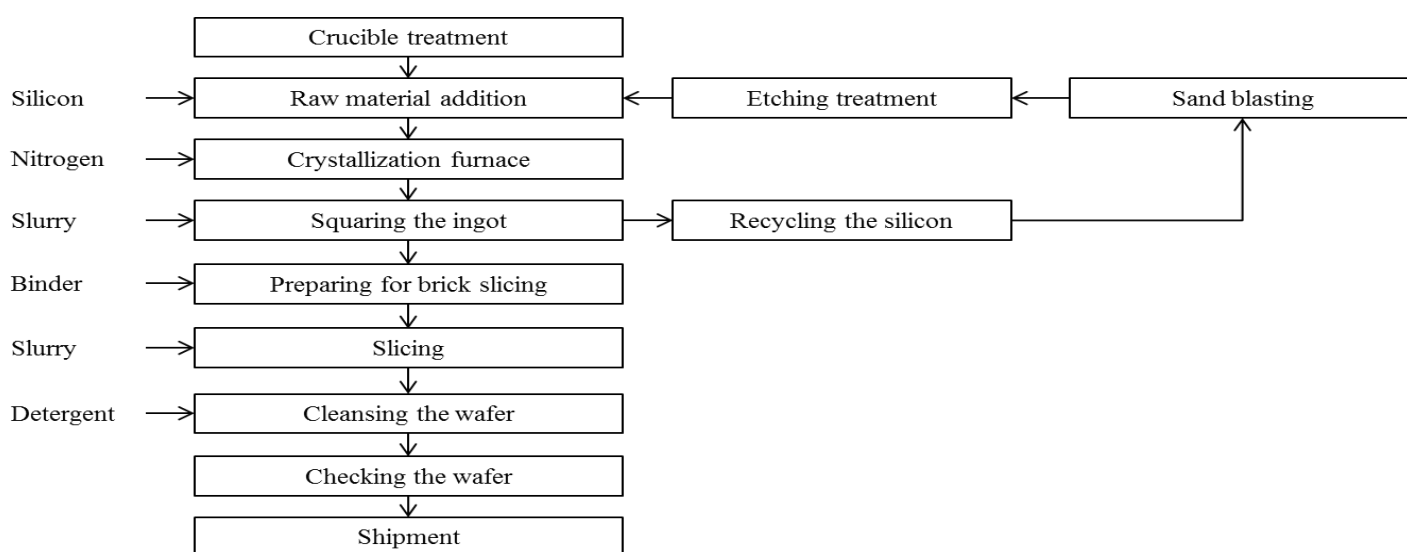
We are looking forward to being first-class solar energy technical resolution provider and exploring other technical development of alternative resources in different directions and the possibility of different energy alternatives as the technical revolutions.

2. 2 The important uses and manufacturing procedures of main products

2.2.1 The application of main products:

| Product | Application |
|--------------------------|-------------------------------|
| Solar poly silicon wafer | Solar cells, solar PV modules |

2.2.2 Manufacturing process:



2.2.3 Supply Status of Main Materials

| Major Raw Materials | Source of Supply | Supply Situation |
|---------------------|----------------------|------------------|
| Silicon | Hemlock, OCI and REC | Good |

2.2.4 Main customer list of purchases and sales

2.2.4.1 Major Suppliers in the Last Two Calendar Years

Unit: NT\$ thousands; %

| Items | 2016 | | | | 2017 | | | | 2018 (As of March 31) | | | |
|-------|---------------------|---------|---------|----------------------|---------------------|---------|---------|----------------------|-----------------------|---------|---------|----------------------|
| | Company Name | Amount | Percent | Relation with Issuer | Company Name | Amount | Percent | Relation with Issuer | Company Name | Amount | Percent | Relation with Issuer |
| 1 | Supplier A | 322,498 | 37.96 | None | Supplier A | 354,057 | 49.77 | None | Supplier A | 157,239 | 56.94 | None |
| - | Others | 527,088 | 62.04 | None | Others | 357,297 | 50.23 | None | Others | 118,915 | 43.06 | None |
| - | Net purchase amount | 849,586 | 100.00 | - | Net purchase amount | 711,354 | 100.00 | - | Net purchase amount | 276,154 | 100.00 | - |

Note: Major suppliers refer to those commanding 10%-plus share of annual order volume.

The changes of suppliers of The Company in recent two years and a period as of Financial Statement Date are mainly based on the changes of silicon supply resources dispersion to reduce the operational risks and the impacts of customers' order demands.

2.2.4.2 Major Clients in the Last Two Calendar Years

Unit: NT\$ thousands; %

| Items | 2016 | | | | 2017 | | | | 2018 (As of March 31) | | | |
|-------|--------------|-----------|---------|----------------------|--------------|---------|---------|----------------------|-----------------------|---------|---------|----------------------|
| | Company Name | Amount | Percent | Relation with Issuer | Company Name | Amount | Percent | Relation with Issuer | Company Name | Amount | Percent | Relation with Issuer |
| 1 | Company D | 415,273 | 30.29 | None | Company A | 175,896 | 18.54 | None | Company E | 183,492 | 70.33 | None |
| 2 | Company A | 246,606 | 17.99 | None | Company B | 172,058 | 18.14 | None | - | - | - | - |
| 3 | Company C | 237,299 | 17.31 | None | Company C | 149,550 | 15.77 | None | - | - | - | - |
| 4 | - | - | - | - | Company D | 125,995 | 13.28 | None | - | - | - | - |
| 5 | - | - | - | - | Company E | 108,927 | 11.48 | None | - | - | - | - |
| 6 | Others | 471,808 | 34.41 | None | Others | 216,181 | 22.79 | None | Others | 77,416 | 29.67 | None |
| - | Net Sales | 1,370,986 | 100.00 | - | Net Sales | 948,607 | 100.00 | - | Net Sales | 260,908 | 100.00 | - |

The changes of suppliers of the company in recent two years and a period as of the Financial Statement Date are mainly including the corporate changes vary with the industrial trends resulted from customer purchasing strategies and business performances as well as corresponding sales strategy adjustments.

2.2.5 Production in the Last Two Years

Unit: thousand pieces; NT\$ thousands

| Output | Year | 2016 | | | 2017 | | |
|---------------------------------------|------|----------|----------|-----------|----------|----------|---------|
| | | Capacity | Quantity | Amount | Capacity | Quantity | Amount |
| Major products | | | | | | | |
| Poly crystalline silicon solar wafers | | 78,080 | 50,981 | 1,475,484 | 78,080 | 37,820 | 876,106 |
| Others | | - | - | - | - | - | 57,469 |
| Total | | 78,080 | 50,981 | 1,475,484 | 78,080 | 37,820 | 933,575 |

2.2.6 Shipments and Sales in the Last Two Years

Unit: thousand pieces; NT\$ thousand; MT

| Shipment & Sales | Year | 2016 | | | | 2017 | | | |
|---------------------------------------|------|----------|-----------|----------|---------|----------|---------|----------|--------|
| | | Local | | Export | | Local | | Export | |
| | | Quantity | Amount | Quantity | Amount | Quantity | Amount | Quantity | Amount |
| Major products | | | | | | | | | |
| Poly crystalline silicon solar wafers | | 47,133 | 1,212,694 | 3,740 | 115,980 | 38,753 | 763,768 | 0 | 0 |
| Others | | 52 | 27,154 | 27 | 15,158 | 226 | 120,840 | 120 | 63,999 |
| In total | | - | 1,239,848 | - | 131,138 | - | 884,608 | - | 63,999 |

3. Human Resources

Unit: Person

| Year | | 2016 | 2017 | March 31 th , 2018 |
|-----------------------------------|-----------------------|--------------|--------------|-------------------------------|
| Number of employees | Managers | 26 | 25 | 25 |
| | Common employees | 68 | 51 | 52 |
| | Manufacturing workers | 184 | 92 | 81 |
| | In total | 278 | 168 | 158 |
| Average ages (years old) | | 32 years old | 36 years old | 36 years old |
| Average service seniority (years) | | 4.36 years | 6.33 years | 6.43 years |
| Education | Ph.D. | 1% | 1% | 1% |
| | Master | 13% | 15% | 15% |
| | University | 46% | 58% | 61% |
| | Junior college | 12% | 11% | 11% |
| | High school | 28% | 15% | 12% |

Note: The managers here refer to section managers and above in the company.

4. Environmental Protection Expenditure

4.1 Total Losses and Penalties: None.

4.2 Countermeasures:

There was no environment pollution produced since the company started and the periods as of the date of Annual Report publication. So far, the waste water and gases produced during production and manufacture have been well treated by pollution-prevention equipment before being discharged and the industrial wastes are commissioned to the treatment agencies ratified by competent authorities.

5. Labor Relations

5.1 All kinds of employee welfare benefits, further education, training, retirement system and actual executions as well as the execution of employers-employees agreements and maintenance of employees' rights and interests

5.1.1 Employee welfare benefits

5.1.1.1 The company provides National Health Insurance, labor insurance, setting aside pension reserve, overdue wages repayment funds as well as providing accident insurance.

5.1.1.2 The employees join Employee Welfare Committee according to Employee Welfare Fund Act. The Committee is responsible for handling with employee welfare affairs and setting aside bonuses according to the percentages of initial capital fund, monthly operating revenues, employees' salaries and revenues from selling off leftovers based on the regulations.

5.1.1.3 In addition, the employees within company enjoy the additional group insurances of Life Insurance Agency bought by the company including life insurance, accident insurance and cancer & medical insurance.

5.1.1.4 The new employees enjoy the holidays more than the ones regulated by the calendar of government agencies once they are working in the company.

5.1.1.5 We hold birthday parties, department dinner parties on a regular basis and the employee activities irregularly to unite the employees' emotions, liven up the harmony and perk up the morale.

5.1.1.6 The employees will be distributed with bonuses annually according to Articles of Corporation if there are surpluses.

5.1.2 Employees' further study and training

Once the new employees are in office they will be provided with professional and technical training based on different functions and business requirements to strengthen their functions and effectively improve the corporate performance and competitiveness. Furthermore, we enhance employees' professional knowledge by holding professional courses, technical seminars and other activities; besides, the online courses are provided to launch comprehensive and systematic educational plans which are beneficial for improving the individual abilities and work quality.

The training plans of Danen Technology Corp. are as follows:

5.1.2.1 Training for new employees: including two phases, i.e. basic information introductions for newcomers, fundamental occupational training which is contributing to their perception and

grasping of corporate philosophy and cultures; by individual guidance, online learnings and tests can help employee catch the occupational skills rapidly.

5.1.2.2 Enhancement of professional skills: As for the professional competency of different functions we have conducted internal training along with the combination with external academic seminars, the professional courses offered by consultant companies and other channels to improve employees' knowledge and skills.

5.1.2.3 Training for management skills: in order to cultivate the management abilities of managers, we have planned a series of applicable training courses for managers of all levels, including: management practices, corporate operation and management, leadership and other training and referred to the external managerial trends to lead the team to realize the goals set by organization.

5.1.2.4 Training subsidies: in order to meet different functional needs of employees, intensify the professional competency of them, we have provided employees with subsidies for external training courses to improve the competitiveness of the organization.

5.1.2.5 Self-development: We have self-developed the educational training system and the E-learning and practical course's engagement available for employees, with which they can learn some knowledge irrelevant to the work to improve themselves and achieve in-depth learning outcomes.

The execution results of educational courses in 2017 can be seen as below:

| Types of courses | Number of class | Gross impression | Total hours | Total expenses(NT\$) |
|----------------------------|------------------------|-------------------------|--------------------|-----------------------------|
| Training for new employees | 7 | 9 | 45 | 196,300 |
| General training | 8 | 101 | 152 | |
| Professional training | 99 | 529 | 656 | |
| Managerial abilities | 7 | 84 | 84 | |
| Self-development | 35 | 58 | 574 | |
| In total | 156 | 781 | 1,511 | |

5.1.3 Retirement system and execution results

According to Labor Standards Law, we allocate 6% of monthly salaries of employees as pension, which is in line with the provisions of relevant regulations.

5.1.4 The conditions of employers-employees agreement

We have been focusing on human-based management and adhering to the philosophy of sharing weal and woe together with employees. In consequence, with respect to communication of employers-employees problems we have always adopted flexible and multi-faceted measures which have maintained a good employers-employees relationship.

5.1.5 Supporting measures for all kinds of employees' rights and interests

The Company has stipulated comprehensive regulations and systems which clearly state all the managerial policies, employees' rights and obligations as well as welfare items. In addition, we

conduct regular reviews on the welfare items to protect the rights and interests of the employees.

5.2 The losses incurred from labor disputes in recent years and the periods as of the date of Annual Report publication; the disclosure of estimated amounts involved in the labor disputes at present and in the future as well as the corresponding measures, the reasons should be demonstrated if the amount cannot be reasonably estimated: None.

6. Important Contracts

| Contract character | Parties involved | The beginning and ending dates of the contract | Main contents | Restricted terms |
|----------------------|--------------------------------------|--|--|--|
| Lease Contract | Pan-Asia Technology (shares) Company | 2008.02.15~2023.06.30 | Factory land lease | None |
| Lease Contract | Pan-Asia Technology (shares) Company | 2010.01.20~2025.06.30 | Factory land lease | None |
| Lease Contract | Pan-Asia Technology (shares) Company | 2010.12.27~2026.05.31 | Factory land lease | None |
| Engineering contract | Apex Science & Engineering Corp. | 2011.01.10~date of project acceptance | Civil engineering construction projects and project of general air conditioning and electrical system of Fab 3 | None |
| Supply contract | OCI Company Ltd. | 2011.03.15~2023.12.31 | Purchasing contract of raw materials of poly crystalline silicon | The total purchasing amount of 2023 will reach 128,800,000 USD |

VI. Financial overview

1. Five-year financial statement summary

1.1 Condensed Balance sheet-- Based on IFRS

Unit: NT\$ thousands

| Items | | Financial data of prior five years (Note 1) | | | | | Financial data of current year as of March 31 th , 2018 (Note 2) |
|--|---------------------|---|-----------|-----------|-----------|-----------------------|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Current assets | | 862,605 | 1,369,168 | 1,246,962 | 1,132,731 | 914,279 | 773,301 |
| Real estate, factories and equipment | | 3,960,322 | 3,602,486 | 3,241,820 | 2,711,662 | 2,171,589 | 2,045,073 |
| Intangible assets | | 0 | 0 | 0 | 0 | 0 | 0 |
| Other assets | | 1,077,524 | 555,133 | 347,760 | 68,774 | 176,564 | 190,638 |
| Total assets | | 5,900,451 | 5,526,787 | 4,836,542 | 3,913,167 | 3,262,432 | 3,009,012 |
| Current liabilities | Before distribution | 985,605 | 390,589 | 367,507 | 192,748 | 275,141 | 200,347 |
| | After distribution | 985,605 | 390,589 | 367,507 | 192,748 | Yet to be distributed | Yet to be distributed |
| Non-current liabilities | | 646,501 | 128,070 | 62,705 | 47,733 | 5,355 | 5,418 |
| Total liabilities | Before distribution | 1,632,106 | 518,659 | 430,212 | 240,481 | 280,496 | 205,765 |
| | After distribution | 1,632,106 | 518,659 | 430,212 | 240,481 | Yet to be distributed | Yet to be distributed |
| Equity attributable to parent company owners | | 4,268,345 | 5,008,128 | 4,406,330 | 3,672,686 | 2,981,936 | 2,803,247 |
| Capital stock | | 2,648,233 | 3,496,758 | 3,496,268 | 3,496,268 | 3,496,268 | 3,496,268 |
| Capital reserves | | 2,253,805 | 2,050,412 | 1,513,900 | 910,062 | 176,418 | 176,418 |
| Retained earnings | Before distribution | (624,731) | (537,100) | (603,838) | (733,644) | (690,750) | (869,439) |
| | After distribution | (624,731) | (537,100) | (603,838) | (733,644) | Yet to be distributed | Yet to be distributed |
| Other equity | | (8,962) | (1,942) | 0 | 0 | 0 | 0 |
| Treasury stock | | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-controlling interests | | 0 | 0 | 0 | 0 | 0 | 0 |
| Total equity | Before distribution | 4,268,345 | 5,008,128 | 4,406,330 | 3,672,686 | 2,981,936 | 2,803,247 |
| | After distribution | 4,268,345 | 5,008,128 | 4,406,330 | 3,672,686 | Yet to be distributed | Yet to be distributed |

Note 1: The financial data of prior five year have been audited and verified by accountant.

Note 2: Checked and approved by accountants.

1.2 Consolidated Condensed Statement of Comprehensive Income – Based on IFRS

Unit: NT\$ thousands

| Items \ Years | Financial data of prior five years (Note 1) | | | | | Financial data of current year as of March 31 th , 2018 (Note 2) |
|---|---|-----------|-----------|-----------|-----------|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Operating revenue | 1,011,473 | 1,853,771 | 1,575,121 | 1,370,986 | 948,607 | 260,908 |
| Gross profit | (584,261) | (398,002) | (454,774) | (455,687) | (621,200) | (168,598) |
| Income from operations | (667,125) | (484,143) | (532,787) | (534,127) | (688,071) | (182,439) |
| Non-operating Income and expense | (73,079) | 4,579 | 7,936 | 4,416 | (1,376) | 1,721 |
| Income before tax | (740,204) | (479,564) | (524,851) | (529,711) | (689,447) | (180,718) |
| Continuing operating net profits for current period | (624,268) | (537,100) | (603,838) | (733,644) | (690,750) | (178,689) |
| Discontinued operating losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit (loss) for current period | (624,268) | (537,100) | (603,838) | (733,644) | (690,750) | (178,689) |
| Other consolidated profits or losses for current period (net amount after tax) | (211) | 0 | 0 | 0 | 0 | 0 |
| Total consolidated profits or losses for current period | (624,479) | (537,100) | (603,838) | (733,644) | (690,750) | (178,689) |
| Net profits are attributable to parent company owners | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profits are attributable to non-controlling equity | 0 | 0 | 0 | 0 | 0 | 0 |
| Total consolidated profits or losses are attributable to parent company owners | 0 | 0 | 0 | 0 | 0 | 0 |
| Total consolidated profits or losses are attributable to non-controlling equity | 0 | 0 | 0 | 0 | 0 | 0 |
| Earnings per share | (2.41) | (1.55) | (1.73) | (2.10) | (1.98) | (0.51) |

Note 1: The financial data of prior five year have been audited and verified by accountant.

Note 2: Checked and approved by accountants.

1.3 Names and auditing opinions of CPA in recent five years

1.3.1 Names and auditing opinions of CPA in recent five years

| Years | CPA | Name of accounting firm | Auditing opinion |
|-------|--------------------------------|-------------------------|-------------------------------|
| 2013 | La, Cung-Hsih , Lin, Chun-Yao | PwC Taiwan | Clean opinion after amendment |
| 2014 | Lee, Hsiu-Ling , Lin, Chun-Yao | PwC Taiwan | Clean opinion after amendment |
| 2015 | Lee, Hsiu-Ling , Lin, Chun-Yao | PwC Taiwan | Clean opinion |
| 2016 | Lee, Hsiu-Ling , Zhi, Bing-Jun | PwC Taiwan | Clean opinion |
| 2017 | Lee, Hsiu-Ling , Zhi, Bing-Jun | PwC Taiwan | Clean opinion |

1.3.2 If the accountants have been changed in recent five years, the reasons for changing provided by the company, former accountant and successor should be noted: None.

2. Five-year financial status analysis

2.1 Consolidated Financial Analysis – Based on IFRS

| Item (Note 4) | | Year | Financial data of prior five years (Note 1) | | | | | Financial data of current year as of March 31 th , 2018 (Note 2) |
|-------------------------|---|---------|---|---------|---------|---------|---------|---|
| | | | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Financial structure (%) | Debt Ratio | | 27.66 | 9.38 | 8.90 | 6.15 | 8.60 | 6.84 |
| | Ratio of long-term capital to property, plant and equipment | | 124.10 | 142.57 | 137.86 | 137.20 | 137.56 | 137.34 |
| Solvency (%) | Current ratio | | 87.52 | 350.54 | 339.30 | 587.67 | 332.29 | 385.98 |
| | Quick ratio | | 71.70 | 296.80 | 289.42 | 492.74 | 275.97 | 294.87 |
| | Interest earned ratio (times) | (Note3) | (Note3) | (Note3) | (Note3) | (Note3) | (Note3) | (Note3) |
| Operating performance | Accounts receivable turnover (times) | | 13.03 | 11.39 | 9.04 | 12.17 | 15.54 | 18.49 |
| | Average collection period | | 28 | 32 | 40 | 30 | 23 | 20 |
| | Inventory turnover (times) | | 15.91 | 14.69 | 11.21 | 11.83 | 12.56 | 13.76 |
| | Accounts payable turnover (times) | | 23 | 25 | 33 | 31 | 30 | 28 |
| | Average days in sales | | 23.25 | 14.65 | 10.50 | 13.08 | 12.64 | 13.01 |
| | Property, plant and equipment turnover (times) | | 0.24 | 0.51 | 0.49 | 0.51 | 0.44 | 0.51 |
| | Total assets turnover (times) | | 0.16 | 0.32 | 0.30 | 0.31 | 0.26 | 0.33 |
| Profitability | Return on total assets (%) | | (9.56) | (9.12) | (11.59) | (16.74) | (19.21) | (5.69) |
| | Return on stockholders' equity (%) | | (15.10) | (11.58) | (12.83) | (18.16) | (20.76) | (6.18) |
| | Pre-tax income to paid-in capital (%) | | (27.95) | (13.71) | (15.01) | (15.15) | (19.72) | (5.17) |
| | Profit ratio (%) | | (61.72) | (28.97) | (38.34) | (53.51) | (72.82) | (68.49) |
| | Earnings per share (NT\$) | | (2.41) | (1.55) | (1.73) | (2.10) | (1.98) | (0.51) |
| Cash flow | Cash flow ratio (%) | (Note3) | | 4.95 | 24.78 | 23.09 | 4.07 | (Note3) |
| | Cash flow adequacy ratio (%) | | 14.07 | 15.05 | 3.35 | 12.99 | 25.03 | 41.44 |
| | Cash reinvestment ratio (%) | (Note3) | | 0.27 | 1.27 | 0.64 | 0.17 | (Note3) |
| Leverage | Operating leverage | | 0.20 | (0.17) | (0.05) | (0.07) | 0.18 | 0.25 |
| | Financial leverage | | 0.94 | 0.96 | 0.99 | 1.00 | 1.00 | 1.00 |

Note 1: The financial data of prior five year have been audited and verified by accountant.

Note 2: Checked and approved by accountants.

Note 3: Non-applicable because the correlation ratio is negative.

Note 4: Calculation formula of financial ratio can be seen below:

2.1.1 Financial structure

2.1.1.1 Debt Ratio=total debts/total assets.

2.1.1.2 Ratio of long-term capital to property, plant and equipment =(total equity + non-current liabilities)/net value of real estate/factories/equipment.

2.1.2 Solvency

2.1.2.1 Current ratio =current assets/current liabilities.

2.1.2.2 Quick ratio=(current assets-inventory-prepayments)/current liabilities.

2.1.2.3 Interest earned ratio =net profits of income tax and interest expenses before tax/interests Expenses for current period.

2.1.3 Operating performance

2.1.3.1 Accounts receivable (including accounts receivable and notes receivable for business) turnover=net sales revenues/average accounts receivable balances for all periods (including accounts receivable and notes receivable for business).

2.1.3.2 Average collection period =365/receivables turnover.

2.1.3.3 Inventory turnover=goods sale costs/average inventory amount.

2.1.3.4 Accounts payable (including accounts payable and notes payable for business)turnover=sales expenses/average accounts payable balances for all periods (including accounts payable and notes payable for business).

2.1.3.5 Average days in sales =365/ inventory turnover.

2.1.3.6 Real estate, factories and equipment turnovers=net sales revenues/net average revenues of real estate, factories and equipment.

2.1.3.7 Total assets turnover=net sales revenues/total average assets.

2.1.4 Profitability

2.1.4.1 Return on total assets =[profit or loss after tax+ interest expends \times (1- tax ratio)]/total average assets.

2.1.4.2 Return on stockholders' equity =profit or loss after tax/net average equity.

2.1.4.3 Profit ratio=profit or loss after tax/net sales revenues.

2.1.4.4 Earnings per share =(profit or loss attributable to parent company owners-dividends of common stocks)/weighted average number of shares issued. (Note 4)

2.1.5 Cash flow

2.1.5.1 Cash flow ratio=net cash flow for business activities/current liabilities.

2.1.5.2 Cash flow adequacy ratio = net cash flow for business activities in recent five years/(capital expenses + cash dividends) in recent five years.

2.1.5.3 Cash reinvestment ratio =(net cash flow for business activities-cash dividends)/(gross amount of real estate, factories and equipment + long-term investments + other non-current assets + operating capital).

2.1.6 Leverage

2.1.6.1 Operating leverage= (net operating revenues - changes in operating expenses and costs)/operating profits.

2.1.6.2 Financial leverage =operating profits/(operating profits - interest expenses).

2.2 Causes of change in financial ratio

2.2.1 Financial structure:

The debt ratio went up because of the Book value of fixed assets fell down after yearly depreciation.

2.2.2 Solvency:

The Current ratio and quick ratio went up due to prepayments for part of short-term bank loans in 2016.

2.2.3 Operating performance:

The closing receivables and inventories of 2017 reached NT\$ 51 million and NT\$ 112 million with 29% and 19% drop respectively compared with the year before. The overall management index was steady thanks to the constant inflow of net operating cash.

2.2.4 Profitability:

The profitability of 2017 dropped down compared with the prior year as a result of sluggish growth momentum of solar energy in second half year as well the decline of overall supply chain prices.

2.2.5 Cash flow:

The decreases of cash flow operation activities, cash flow ratio and cash reinvestment ratio in year 2017 compared with year 2016 were majorly caused from the influence of product price decline in the year. The cash flow adequacy ratio in year 2017 has increased due to the reduction in capital expenditure.

2.2.6 Leverage:

The increases in operation leverage in year 2017 compared with year 2016 were majorly due to the influence of product price decline in year 2017. The company take selective order business mode to control loss.

3. Audit committee reports for recent year

Please refer to P96 of this Annual Report.

4. Financial Report of recent year

Please refer to P96-P152 of this Annual Report.

5. Financial Report verified by accountants in recent year:

None

6. The impact to company financial condition if any financial turnover troubles within the company or subsidiary up to the date of annual report publication

We did not have related parties and there were no financial flow difficulties in the company, either in 2017 and a period as of the date of Annual Report publication.

VII. Review of Financial Conditions, Financial Performance, and risk assessment

1. Financial status

Comparison Statement of Financial Status

Unit: NT\$ thousands

| Item \ Year | 2016 | 2015 | Difference | |
|--|------------------|------------------|------------------|-------------|
| | | | Amounts | % |
| Current assets | 914,279 | 1,132,731 | (218,452) | -19% |
| Financial Assets Carried at Cost - Non Current | 155,000 | 0 | 155,000 | 100% |
| Fixed assets | 2,171,589 | 2,711,662 | (540,073) | -20% |
| Other assets | 21,564 | 68,774 | (47,210) | -69% |
| Total assets | 3,262,432 | 3,913,167 | (650,735) | -17% |
| Current liabilities | 275,141 | 192,748 | 82,393 | -43% |
| Long-term liabilities | 0 | 42,917 | (42,917) | -100% |
| Other liabilities | 5,355 | 4,816 | 539 | 11% |
| Total debts | 280,496 | 240,481 | 40,015 | -17% |
| Capital stock | 3,496,268 | 3,496,268 | 0 | 0% |
| Additional paid-in capital | 176,418 | 910,062 | (733,644) | -81% |
| Retained earnings | (690,750) | (733,644) | 42,894 | 6% |
| Other equity | 0 | 0 | 0 | 0% |
| Total equity | 2,981,936 | 3,672,686 | (690,750) | -19% |

Statement of changes in percentage increments and decrements:

- (1) Financial Assets Carried at Cost - Non Current : the Investment of Biochip and System solution company
- (2) Fixed assets: The book value of fixed assets declined as the depreciation made year by year.
- (3) Other assets: They dropped down mainly because of the decline of prepayments for machines and income tax prepaid for estimated deferred tax assets.
- (4) Long-term liabilities: The decline of long-term debt was a result of prepayments for part of medium and long-term bank loans.
- (5) Additional paid-in capital: The additional paid-in capital dropped down as a result of compensation made for off-setting the losses of 2016.
- (6) Retained earnings: The fall of retained earnings was mainly due to losses of 2017.

2. Financial performance

2.1 Comparison of financial performance

Comparison Statement of Financial Performance

Unit: NT\$ thousands

| Items \ Years | 2017 | 2016 | Increments and decrements in amount | Variable ratio (%) |
|--|-----------|-----------|-------------------------------------|--------------------|
| Operating revenues | 948,607 | 1,370,986 | (422,379) | -31% |
| Operating costs | 1,569,807 | 1,826,673 | (256,866) | -14% |
| Gross profits | (621,200) | (455,687) | (165,513) | -36% |
| Operating expenses | 66,871 | 78,440 | (11,569) | -15% |
| Operating profit and loss | (688,071) | (534,127) | (153,944) | -29% |
| Profit or loss before tax for current period | (689,447) | (529,711) | (159,736) | -30% |
| Income tax (expenses) profits | (1,303) | (203,933) | 202,630 | 99% |
| Profit or loss after tax for current period | (690,750) | (733,644) | 42,894 | 6% |

Statement of changes in percentage increments and decrements:

- (1) Operating revenues: The operating revenues of 2017 declined as a result of sluggish growth momentum of solar energy multi-crystal products in second half year as well the decline of overall supply chain prices.
- (2) Operating expenses: The operating expenses of 2017 dropped as the constant reductions of raw materials and manufacturing expenses.
- (3) Income tax (expenses) profits: Part of deferred tax assets will be transferred into income tax expenses of 2016 based on the result of estimated deferred tax assets in 2016.

2.2 Estimated sales volume and bases

Unit: MT

| Product type | Estimated sales volume |
|--|------------------------|
| Multi c-Si Solar Products (including wafer) | 2,200 |

The estimated sales volume of 2018 is based on the market demands and development trends, customer operating situations, estimated ordering as well as industrial status which based on the market demands and development tendency data announced by authorities.

2.3 The potential impacts on corporate future finance and corresponding measures

If the price falls and profitability declines that ultimately cause losses due to failing to grasp the industrial needs, we will improve the product competitiveness by controlling costs and expenses

and improving product quality and productive efficiency to reduce the negative effects the market exerting on the finance and business.

3. Cash flow

3.1 Analysis of changes in cash flow of recent years

| Items | Years | 2017 | 2016 | Percentages of increments and decrements |
|--------------------------|-----------------|--------|--------|--|
| | Cash flow ratio | | 4.07% | 23.09% |
| Cash flow adequacy ratio | | 25.03% | 12.99% | 92.69% |
| Cash re-investment ratio | | 0.17% | 0.64% | -73.44% |

Cash flow ratio: The decreases of cash flow operation activities and cash flow ratio in year 2017 compared with year 2016 were majorly caused from the sluggish growth momentum of solar energy multi-crystal products in second half year as well the decline of overall supply chain prices.

Cash flow adequacy ratio: The cash flow adequacy ratio in year 2017 has increased due to the reduction in capital expenditure.

Cash re-investment ratio: The decreases of cash reinvestment ratio in year 2017 compared with year 2016 were majorly caused from sluggish growth momentum of solar energy multi-crystal products in second half year as well the decline of overall supply chain prices.

3.2 Improvement policies for liquidity shortage: None.

3.3 Analysis of cash liquidity of coming year

Unit: NT\$ thousands

| Cash and Cash Equivalents, Beginning of Year | Net Cash Flow from Operating Activities | Cash Outflow | Cash Surplus (Deficit) | Leverage of Cash Deficit | |
|--|---|--------------|------------------------|--------------------------|-----------------|
| | | | | Investment Plans | Financing plans |
| 705,268 | (48,489) | (29,186) | 627,593 | — | — |

Analysis of changes in cash flow:

(1) Analysis of cash liquidity of coming year

- a. Business activities: The cash outflow of business activities of 2018 is estimated to be NT\$ 48,489 thousand according to market demands and development trends, customer operating statuses, estimated ordering and overall expenses and costs.
- b. Investment activities: The relevant investment expenses of 2018 are estimated to be NT\$ 66,269 according to overall operating plans.
- c. Financing activities: The financing expenses of 2018 are expected to be NT\$ 37,083 according to overall operating plans.

(2) The remedial measures for estimated cash deficits and analysis of liquidity: None.

4. The impacts of major capital spending on business in recent fiscal year

4.1 Major capital spending in recent fiscal years: None.

4.2 The impacts on finance and business: None.

5. Reinvestment policies, main reasons for profits and losses, improvement plans and investment plans of coming year

5.1 Re-investment policies, main reasons for profits and losses, improvement plans in recent years: None.

5.2 Investment plans of coming year

The capital investment plan of equipment modification Case was passed by the Board of Directors on March 13th, 2018.

6. Analysis of risk factors and assessments

6.1 The impacts of interest rate, changes in exchange rate and inflation on corporate loss and profit and corresponding measures in the future

6.1.1 Changes in interest rates

6.1.1.1 The impacts on corporate loss and profit

The interest expenses and revenues of 2017 were NT\$1,799 and NT\$4,620 thousand respectively and the ratios of them to net operating revenues were 0.19% and 0.49% respectively. The impacts the interest ratio changes exerting on the corporate loss and profit proved to be limited.

6.1.1.2 Corresponding measures in the future

We conduct regular assessment on bank loan interest rate and keep good relations with banks to gain preferential interest rates to reduce interest expenses.

6.1.2 Changes in exchange rates

6.1.2.1 Impacts on corporate loss and profit

The foreign exchange loss of 2017 reached NT\$ 7,710 thousand, which accounted for 0.81% of net operating profits and the impacts the interest rate changes exerting on the corporate loss and profit proved to be limited.

6.1.2.2 Corresponding measures in the future

The foreign currency was mainly applied when we proceed purchases and sales. In order to effectively reduce the effects the interest rate changes playing on operating revenues and profits, we continue to observe the overall economic impacts on interest rate to take necessary hedging measures apart from moderately reserving the foreign currency position of sales revenues to cover the foreign procurement spending and further realize the function of natural hedging. If the

interest rates change remarkably, we will adjust the transaction values in a moderate manner to relieve the effects of the exchange rate fluctuation playing on the corporate revenues and profits.

6.1.3 Inflation

6.1.3.1 Impacts on corporate loss and profit

We have maintained good partnerships with suppliers and customers and paid attention to price fluctuation of raw materials in the market at any time, thus, the inflation has not yet played significant effects on corporate loss and profit.

6.1.3.2 Corresponding measures in the future

By now there are no immediate impacts of inflation on the company and in order to reduce the risks of inflation on corporate operation we have paid numerous attentions to the changes of raw material prices.

6.2 Main reasons of policies, profit or loss and corresponding measures for high-risk, high-leveraged investments, loans to others, endorsement and derivatives transactions.

6.2.1 The Company is dedicated to our own business without engaging in high-risk or high-leveraged investments.

6.2.2 We were not involved in lending to others and proceeding endorsement and derivatives transactions in recent years. And if it's necessary for us to conduct above mentioned affairs because of business needs or risk hedging, we will handle with them according to corporate "Operational Procedures for Lending Loans to Others", "Operational Procedures for Endorsement", "Management Procedures for Assets Acquisition or Assets Disposal" and announce the relevant information correctly according to regulations.

6.3 Future R&D plans and estimated costs for these plans

6.3.1 Future R&D plans

| Planned projects | Description of contents |
|---|--|
| New generation of slicing technology | Evaluating and introducing the new slicing technology to increase the wafer output per unit and reduce production cost. And improve the conversion efficiency through changing the surface properties of wafers by new wafer surface texturing technology. |
| Si loss reduction during slicing process optimization | By thinning of the wafer slicing process and verifying by customer site to reduce silicon loss during slicing process, it could further reach the purpose of the manufacturing cost reduction and win-win solution between customers and Danen |

6.3.2 Estimated R&D expenses

The R&D ability is a key competitive factor for company in the future, the R&D costs in 2016 and 2017 were accounting for 1.13% and 1.15% of operating revenues respectively. And we are consistently focusing on the missions as a technical enterprise and going to invest certain amount of costs for developing new products, cultivating R&D talents, continually improving product competitiveness. The R&D expenses of 2018 are estimated to be NT\$ 15,272 thousand dollars.

6.4 The impacts of important policies and legal transference at home and abroad exerting on corporate finance and business as well as corresponding measures

The industry we specializing in is green energy industry with low pollution which is encouraged by most countries without being restricted by special laws and decrees but supported by incentive policies which is contributing to the prosperity of this industry.

Apart from abiding by the relevant domestic laws and regulations we also pay attention to the significant policies and legal transference at home and abroad. As of the date of Annual Report publication, there were no other policies and legal transference that are having significant effects on corporate finance and business except adjustments for solar energy subsidy policy and the Solar Energy Trade Protection Policy disputes between Mainland China and US and European countries.

6.5 The impacts of the technical and industrial changes having on corporate finance and business and corresponding measures

We are paying attention to relevant industrial trends regarding technical development and changes at any time and appointing professional personnel or project teams to research industrial technologies that will exert significant impacts on corporate future development, finance and business as well as propose necessary corresponding measures. There were no significant technical changes having considerable effects on corporate finance and business in recent years and a period as of the date of Annual Report publication.

6.6 The impacts of the corporate image changes exerting on the corporate crises management and corresponding measures

Since foundation, we have being adhering to the principle of credit management and focusing on corporate images, therefore we never ran into corporate crisis management due to corporate image changes.

6.7 Estimated profits, risks of mergers and acquisitions and corresponding measures

We didn't have any plans of mergers and acquisitions in recent years and a period as of the date of Annual Report publication. If there are mergers and acquisitions in the future we will take a careful attitude and take comprehensive effectiveness of mergers and acquisitions into consideration when assessing them to ensure the shareholders' equity.

6.8 Expanding the estimated benefits of factories, potential risks and corresponding measures

The corporate production capacity of poly crystalline silicon wafers is about 330MW so far which belongs to small sized compared with domestic giant companies. We started the construction of

three plants in 2011 in order to reach the economic size and meet the ordering needs of downstream customers, by now the goal of total production capacity has been raised to 550MW and we have realized the strategy of reducing unit production costs and scattering customer sources by expanding the production capacity. We decided to slow down the pace of equipment installation in new factory, take active part in adjusting operating structure, strengthening management and improving effectiveness as well adjusting the schedule of three plants' being put into use after taking into current market status and possible changes into consideration.

6.9 Risks of purchases and sales centralization and the corresponding measures

As for goods purchasing, the Purchasing Department within the company has purchased silicon from major giant companies since 2009. In addition, the silicon are oversupplied in the market now therefore, we are rid of the silicon centralization risks and predicament of being hard to buy the silicon. Furthermore, we have signed long-term supply contracts with Korean manufacture OCI in March 2011 making sure the sound supply of main materials to satisfy the manufacturing needs. Those customers with 5% net operating revenues accounted for 92.33% of total operating revenues of 2016 which was made up of seven major customers, among them the largest customer share was approaching 18.54%. The total revenues from top 10 customers made up 98.70% of total revenues in 2017, among them the individual revenues occupied between 1.25% and 18.54% of total operating revenues. The current priority is to meet the ordering demands of major customers due to relatively small production size compared with those companies within the same industry and downstream solar cell manufacturers. The customers stay relatively stable thanks to our active measures taken to develop new customers and in consequence that the major goods sale customers are all well-known solar cell companies at home and abroad. Thus, we are going to continue to expand business and develop new customers to effectively reduce the risks of sales centralization.

6.10 The impacts, risks of large equity transfer and exchange of chairman, supervisors or major shareholders with more than 10% shares exerting on the company and corresponding measures

There are no such matters in recent years and a period as of the date of Annual Report publication.

6.11 The impacts of management right changes exerting on the company, risks and corresponding measures

The managers are dedicated to the management of the company and the employees of the company are identifying with the corporate developing directions and willing to hold company's shares and grow with the company. Thus, there were no large equity transfer and exchange that would lead to management rights and further exert negative effects on the company and increase the risks.

6.12 In terms of lawsuits or non-lawsuit affairs and administrative litigation sentenced and determined or yet to be judged by corporate directors, supervisors, general manager, de facto responsible person, major shareholders with more than 10% shares and affiliated companies shall be clearly stated. And for those lawsuits or non-lawsuit affairs and administrative litigation which may exert significant effects on shareholders' equity or securities' price, the contentious facts, amount of subjects, starting

date of litigation, the main parties involved as of the date of Annual Report publication shall be disclosed

| Case no. | Amount of subjects | Starting date of litigation | the main parties involved | contentious facts |
|---|--------------------|-----------------------------|---------------------------|--|
| CHUNG-SHAN NO. 717, 106 Taiwan High Court | NTD 18,284,065 | 106.08.30~ | The company | The MEP project of Fab3 is not finished yet for final acceptance and the obligation of payment does not exist. The MEP contractor company claimed, and the Hsin-Chu district court adjudicated that the company win the lawsuit at 2017.08.01. The contractor company appealed to Taiwan High Court and the case is hearing. |
| Sue-CHI No.80, 106 Tao-Yuan District Court | NTD 2,245,000 | 106.01.06~ | The company | The Company purchased band saws from TDC and promise to pay the payment according to performance of band saws. TDC denied to recognize the counting of performance and claimed. Tao-Yuan district court adjudicated that the company win the lawsuit at 2018.02.23. |

6.13 Other material risks and corresponding measures:

None.

7. Other important matters

7.1 Depreciation methods and life span for real estate, plants and equipment

7.1.1 Real estate, plants and equipment shall be recorded on the basis of the actual cost of acquisition and the related interests during the period of construction shall be capitalized.

7.1.2 The subsequent costs can only be included in the carrying amount of assets or as a separated asset when the future economic outcomes related to the item are likely to flow into the company and the costs can be measured reliably. The carrying amount reset shall be excluded. And all other maintenance expenses occurred will be recognized as current profits and losses.

7.1.3 The follow-up measurement of real estate, plants and equipment is based on cost model. Except the land without being made depreciation, all the rest are made

depreciation based on durability according to straight-line depreciation method. The real estate, plants and equipment shall be made depreciation separately if the compositions of them are major.

7.1.4 The company would inspect the residual values, durable years and depreciation methods of all kinds of assets on the closing date of fiscal year. If the expected values of residual values and durable years are different from what we estimated before or the expected consumption patterns of future economic outcomes of assets have changed considerably, we would handle with these matters according to No. 8 “Accounting Policies, Changes in Accounting Estimates and Errors” of International Accounting Standards since the date changes occurred.

The durable years of all kinds of assets can be seen below:

| | |
|---------------------------|---------------------|
| Buildings | 11 years ~ 36 years |
| Machinery equipment | 4 years ~ 11 years |
| Office facilities | 4 years ~ 6 years |
| Transportation facilities | 4 years ~ 6 years |
| Leasing assets | 7 years |
| Miscellaneous assets | 6 years ~ 8 years |

7.2 Evaluation bases of provision methods of assets and liabilities evaluation subjects

7.2.1 Bad debt

The bad debt provisions of the company are based on the ages of closing notes receivable and accounts receivable and the analysis of recover possibilities and according to the Regulations on the Bad Debt Provisions. The provision rates can be seen below:

| Ages overdue | Bad debt ratio |
|--------------------|----------------|
| Non-overdue | 0.5% |
| 1 to 30 days | 0.5% |
| 31 to 90 days | 20% |
| 91 to 180 days | 50% |
| 181 to 270 days | 80% |
| 271 to 365 days | 90% |
| More than 366 days | 100% |

7.2.2 Allowance for inventory valuation losses

The inventories are measured based on the lower one between costs and net realized values and its costs are calculated according to weighted average method.

Cost of finished goods and semi-finished products include raw materials, direct labor, other direct and related manufacture cost.

The comparison between cost and net realized values for inventories are applied with item-by-item method and net realized values refer to the balance between estimated selling price under normal operations and the costs need to be invested into as of the completion date and relevant selling expenses.

Besides, the allowances for inventory valuation losses are based on its stock ages. The allowance losses follow inventory management regulation will be 25%, 50%, 75% and 100% of ending inventory cost if stock ages are between 6 and 12 months, 13 and 18 months, 19 and 24 months and more than 25 months respectively.

VIII. Special Disclosure

1. Relevant information about related enterprises

1.1 There are no related enterprises in the company.

1.2 Consolidated Financial Statement of related enterprises and reports of related enterprises:

None.

2. Information of privat equity in recent year and up to the date of Annual Report publication:

None.

3. Shares of the company held or disposed by the subsidiaries:

None.

4. Other necessary supplementary disclosure:

None.

5. Significant impacts to shareholder equity and security price which violate Provision 2 Item 2 Article 36 of Securities Exchange Act in recent year up to the date of Annual Report publication:

None.

Audit Committee's Review Report

To 2018 Regular Meeting of Shareholders:

The 2017 Business Report, Financial Report and Proposal for Deficit Compensation prepared by the Board of Directors, of which Financial Report was audited by accountants, Li Xiu Ling and Zhi Bing Jun of PricewaterhouseCoopers Taiwan and issue a review report. Also Business Report, Financial Report and Proposal for Deficit Compensation above have been examined by the Audit Committee, who prepared the report in accordance with the Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act and submit it for reference.

Sincerely,

The convener of the Audit Committee

Tsai, Wen-Jing

Date: February 27, 2018

DANEN TECHNOLOGY CORPORATION
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2017 AND 2016

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Danen Technology Corporation

Opinion

We have audited the balance sheets of Danen Technology Corporation as of December 31, 2017 and 2016, and the related statements of comprehensive income, of changes in equity and of cash flows for the year 2017 and 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Danen Technology Corporation as of December 31, 2017 and 2016, and its financial performance and cash flows for the year 2017 and 2016 in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the interpretations of International Financial Reporting Standards, International Accounting Standards, 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 GAAP). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Danen Technology Corporation in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidences we have obtained are sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Impairment assessment of Property, plant and equipment

Description and Audit Procedure: Please refer to the Chinese version of the Handbook for details.

Evaluation of Inventory

Description and Audit Procedure: Please refer to the Chinese version of the Handbook for details.

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

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

In preparing the financial statements, management is responsible for assessing the ability of Danen Technology Corporation, whether to continue business, disclosing, as applicable, matters related to the going concern accounting basis unless the managements either intend to liquidate Danen Technology Corporation or to cease operations, or has no realistic alternative but to do so.

Those who charged with governance, including audit committee, are responsible for overseeing financial reporting process of Danen Technology Corporation.

Accountant’s responsibilities for the audit of financial statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control system relevant to the audit, in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the internal control effectiveness of Danen Technology Corporation.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the managements.
4. Conclude on the appropriateness of the managements’ use of the going concern basis accounting and base on the audit evidence obtained, whether a material uncertainty exists, which related to events

or conditions that may cast significant doubt on Danen Technology Corporation's ability to continue business as a going concern. If we conclude that a material uncertainty exists, we are required to draw attentions in our auditor's report to related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidences obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease the operation, could be as a going concern.

5. Evaluate the overall presentations, structures and contents of the financial statements (including the notes), and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those who charged with governance, including the planned audit scope, timing of the audit and significant audit findings (including any significant deficiencies in internal control that were identified during the audit.

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

From the matters communicated with those who charged with governance, we determine the matters that were with most significance in the audit of the financial statements for the current period and therefore are the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or 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 interests of such communication.

DANEN TECHNOLOGY CORPORATION
BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

| Assets | Notes | 2017 | | 2016 | | |
|---------------------------|------------------------------------|--------|---------------------|------------|---------------------|------------|
| | | AMOUNT | % | AMOUNT | % | |
| Current assets | | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | \$ 705,268 | 22 | \$ 876,291 | 22 |
| 1170 | Accounts receivable, net | 6(3) | 50,598 | 2 | 71,494 | 2 |
| 1200 | Other receivables | | 3,347 | - | 1,134 | - |
| 1220 | Current tax assets | | 97 | - | 660 | - |
| 130X | Inventories, net | 6(4) | 111,847 | 3 | 138,045 | 4 |
| 1410 | Prepayments | 9(2) | 43,122 | 1 | 44,934 | 1 |
| 1479 | Other current assets – others | | - | - | 173 | - |
| 11XX | Total current assets | | <u>914,279</u> | <u>28</u> | <u>1,132,731</u> | <u>29</u> |
| Non-current assets | | | | | | |
| 1543 | financial assets at cost | 6(2) | | | | |
| | - noncurrent | | 155,000 | 5 | - | - |
| 1600 | Property, plant and equipment, net | 6(5) | 2,171,589 | 67 | 2,711,662 | 69 |
| 1840 | Deferred tax assets | 6(21) | 4,616 | - | 5,814 | - |
| 1980 | Other financial assets - | 8 | | | | |
| | non-current | | 11,021 | - | 11,021 | - |
| 1990 | Other non-current assets - others | 6(6) | 5,927 | - | 51,939 | 2 |
| 15XX | Total non-current assets | | <u>2,348,153</u> | <u>72</u> | <u>2,780,436</u> | <u>71</u> |
| 1XXX | Total assets | | <u>\$ 3,262,432</u> | <u>100</u> | <u>\$ 3,913,167</u> | <u>100</u> |

(Continued)

DANEN TECHNOLOGY CORPORATION
BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

| Liability and Shareholders' Equity | Notes | 2017 | | 2016 | | |
|--|---|--------|----------------------------|---------------|----------------------------|---------------|
| | | AMOUNT | % | AMOUNT | % | |
| Current liabilities | | | | | | |
| 2100 | Short-term liabilities | 6(7) | \$ 25,000 | 1 | \$ - | - |
| 2170 | Accounts payable | | 161,724 | 5 | 86,645 | 2 |
| 2200 | Other payables | 6(8) | 64,056 | 2 | 79,347 | 2 |
| 2320 | Long-term liabilities, current portion | 6(9) | 22,917 | 1 | 25,000 | 1 |
| 2399 | Other current liabilities – others | | 1,444 | - | 1,756 | - |
| 21XX | Total current liabilities | | <u>275,142</u> | <u>9</u> | <u>192,748</u> | <u>5</u> |
| Non-current liabilities | | | | | | |
| 2540 | Long-term borrowings | 6(9) | - | - | 42,917 | 1 |
| 2570 | Deferred tax liabilities | 6(21) | 118 | - | 12 | - |
| 2670 | Other non-current liabilities - others | 6(11) | 5,237 | - | 4,804 | - |
| 25XX | Total non-current liabilities | | <u>5,354</u> | <u>-</u> | <u>47,733</u> | <u>1</u> |
| 2XXX | Total liabilities | | <u>280,496</u> | <u>9</u> | <u>240,481</u> | <u>6</u> |
| Share capital | | | | | | |
| 3110 | Common stock | 6(12) | 3,496,268 | 107 | 3,496,268 | 90 |
| Capital surplus | | | | | | |
| 3200 | Capital surplus | 6(13) | 176,418 | 5 | 910,062 | 23 |
| Retained earnings | | | | | | |
| 3350 | Accumulated deficit | 6(14) | (<u>690,750</u>) | (<u>21</u>) | (<u>733,644</u>) | (<u>19</u>) |
| 3XXX | Total equity | | <u>2,981,936</u> | <u>91</u> | <u>3,672,686</u> | <u>94</u> |
| Significant commitments and contingent events | | | | | | |
| 3X2X | Total liabilities and shareholders' equity | | <u>\$ <u>3,262,432</u></u> | <u>100</u> | <u>\$ <u>3,913,167</u></u> | <u>100</u> |

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

DANEN TECHNOLOGY CORPORATION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31

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

| Items | Notes | 2017 | | 2016 | |
|---|--------------|---------------|--------|---------------|--------|
| | | AMOUNT | % | AMOUNT | % |
| 4000 Operating revenue | 6(15) | \$ 948,607 | 100 | \$ 1,370,986 | 100 |
| 5000 Operating costs | 6(4)(19)(20) | (1,569,807) | (166) | (1,826,673) | (133) |
| 5900 Gross loss from operations | | (621,200) | (66) | (455,687) | (33) |
| 5950 Gross loss from operations, net | | (621,200) | (66) | (455,687) | (33) |
| Operating expenses | 6(19)(20) | | | | |
| 6100 Selling expenses | | (9,086) | 1 | (3,330) | - |
| 6200 General and administrative expenses | | (46,860) | (5) | (59,585) | (5) |
| 6300 Research and development expenses | | (10,925) | (1) | (15,525) | (1) |
| 6000 Total operating expenses | | (66,871) | (7) | (78,440) | (6) |
| 6900 Operating loss | | (688,071) | (73) | (534,127) | (39) |
| Non-operating income and expenses | | | | | |
| 7010 Other income | 6(16) | 8,135 | 1 | 9,302 | - |
| 7020 Other gains and losses | 6(17) | (7,712) | 1 | 3,227 | - |
| 7050 Finance costs | 6(18) | (1,799) | - | (1,659) | - |
| 7000 Total non-operating income and expenses | | 1,376 | - | 4,416 | - |
| 7900 Loss before income tax | | (689,447) | (73) | (529,711) | (39) |
| 7950 Income tax expense | 6(21) | (1,303) | (-) | (203,933) | (15) |
| 8000 Loss from continuing operations | | (690,750) | (73) | (733,644) | (54) |
| 8200 Loss for the period | | (\$ 690,750) | (73) | (\$ 733,644) | (54) |
| 8500 Total comprehensive loss | | (\$ 690,750) | (73) | (\$ 733,644) | (54) |
| 9750 Basic loss per share | 6(22) | (\$ 1.98) | | (\$ 2.10) | |
| 9850 Diluted loss per share | 6(22) | (\$ 1.98) | | (\$ 2.10) | |

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

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

| | <u>Notes</u> | <u>Common stock</u> | <u>Additional paid-in capital</u> | <u>Accumulated deficit</u> | <u>Total equity</u> |
|--|--------------|---------------------|-----------------------------------|----------------------------|---------------------|
| <u>Year ended December 31, 2016</u> | | | | | |
| Balance at January 1, 2016 | | \$ 3,496,268 | \$ 1,513,900 | (\$ 603,838) | \$ 4,406,330 |
| Capital surplus used to offset accumulated deficits | 6(14) | - | (603,838) | 603,838 | - |
| Loss for the year | 6(14) | - | - | (733,644) | (733,644) |
| Balance at December 31, 2016 | | <u>\$ 3,496,268</u> | <u>\$ 910,062</u> | <u>(\$ 733,644)</u> | <u>\$ 3,672,686</u> |
| <u>Year ended December 31, 2017</u> | | | | | |
| Balance at January 1, 2017 | | \$ 3,496,268 | \$ 910,062 | (\$ 733,644) | \$ 3,672,686 |
| Capital surplus used to offset accumulated deficits | 6(14) | - | (733,644) | 733,644 | - |
| Loss for the year | 6(14) | - | - | (690,750) | (690,750) |
| Balance at December 31, 2017 | | <u>\$ 3,496,268</u> | <u>\$ 176,418</u> | <u>(\$ 690,750)</u> | <u>\$ 2,981,936</u> |

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

DANEN TECHNOLOGY CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

| | Notes | 2017 | 2016 |
|---|-------|-------------|----------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | |
| Loss before tax for the year | (\$ | 689,447) | (\$ 529,711) |
| Adjustments to reconcile loss before tax to net cash provided by operating activities | | | |
| Income and expenses | | | |
| Depreciation expense | 6(19) | 542,558 | 549,501 |
| Amortization expense | 6(19) | 1,434 | 1,679 |
| Provision for bad debt expense | 6(3) | (126) | (368) |
| Interest expense | 6(18) | 1,799 | 1,626 |
| Interest revenue | 6(16) | (4,620) | (5,039) |
| Changes in assets/liabilities relating to operating activities | | | |
| Net changes in assets relating to operating activities | | | |
| Notes receivable, net | | - | 13,314) |
| Accounts receivable, net | | 21,022 | 69,427 |
| Other receivables | | 2,170) | 4,858 |
| Inventories | | 26,198 | 32,750 |
| Prepayments | | (1,812) | 32,419 |
| Other current assets | | (173) | 173 |
| Other non-current assets | | 44,588 | 60,845 |
| Net changes in liabilities relating to operating activities | | | |
| Accounts payable | | (75,079) | (105,954) |
| Other payables | | (10,599) | (19,683) |
| Other current liabilities | | (312) | (31) |
| Cash generated from operations | | 7,389 | 40,622 |
| Cash received as interest | | 4,576 | 5,202 |
| Interest paid | | (1,317) | (1,259) |
| Income tax paid | | (563) | (56) |
| Net cash provided by operating activities | | 11,211 | 44,509 |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | |
| Acquisition of financial assets at cost - noncurrent | | 155,000) | - |
| Acquisition of property, plant and equipment | 6(24) | (7,194) | (12,369) |
| Decrease in other financial assets | | - | 360 |
| Increase in refundable deposits | | 10) | - |
| Decrease in refundable deposits | | - | 6,181 |
| Net cash (used in) provided by investing activities | | (162,204) | (5,828) |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | | |
| Increase in short-term loans | | 295,000 | - |
| Decrease in short-term loans | | 270,000) | - |
| Proceeds from long-term debt | | 30,000 | 100,000 |
| Repayments of long-term debt | | (75,000) | (165,416) |
| Increase in guarantee deposits received | | 30) | - |
| Net cash (used in) provided by financing activities | | (20,030) | (65,416) |
| Decrease (increase) in cash and cash equivalents | | (171,023) | (26,735) |
| Cash and cash equivalents at beginning of year | | 876,291 | 903,026 |
| Cash and cash equivalents at end of year | | \$ 705,268 | \$ 876,291 |

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

DANEN TECHNOLOGY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Danen Technology Corporation (the "Company") started preparing for establishment from October 1, 2007 and was approved to establish on November 9, 2007. The Company is primarily engaged in manufacturing and processing of solar-energy related products. Starting from July 20, 2010, the Company's stocks are officially listed on the Taiwan Stock Exchange.

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

These financial statements were authorized for issuance by the Board of Directors on February 27, 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

The following table sets out the amendment and revision guidelines and explanations for the 2017 new issuance of the appliance on International Financial Reporting Standards approved by the Financial Management Committee:

| <u>New Release / Amendment / Revision Criteria and Explanations</u> | <u>The effective date of announcement from the International Accounting Standards Board</u> |
|---|---|
| Amendments to International Financial Reporting Standards No. 10, No. 12 and International Accounting Standards No. 28 " Individuals of Investment: Exceptional Application of Consolidated Statements" | January 1, 2016 |
| Amendments to International Financial Reporting Standards No. 11 " Accounting procedure of Acquisition from joint operating interests" | January 1, 2016 |
| International Financial Reporting Standards No. 14 " Regulatory & Deferred Account " | January 1, 2016 |
| Revision of International Accounting Standards No. 1 " Disclosure Initiative" | January 1, 2016 |
| Amendments to the International Accounting Standards No. 16 and No. 38 " The explanation of Acceptable Depreciation and Amortization Methods " | January 1, 2016 |
| Amendments to International Accounting Standards No. 16 and No. 41 "Agriculture: Productive plants" | January 1, 2016 |
| Revision of International Accounting Standards No. 19 " Confirmation of welfare plan: Employee provision" | July 1, 2014 |

| | |
|---|-----------------|
| Amendments to International Accounting Standards No. 27 " The Equity Act of the Individual Financial Statements " | January 1, 2016 |
| Amendments to International Accounting Standards No. 36, " Disclosure of recoverable amount of non-financial assets" | January 1, 2014 |
| Amendments to International Accounting Standards No. 39 "Contingent change of derivative instruments and the continued application of hedge accounting" | January 1, 2014 |

| <u>New Release / Amendment / Revision Criteria and Explanations</u> | <u>The effective date of announcement from the International Accounting Standards Board</u> |
|---|---|
| Interpretation of No. 21 "Public Class" from International Financial Report | January 1, 2014 |
| Annual improvement during 2010-2012 period | July 1, 2014 |
| Annual improvement during 2011-2013 period | July 1, 2014 |
| Annual improvement during 2012-2014 period | January 1, 2016 |

The Company's assessment for the above criteria and explanations has no material impact on the Company's financial position and results of operations.

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

The following table sets out the amendment and revision guidelines and explanations for the 2018 new issuance of the appliance on International Financial Reporting Standards approved by the Financial Management Committee:

| <u>New Release / Amendment / Revision Criteria and Explanations</u> | <u>The effective date of announcement from the International Accounting Standards Board</u> |
|--|---|
| Revision of International Financial Reporting Standards No. 2 "Classification and measurement of share base payment transactions" | January 1, 2018 |
| Amendments to International Financial Reporting Standards No. 4 "Methodologies to the application of the International Financial Reporting Standards No. 9" Financial Instruments " for insurance contract under the International Financial Reporting Standards No. 4 | January 1, 2018 |
| International Financial Reporting Standards No. 9, " Financial Instruments " | January 1, 2018 |
| International Financial Reporting Standards No. 15 " The Revenue from Customer Contract " | January 1, 2018 |
| Amendments to the International Financial Reporting Standards No. 15 " Interpretation of the International Financial Reporting Standards No. 15 " The Revenue from Customer Contract "" | January 1, 2018 |

| | |
|---|-----------------|
| Amendments of International Accounting Standards No. 7 " Disclosure Initiative " | January 1, 2017 |
| Amendments of International Accounting Standards No. 12, "Recognition of Deferred Income Tax with Unrealized Loss" | January 1, 2017 |
| Amendments to International Accounting Standards No. 40 "Conversion of Real Estate Investment " | January 1, 2018 |
| Interpretation to No. 22 of International Financial Reporting " Foreign Currency Transactions and Prepaid Price Consideration" | January 1, 2018 |
| Annual improvements during 2014-2016 period - International Financial Reporting Standards No. 1, " The First Time for International Financial Reporting Standards " | January 1, 2018 |
| Annual improvements during 2014-2016 period - International Financial Reporting Standards No. 12 " Disclosure of the rights and interests of other individuals " | January 1, 2017 |
| Annual improvements during 2014-2016 period – International Accounting Standards 28 " Investment in affiliate companies and joint ventures" | January 1, 2018 |

In addition to the following, the Company's assessment of the above criteria and explanations has no material impact on the Company's financial position and results of operations.

International Financial Reporting Standards No. 9, " Financial Instruments "

Depending on business model and the contractual cash flows , the financial assets debt instruments are classified as financial asset at fair value through profit or loss , financial asset at fair value through other comprehensive income , or Amortised cost of a financial asset.

The financial assets equity instruments are classified as financial asset at fair value through profit or loss , unless the company choose to recognize the fair value of non-trading purposes equity instruments in other comprehensive income.

The company applied the 2018 new issuance of the appliance on International Financial Reporting Standards approved by the Financial Management Committee , and adopt Simple retrospective adjustment by following International Financial Reporting Standards No. 9(IFRS9). The assessment of the material impact on January 1, 2018 are as follows :

The company classified \$155,000 thousand NTD Financial Assets Carried at Cost as financial asset at fair value through profit or loss by following IFRS 9. and adjusted the number to \$155,000 thousand NTD

(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 2018 version of IFRSs as endorsed by the FSC:

| <u>New Release / Amendment / Revision Criteria and Explanations</u> | <u>The effective date of announcement from the International Accounting Standards Board</u> |
|---|---|
| Amendments to International Financial Reporting Standards No. 9 "Prepayment Features with Negative Compensation" | January 1, 2019 |
| Amendments to International Financial Reporting Standards No. 10 and International Accounting Standards No. 28 "Sales or contributions of assets between an investor and its associate/joint venture" | To be confirmed by International accounting Standards Board |
| International Financial Reporting Standards No. 16 "Lease" | January 1, 2019 |
| International Financial Reporting Standards No. 17 "Insurance Contracts" | January 1, 2021 |
| Amendments to International Accounting Standards No. 19 "Plan amendments, curtailments, or settlements" | January 1, 2019 |
| Amendments to International Accounting Standards No. 28 "Long-term interests in associates and joint ventures " | January 1, 2019 |
| Interpretation to No. 23 of International Financial Reporting "Uncertainty over Income Tax Treatments " | January 1, 2019 |
| Annual improvement during 2015-2017 period | January 1, 2019 |

In addition to the following, the Company's assessment of the above criteria and explanations has no material impact on the Company's financial position and results of operations. The relevant impact amount will be disclosed when the assessment is completed:

International Financial Reporting Standards No. 16 " Lease "

The International Financial Reporting Standards No. 17 " Lease " be superseded by IAS 16 and its related explanations and announcements. This clause stipulates that the lessee shall recognize the assets in use and lease liabilities (except for the lease period less than 12 months or low value of the leasing assets); Lessor accounting treatment will be the same, following by operating lease and finance leasing, two types of processing , only need to increase the relevant disclosure.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The financial statements of the Company have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, 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. The financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(3) Foreign currency translation

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

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 recognised 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 recognised 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 recognised in profit 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 recognised 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) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

(4) 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 realised, 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 realised 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 paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off 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.

(5) 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.

(6) Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised 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 the effect of discounting is immaterial.

(7) Impairment of financial assets

A. The Company 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 Company 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 Company, 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 Company 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 through the use of an impairment allowance account

(b) Financial Assets Carried at Cost

Base on Assets book value and Estimation of the future cash flows, The Company recognize the Impairment loss in profit or loss in the period according to the difference between The current market rate of return and current value.

(8) Derecognition of Financial asset

Financial assets are derecognised when the rights to receive cash flows from the assets expire

(9) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, 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 realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(10) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. 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 | 11 ~ 36 years |
| Machinery and equipment | 4 ~ 11 years |
| Office equipment | 4 ~ 6 years |
| Transportation equipment | 4 ~ 6 years |
| Leased assets | 7 years |
| Other assets | 6 ~ 8 years |

(11) Operating leases (lessee)

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

(12) Impairment of non-financial assets

The Company 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 recognised 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. When the circumstances or reasons for recognising 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 amortised historical cost would have been if the impairment had not been recognised.

(13) Borrowings

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

(14) Accounts and notes payable

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

(15) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(16) 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 recognised as expenses in that period when the employees render service.

B. Pensions

The Company's pension policy is a defined contribution plan which the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

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

Employees' compensation and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. If there is a difference between Actual distribution amount and estimated amount, the company will handle it according to Change in accounting estimate.

(17) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates 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 the stockholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred 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 tax is provided on temporary differences arising on investments in associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred 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 tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred 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 recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred 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 realise the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognised for the carry forward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(18) Share capital

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.

(19) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(20) Revenue recognition

A. Sales of goods

The Company manufactures and sells solar energy silicon wafer related products. Revenue is measured at the fair value of the consideration received or receivable taking into account of returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods should be recognised when the Company 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 Company 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.

B. Sales of services

The Company provides manufacturing and processing services for silicon wafer. Revenues are recognised based on the stage of completion of the service when all the following criteria below are met, and the cost shall be recognised as incurred. Losses are immediately recognised if they are anticipated to incur:

- (a) Revenue can be measured reliably;
- (b) It is probable that the economic benefits associated with the transaction will flow to the entity;
- (c) The costs incurred and to be incurred associated with transaction can be measured reliably;
- (d) The degree of completion of the transaction can be measured reliably at the balance sheet date.

(21) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Company's chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

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

The preparation of these financial statements requires management to make critical judgements in applying the Company'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 Company's accounting policies

Revenue recognition on a net/gross basis

The determination of whether the Company is acting as principal or agent in a transaction is based on an evaluation of Company's exposure to the significant risks and rewards associated with the sale of goods or the rendering of service in accordance with the business model and substance of the transaction. Where the Company acts as a principal, the amount of received or receivable from customer is recognised as revenue on a gross basis. Where the Company acts as an agent, net revenue is recognised representing processing service income.

The following characteristics of a principal are used as indicators to determine whether the Company shall recognise revenue on a gross basis:

- (a) The Company has primary responsibilities for the goods or services it provides;
- (b) The Company bears inventory risk;
- (c) The Company has the latitude in establishing prices for the goods or services, either directly or indirectly.
- (d) The Company bears credit risk of customers

(2) Critical accounting estimates and assumptions

A. Impairment assessment of tangible assets

The Company assesses impairment based on its subjective judgement and determines the recoverable amount of a specific group of assets, useful lives of assets and the future possible income and expenses arising from the assets depending on how assets are utilised and industrial characteristics. Any changes of economic circumstances or estimates due to the change of Company strategy might cause material impairment on assets in the future.

As of December 31, 2017, the Company recognised carrying amount of property, plant and equipment amounting to \$2,171,589.

B. Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value

on balance sheet date, and writes down the cost of inventories to the net realisable 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 \$111,847.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | <u>December 31 , 2017</u> | <u>December 31 , 2016</u> |
|-----------------|---------------------------|---------------------------|
| Cash on hand | \$ 80 | \$ 80 |
| Demand deposits | 131,188 | 186,211 |
| Time deposits | <u>574,000</u> | <u>690,000</u> |
| | <u>\$ 705,268</u> | <u>\$ 876,291</u> |

- A. The Company 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.
- B. The Company has no cash and cash equivalents pledged to others.

(2) Financial Assets Carried at Cost

| Items | <u>December 31 , 2017</u> | <u>December 31 , 2016</u> |
|--------------------------------------|---------------------------|---------------------------|
| Non-current items : | | |
| Stock | \$ 155,000 | \$ - |
| Centrillion Technologies, Taiwan. | | |
| Accumulated impairment | <u>-</u> | <u>-</u> |
| <u>Total</u> | <u>\$ 155,000</u> | <u>\$ -</u> |

1. The company Approved the Investment of Centrillion Technologies, Taiwan.by April 11,2017 DANEN BOD meeting to create medium and long-term operating performance and new business model , and acquire 10.64% equity by investing 155 million NTD on April 28,2017. Centrillion Technologies, Taiwan.is a Biochip and System solution company.
2. Considering The purpose of the investment, the Equity investment of Centrillion Technologies, Taiwan.should be classified as Available-for-sale financial assets but was classified as Financial Assets Carried at Cost. Because the object is not on Active market open trades, the company can't acquire enough Industry information to reasonable and reliable measure its fair value.
3. As of December 31, 2017, the Company has no financial assets carried at cost that were pledged as collateral

(3) Accounts receivable

| | <u>December 31 , 2017</u> | <u>December 31 , 2016</u> |
|--------------------------------|---------------------------|---------------------------|
| Accounts receivable | \$ 50,798 | \$ 71,820 |
| Less : allowance for bad debts | (200) | (326) |
| | <u>\$ 50,598</u> | <u>\$ 71,494</u> |

A. The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Company's Credit Quality Control Policy:

| | <u>December 31 , 2017</u> | <u>December 31 , 2016</u> |
|-----------------------------------|---------------------------|---------------------------|
| Payment terms within three months | <u>\$ 50,798</u> | <u>\$ 71,755</u> |

B. The analysis of the age of financial assets that are past due as at the reporting date but not impaired is as follows :

| | <u>December 31 , 2017</u> | <u>December 31 , 2016</u> |
|-------------|---------------------------|---------------------------|
| 0~30 days | - | 65 |
| 31~90 days | - | - |
| 91~180 days | - | - |
| 181~ days | - | - |
| 0~30 days | \$ - | \$ 65 |

The above ageing analysis was based on past due days.

C. Movement analysis of financial assets that were impaired is as follows:

(a)As of December 31, 2017 and 2016, the Company has no accounts receivable that were impaired.

(b)Movements on the Company provision for impairment of accounts receivable are as follows:

| | <u>2017</u> | | |
|-------------------------------|-----------------------------|------------------------|---------------|
| | <u>Individual provision</u> | <u>Group provision</u> | <u>Total</u> |
| At January 1 | \$ - | \$ 326 | \$ 326 |
| Provision for impairment loss | - | (126) | (126) |
| At December 31 | <u>\$ -</u> | <u>\$ 200</u> | <u>\$ 200</u> |

| | <u>2016</u> | | |
|--|-----------------------------|------------------------|--------------|
| | <u>Individual provision</u> | <u>Group provision</u> | <u>Total</u> |

| | | | |
|-------------------------------|----|------|------|
| At January 1 | \$ | \$ | \$ |
| | - | 628 | 628 |
| Provision for impairment loss | | (| (|
| | - | 302) | 302) |
| At December 31 | \$ | \$ | \$ |
| | - | 326 | 326 |

D. The Company does not hold any collateral as security.

(4) Inventories

| | | | | December 31, 2017 | | |
|---------------------|----|----------------|-----|-----------------------|----|-------------------|
| | | <u>Cost</u> | | <u>Allowance for</u> | | <u>Book value</u> |
| | | | | <u>valuation loss</u> | | |
| Raw materials | \$ | 40,372 | (\$ | 1,155) | \$ | 39,217 |
| Supplies | | 12,596 | (| 7,557) | | 5,039 |
| Work in process | | 39,429 | (| 5,916) | | 33,513 |
| Semi-finished goods | | 17,754 | (| 3,015) | | 14,739 |
| Finished goods | | 24,982 | (| 5,643) | | 19,339 |
| | \$ | <u>135,133</u> | (\$ | <u>23,286</u>) | \$ | <u>111,847</u> |

| | | | | December 31, 2016 | | |
|-----------------|----|----------------|-----|-----------------------|----|-------------------|
| | | <u>Cost</u> | | <u>Allowance for</u> | | <u>Book value</u> |
| | | | | <u>valuation loss</u> | | |
| Raw materials | \$ | 55,533 | (\$ | 1,529) | \$ | 54,004 |
| Supplies | | 18,273 | (| 7,377) | | 10,896 |
| Work in process | | 40,385 | (| 8,425) | | 31,960 |
| Finished goods | | 55,449 | (| 14,264) | | 41,185 |
| | \$ | <u>169,640</u> | (\$ | <u>31,595</u>) | \$ | <u>138,045</u> |

For the years ended December 31, 2017 and 2016, details of related profit or loss recognised for inventories that are included in operating costs are as follows:

| | | Years end December 31, | |
|---|----|------------------------|---------------------|
| | | <u>2017</u> | <u>2016</u> |
| Cost of goods sold | \$ | 1,218,605 | \$ 1,507,022 |
| Revenue from sale of scraps | (| 796) | (1,011) |
| Gain on reversal of decline in market value | (| 8,309) | - |
| Loss on decline in market value | | - | 9,572 |
| Unallocated manufacturing expenses | | 360,307 | 311,090 |
| | \$ | <u>1,569,807</u> | \$ <u>1,826,673</u> |

Note: The gain on reversal of decline in market value was caused by the disposal of inventory previously written down.

(5) Property, plant and equipment

| | <u>Buildings</u> | <u>Machinery equipment</u> | <u>Office equipment</u> | <u>Others</u> | <u>Construction In progress and equipment to be inspected</u> | <u>Total</u> |
|---|--------------------|----------------------------|-------------------------|-----------------|---|---------------------|
| At January 1, 2017 | | | | | | |
| Cost | \$1,781,648 | \$ 4,044,755 | \$ 13,460 | \$ 52,277 | \$ 56,703 | \$ 5,948,843 |
| Accumulated depreciation and impairment | (549,889) | (2,622,951) | (13,365) | (50,976) | - | (3,237,181) |
| | <u>\$1,231,759</u> | <u>\$ 1,421,804</u> | <u>\$ 95</u> | <u>\$ 1,301</u> | <u>\$ 56,703</u> | <u>\$ 2,711,662</u> |
| <u>2017</u> | | | | | | |
| Opening net book amount as at January 1 | <u>\$1,231,759</u> | <u>\$ 1,421,804</u> | <u>\$ 95</u> | <u>\$ 1,301</u> | <u>\$ 56,703</u> | <u>\$ 2,711,662</u> |
| Additions | - | - | - | - | 2,485 | 2,485 |
| Depreciation charge | (99,200) | (442,767) | (36) | (555) | - | (542,558) |
| Closing net book amount as at December 31 | <u>\$1,132,559</u> | <u>\$ 979,037</u> | <u>\$ 59</u> | <u>\$ 746</u> | <u>\$ 59,188</u> | <u>\$ 2,171,589</u> |
| At December 31, 2017 | | | | | | |
| Cost | \$1,781,648 | \$ 4,044,755 | \$ 12,967 | \$ 52,197 | \$ 59,188 | \$ 5,950,843 |
| Accumulated depreciation and impairment | (649,089) | (3,065,718) | (12,908) | (51,451) | - | (3,779,166) |
| | <u>\$1,132,559</u> | <u>\$ 979,037</u> | <u>\$ 59</u> | <u>\$ 746</u> | <u>\$ 59,188</u> | <u>\$ 2,171,589</u> |
| | | | | | | |
| | <u>Buildings</u> | <u>Machinery equipment</u> | <u>Office equipment</u> | <u>Others</u> | <u>Construction In progress and equipment to be inspected</u> | <u>Total</u> |
| At January 1, 2016 | | | | | | |
| Cost | \$1,773,648 | \$ 4,036,522 | \$ 13,831 | \$51,652 | \$ 54,218 | \$ 5,929,871 |
| Accumulated depreciation and impairment | (451,356) | (2,175,756) | (13,588) | (47,351) | - | (2,688,051) |
| | <u>\$1,322,292</u> | <u>\$ 1,860,766</u> | <u>\$ 243</u> | <u>\$ 4,301</u> | <u>\$ 54,218</u> | <u>\$ 3,241,820</u> |
| <u>2016</u> | | | | | | |
| Opening net book amount as at January 1 | <u>\$1,322,292</u> | <u>\$ 1,860,766</u> | <u>\$ 243</u> | <u>\$ 4,301</u> | <u>\$ 54,218</u> | <u>\$ 3,241,820</u> |
| Additions | 2,000 | 8,233 | - | 625 | 2,485 | 13,343 |
| Reclassifications | 6,000 | - | - | - | - | 6,000 |
| Depreciation charge | (98,533) | (447,195) | (148) | (3,625) | - | (549,501) |
| Closing net book amount as at December 31 | <u>\$1,231,759</u> | <u>\$ 1,421,804</u> | <u>\$ 95</u> | <u>\$ 1,301</u> | <u>\$ 56,703</u> | <u>\$ 2,711,662</u> |
| At December 31, 2016 | | | | | | |
| Cost | \$1,781,648 | \$ 4,044,755 | \$ 13,460 | \$ 52,277 | \$ 56,703 | \$ 5,948,843 |
| Accumulated depreciation and impairment | (549,889) | (2,622,951) | (13,365) | (50,976) | - | (3,237,181) |
| | <u>\$1,231,759</u> | <u>\$ 1,421,804</u> | <u>\$ 95</u> | <u>\$ 1,301</u> | <u>\$ 56,703</u> | <u>\$ 2,711,662</u> |

The significant components of buildings include main plants and facility, which are depreciated over 36 and 11 years, respectively.

(6) Other non-current assets

| | <u>December 31 , 2017</u> | <u>December 31 , 2016</u> |
|-------------------------------------|---------------------------|---------------------------|
| Prepayments for business facilities | \$ 4,460 | \$ 4,460 |
| Prepayments for material purchase | - | 45,234 |

| | | |
|--------|-----------------|------------------|
| Others | 1,467 | 2,245 |
| | <u>\$ 5,927</u> | <u>\$ 51,939</u> |

(7) Short-term borrowings

| <u>Type of borrowings</u> | December 31 , 2017 | Interest rate range | Assets pledged as collateral |
|---------------------------|--------------------|---------------------|------------------------------|
| Bank borrowings | | | |
| Unsecured borrowings | \$ 25,000 | 1.20% | None |

December 31, 2016 : None.

(8) Other payables

| | <u>December 31 , 2017</u> | <u>December 31 , 2016</u> |
|------------------------------------|---------------------------|---------------------------|
| Accrued expenses | | |
| Wages and salaries payable | \$ 8,685 | \$ 10,718 |
| Accrued utilities expenses | 7,694 | 8,709 |
| Bonus payable | 11,230 | 13,475 |
| others | 17,692 | 22,981 |
| | <u>45,301</u> | <u>55,883</u> |
| Payable on machinery and equipment | 18,755 | 23,464 |
| | <u>\$ 64,056</u> | <u>\$ 79,347</u> |

The reserve amount of \$ 18,195 payable to the equipment is determined by the Company that the MEP contractor has not yet fulfilled the complete obligation of contract. However, the contractor claimed that the payment should be made , and raise the suit to the court in accordance with their claimed performance.

(9) Long-term borrowings

| <u>Type of borrowings</u> | <u>Loan period and repayment method</u> | <u>Interest rate range</u> | <u>Assets pledged as collateral</u> | <u>December 31 , 2017</u> |
|---------------------------|---|----------------------------|-------------------------------------|---------------------------|
| Unsecured borrowings | From November 28, 2016 to November 28, 2018,monthly payment on interest | 1.45% | None | \$ 22,917 |
| Less : current portion | | | | (22,917) |
| | | | | <u>\$ -</u> |

| <u>Type of borrowings</u> | <u>Loan period and repayment method</u> | <u>Interest rate range</u> | <u>Assets pledged as collateral</u> | <u>December 31, 2016</u> |
|---------------------------|--|----------------------------|-------------------------------------|--------------------------|
| Unsecured borrowings | From November 28, 2016 to November 26, 2018, monthly payment on interest | 1.40%~1.45% | None | \$ 67,917 |
| Less : current portion | | | | (25,000) |
| | | | | <u>\$ 42,917</u> |

(10) Pensions

The Company have established a defined contribution pension plan (the “New Plan”) under the Labour Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. The Company contributes monthly an amount of at least 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labour Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2017 and 2016 were \$5,414 and \$6,710, respectively.

(11) Provisions

| | <u>Decommissioning liabilities</u> |
|-----------------------|------------------------------------|
| At January 1, 2017 | \$ 4,773 |
| Unwinding of discount | 464 |
| At December 31, 2017 | <u>\$ 5,237</u> |
| | <u>Decommissioning liabilities</u> |
| At January 1, 2016 | \$ 4,350 |
| Unwinding of discount | 423 |
| At December 31, 2016 | <u>\$ 4,773</u> |

Analysis of total provisions:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-------------|--------------------------|--------------------------|
| Non-current | <u>\$ 5,237</u> | <u>\$ 4,773</u> |

According to the policy published, applicable agreement or the law/regulation requirement, the Company bears dismantling, removing the asset and restoring the site obligations for the Guanyin

plant in the future. A provision is recognised for the present value of costs to be incurred for dismantling, removing the asset and restoring the site.

(12) Share capital

As of December 31, 2017, the Company's authorized capital was \$3,500,000, consisting of 350,000 thousand shares of ordinary stock, and the paid-in capital was \$3,496,268 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

(13) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

| | | |
|---------------|--------------------------|--------------------------|
| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
| Share premium | \$ 176,418 | \$ 910,062 |

(14) Retained earnings

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| At January 1 | (\$ 733,644) | (\$ 603,838) |
| Loss for the year | (690,750) | (733,644) |
| Capital surplus used to cover accumulated deficit | <u>733,644</u> | <u>603,838</u> |
| At December 31 | <u>(\$ 690,750)</u> | <u>(\$ 733,644)</u> |

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall be distributed in the following order:

- (a) Payment of all taxes and dues.
- (b) Offset against prior years' operating losses, if any.
- (c) Set aside 10% of the remainder as legal reserve until the accumulated amount of the legal reserve reaches the total authorized capital of the Company.
- (d) Set aside or reverse special reserve in accordance with related laws or the Competent Authority.
- (e) The appropriation of the current year's distributable earnings less the abovementioned items

of (a) to (d), plus prior year's accumulated unappropriated earnings, shall be proposed by the Board of Directors and then approved by the shareholders.

The Company operates in a volatile business environment and is in the rapid growth stage, so it sets its dividend policy based on an optimal financial plan to chase for an ongoing development. The Company considers the future capital expenditure budget and capital needs, as well as necessity of earnings to fulfil capital needs, the Company determines the amount of earnings retained or distributed and the amount of dividends or bonus distributed to shareholders in the form of cash. Earnings can be distributed as cash dividends or stock dividends. However, earnings shall be preferably distributed using cash dividends and may also be distributed using stock dividends. The ratio for stock dividends shall not exceed 50% of the total amount of dividends distributed.

- B. 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.
- C. On February 24 and May 31, 2016, the Board of Directors and shareholders have approved the deficit compensation in 2015 of the Company, respectively. The Company covered losses using capital surplus – additional paid-in capital of \$603,838.
- D. On February 23 and May 26, 2017, the Board of Directors and shareholders have approved the deficit compensation in 2016 of the Company, respectively. The Company covered losses using capital surplus – additional paid-in capital of \$733,644.
- E. For the information relating to employees' remuneration and directors' and supervisors' remuneration, please refer to Note 6(20).

(15) Operating revenue

| | <u>Years ended December 31,</u> | |
|-------------------------------|---------------------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| Multi-crystalline solar wafer | \$ 763,768 | \$ 1,328,674 |
| Processing fees revenue | <u>184,839</u> | <u>42,312</u> |
| | <u>\$ 948,607</u> | <u>\$ 1,370,986</u> |

(16) Other income

| | <u>Years ended December 31,</u> | |
|------------------------------------|---------------------------------|-----------------|
| | <u>2017</u> | <u>2016</u> |
| Rental revenue | \$ 1,009 | \$ 1,072 |
| Interest income : | | |
| Interest income from bank deposits | 4,620 | 5,039 |
| Other income | <u>2,506</u> | <u>3,191</u> |
| | <u>\$ 8,135</u> | <u>\$ 9,302</u> |

(17) Other gains and losses

| | <u>Years ended December 31,</u> | |
|---------------------------------------|---------------------------------|-------------------|
| | <u>2017</u> | <u>2016</u> |
| Net currency exchange gains or losses | (\$ 7,710) | (\$ 3,221) |
| Others | <u>(2)</u> | <u>(6)</u> |
| | <u>(\$ 7,712)</u> | <u>(\$ 3,227)</u> |

(18) Finance costs

| | <u>Years ended December 31,</u> | |
|---|---------------------------------|-----------------|
| | <u>2017</u> | <u>2016</u> |
| Interest expense : | | |
| Bank borrowings | \$ 1,335 | \$ 1,203 |
| Provision: unwinding of discount | <u>464</u> | <u>423</u> |
| | 1,799 | 1,626 |
| Finance expense: | | |
| Bank handling charge | <u>-</u> | <u>33</u> |
| | 1,799 | 1,659 |
| Less: capitalization of qualifying assets | <u>-</u> | <u>-</u> |
| Finance costs | <u>\$ 1,799</u> | <u>\$ 1,659</u> |

(19) Expenses by nature

| | <u>Years ended December 31,</u> | |
|--------------------------|---------------------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| Employee benefit expense | \$ 168,730 | \$ 217,573 |
| Depreciation charges | 542,558 | 549,501 |
| Amortization charges | 1,434 | 1,679 |
| Supplies charges | <u>178,750</u> | <u>291,959</u> |
| | <u>\$ 891,472</u> | <u>\$ 1,060,712</u> |

(20) Employee benefit expense

| | <u>Years ended December 31,</u> | |
|----------------------------------|---------------------------------|-------------------|
| | <u>2017</u> | <u>2016</u> |
| Wages and salaries | \$ 143,532 | \$ 185,611 |
| Labour and health insurance fees | 12,251 | 14,947 |
| Pension costs | 5,414 | 6,710 |
| Other personnel expenses | 7,533 | 10,305 |
| | <u>\$ 168,730</u> | <u>\$ 217,573</u> |

A. According to the Articles of Incorporation of the Company, when distributing earnings, the Company shall distribute bonus to the employees and pay remuneration to the directors and supervisors that account for no less than 5% and 3%, respectively, of the total distributed amount. If a company has accumulated deficit, earnings should be channelled to cover losses.

A company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation distributed in the form of shares or in cash; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting. Qualification requirements of employees, including the employees of subsidiaries of the company meeting certain specific requirements, entitled to receive aforementioned stock or cash may be specified in the Articles of Incorporation.

B. For the years ended December 31, 2017 and 2016, employees' compensation and directors' and supervisors' remuneration were both accrued at \$0.

Information about the appropriation of employees' bonus and directors' and supervisors' remuneration by the Company as proposed by the Board of Directors and resolved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(21) Income tax

A. Income tax expense

Components of income tax expense:

| | <u>Years ended December 31,</u> | |
|---|---------------------------------|-------------------|
| | <u>2017</u> | <u>2016</u> |
| Current tax: | \$ - | \$ - |
| Deferred tax: | | |
| Origination and reversal of taxable loss | - | 205,248 |
| Origination and reversal of temporary differences | 1,303 | (1,315) |
| Total deferred tax | 1,303 | 203,933 |
| Income tax expense | <u>\$ 1,303</u> | <u>\$ 203,933</u> |

B. Reconciliation between income tax expense and accounting loss:

| | <u>Years ended December 31,</u> | |
|---|---------------------------------|-------------------|
| | <u>2017</u> | <u>2016</u> |
| Tax calculated based on loss before tax and statutory tax rate | (\$ 117,206) | (\$ 90,051) |
| Effects from items disallowed by tax regulation | 39 | 49 |
| Current tax losses are not recognized as deferred income tax assets | 118,470 | 88,687 |
| Change in assessment of realization of deferred tax assets | <u>-</u> | <u>205,248</u> |
| Income tax expense | <u>\$ 1,303</u> | <u>\$ 203,933</u> |

A. Amounts of deferred tax assets or liabilities as a result of temporary difference, loss carry forward and investment tax credit are as follows:

| | <u>January 1</u> | <u>Recognized in profit or loss</u> | <u>2017 Recognized in other comprehensive income</u> | <u>Recognized In equity</u> | <u>December 31</u> |
|-------------------------------------|------------------|-------------------------------------|--|-----------------------------|--------------------|
| Deferred tax assets: | | | | | |
| Temporary differences: | | | | | |
| Unrealized inventory valuation loss | \$ 5,371 | (\$ 1,412) | \$ - | \$ - | \$ 3,959 |
| Others | 443 | 214 | - | - | 657 |
| Subtotal | <u>\$ 5,814</u> | <u>(\$ 1,198)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,616</u> |
| Deferred tax liabilities: | | | | | |
| Unrealized exchange gain | <u>(12)</u> | <u>(106)</u> | <u>-</u> | <u>-</u> | <u>(118)</u> |
| | <u>\$ 5,802</u> | <u>(\$ 1,304)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,498</u> |

| | <u>January 1</u> | <u>Recognized in profit or loss</u> | <u>2016 Recognized in other comprehensive income</u> | <u>Recognized In equity</u> | <u>December 31</u> |
|--|-------------------|---|--|---------------------------------|--------------------|
| Deferred tax assets: | | | | | |
| Temporary differences: | | | | | |
| Unrealized inventory valuation loss | \$ 3,744 | \$ 1,627 | \$ - | \$ - | \$ 5,371 |
| Unrealized exchange loss | 4 | (4) | - | - | - |
| Others | 739 | (296) | - | - | 443 |
| Taxable loss | <u>205,248</u> | <u>(205,248)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Subtotal | <u>\$ 209,735</u> | <u>(\$ 203,921)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,814</u> |
| Deferred tax liabilities: | | | | | |
| Unrealized exchange gain | - | (12) | - | - | (12) |
| | <u>\$ 209,735</u> | <u>(\$ 203,933)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,802</u> |

D. Expiration dates of unused taxable loss and amounts of unrecognized deferred tax assets are as follows:

| <u>Year incurred</u> | <u>December 31, 2017</u> | | <u>Unrecognized Deferred tax assets</u> | <u>Usable until</u> |
|----------------------|-----------------------------------|----------------------|---|---------------------|
| | <u>Amount field/ assessed</u> | <u>Unused amount</u> | | |
| 2011 | \$ 300,197 | \$ 300,197 | \$ 300,197 | 2021 |
| 2012 | 917,673 | 917,673 | 917,673 | 2022 |
| 2013 | 746,449 | 746,449 | 746,449 | 2023 |
| 2014 | 575,492 | 575,492 | 575,492 | 2024 |
| 2015 | 527,720 | 527,720 | 527,720 | 2025 |
| 2016 | 521,686 | 521,686 | 521,686 | 2026 |
| 2017 | 696,884 | 696,884 | 696,884 | 2027 |
| | <u>\$ 4,286,101</u> | <u>\$ 4,286,101</u> | <u>\$ 4,286,101</u> | |

December 31, 2016

| <u>Year incurred</u> | <u>Amount field/ assessed</u> | <u>Unused amount</u> | <u>Unrecognized Deferred tax assets</u> | <u>Usable until</u> |
|----------------------|-----------------------------------|----------------------|---|---------------------|
| 2011 | \$ 300,197 | \$ 300,197 | \$ 300,197 | 2021 |
| 2012 | 917,673 | 917,673 | 917,673 | 2022 |
| 2013 | 746,449 | 746,449 | 746,449 | 2023 |
| 2014 | 575,492 | 575,492 | 575,492 | 2024 |
| 2015 | 527,720 | 527,720 | 527,720 | 2025 |
| 2016 | 521,686 | 521,686 | 521,686 | 2026 |
| | <u>\$ 3,589,217</u> | <u>\$ 3,589,217</u> | <u>\$ 3,589,217</u> | |

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

F. Related information of accumulated deficit to be covered:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|------------------------------------|--------------------------|--------------------------|
| Deficit incurred in and after 1998 | (\$ <u>690,750</u>) | (\$ <u>733,644</u>) |

G. As of December 31, 2017 and 2016, the balance of the imputation tax credit account was both \$5,424. For the years ended December 31, 2016, the Company has generated accumulated deficit. There is no distributable earnings and thus, the creditable tax rate is not applicable.

(22) Loss per share

| | <u>Year ended December 31, 2017</u> | | |
|-------------------------------|-------------------------------------|--|--|
| | <u>Amount after tax</u> | <u>Weighted average Number of ordinary Shares outstanding (share in thousands)</u> | <u>Losses per share (in dollars)</u> |
| <u>Basic loss per share</u> | | | |
| Loss for the year | (\$ <u>690,750</u>) | <u>349,627</u> | (\$ <u>1.98</u>) |
| <u>Diluted loss per share</u> | | | |
| Loss for the year | (\$ <u>690,750</u>) | <u>349,627</u> | (\$ <u>1.98</u>) |

| | <u>Year ended December 31,2016</u> | | |
|-------------------------------|------------------------------------|--|--|
| | <u>Amount after tax</u> | <u>Weighted average Number of ordinary Shares outstanding (share in thousands)</u> | <u>Losses per share (in dollars)</u> |
| <u>Basic loss per share</u> | | | |
| Loss for the year | <u>(\$ 733,644)</u> | <u>349,627</u> | <u>(\$ 2.10)</u> |
| <u>Diluted loss per share</u> | | | |
| Loss for the year | <u>(\$ 733,644)</u> | <u>349,627</u> | <u>(\$ 2.10)</u> |

(23) Operating leases

The Company leases in land under non-cancellable operating lease agreements. The lease terms are between 2008 and 2026. Extra rents are paid based on changes in local price index for certain leases. The Company recognised rental expenses of \$22,847 and \$22,566 for the years ended December 31, 2017 and 2016, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | <u>December 31,2017</u> | | <u>December 31,2016</u> | |
|--|-------------------------|----------------|-------------------------|----------------|
| Not later than one year | \$ | 24,081 | \$ | 23,899 |
| later than one year but Not later than five years | | 96,323 | | 95,596 |
| later than five years | | 48,760 | | 72,291 |
| | <u>\$</u> | <u>169,164</u> | <u>\$</u> | <u>191,786</u> |

(24) Supplemental cash flow information

Investing activities with partial cash payments :

| | <u>Years ended December 31,</u> | | | |
|---|---------------------------------|----------------|-------------|----------------|
| | <u>2017</u> | | <u>2016</u> | |
| Purchase of property, plant and equipment | \$ | 2,485 | \$ | 13,343 |
| Add: opening balance of payable on equipment | | 23,464 | | 22,490 |
| Less: ending balance of payable on equipment | <u>(</u> | <u>18,755)</u> | <u>(</u> | <u>23,464)</u> |
| Cash paid during the period | <u>\$</u> | <u>7,194</u> | <u>\$</u> | <u>12,369</u> |

7. RELATED PARTY TRANSACTIONS

(1) Significant related party transactions

None.

(2) Key management compensation

| | <u>Years ended December 31,</u> | |
|---|---------------------------------|------------------|
| | <u>2017</u> | <u>2016</u> |
| Salaries and other short-term employee benefits | \$ 14,322 | \$ 14,493 |
| Post-employment benefits | 108 | 374 |
| Other long-term benefits | - | - |
| Termination benefits | - | - |
| Share-based payments | - | - |
| Total | <u>\$ 14,430</u> | <u>\$ 14,867</u> |

8. PLEGGED ASSETS

The Company's assets pledged as collateral are as follows:

| <u>Pledged asset</u> | <u>Book value</u> | | <u>Purpose</u> |
|---|--------------------------|--------------------------|----------------|
| | <u>December 31, 2017</u> | <u>December 31, 2016</u> | |
| Time deposits (shown as other financial Assets-non-current) | <u>\$ 11,021</u> | <u>\$ 11,021</u> | Land tenancy |

9. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

(1) Contingencies

None.

(2) Commitments

A. Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--------------------------|--------------------------|--------------------------|
| Facilities and Equipment | <u>\$ 60,806</u> | <u>\$ 63,642</u> |

Due to the uncertainty of the industry in the past three years, the Company adjusted the building schedule of Wafer fab 3 accordingly. The Company will renegotiate the contract terms with the

equipment suppliers in the future and is expecting to perform the contract gradually while maintaining the interest of shareholders and complying with business practices at the same time.

B. Operating lease commitments

Please refer to Note 6 (23) for the related information.

C. In order to ensure that the sources of silicon raw materials are sufficient, the Company has entered into a supply contract with a world-renowned supplier in March 2011. The contract period is from January 1, 2012 to December 31, 2018. The supplier has committed to provide a certain quantity of silicon raw material to the Company during the contract period. The total contract price is USD 161 million. As the price of the silicon raw material has fluctuated dramatically, the delivered price and quantity for each purchase were then determined based on mutual agreements for the years ended December 31, 2015 and 2014.

Amendments were made for poly-silicon contract with material supplier at March 2016, the contract period was extended to December 31, 2023, the total amount of contract value was revised to \$ 128.8 million, the company agreed to purchase a fixed amount of silicon raw material according to the revised contract during 2016-2018, and the purchasing price and quantity will be negotiated and agreed by the two parties from 2019 and afterwards.

As of December 31, 2017, the Company has made prepayments of \$41,071 (USD 1,393 thousands).

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt. As of December 31, 2017 and 2016, the Company's gearing ratio was as follows:

| | <u>December 31,2017</u> | <u>December 31,2016</u> |
|---------------------------------|-------------------------|-------------------------|
| Total borrowings | \$ 47,917 | \$ 67,917 |
| Less: Cash and cash equivalents | 705,268 | 876,291 |
| Net liabilities | (657,351) | (808,374) |
| Total equity | <u>2,981,936</u> | <u>3,672,686</u> |
| Total capital | 2,324,585 | 2,864,312 |
| Liabilities Capital ratio | (28.28%) | (28.22%) |

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amounts of the Company's financial instruments measured at amortised cost (including accounts receivable, other receivables, short-term borrowings, accounts payable and other payables) approximate to their fair value. The interest rates of long-term borrowings (including current portion) approximate to the market interest, thus, their carrying amounts are a reasonable basis for estimation of fair values.

B. Financial risk management policies

(a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position and financial performance.

(b) Risk management is carried out by a treasury department (Company treasury) under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

i. The Company's certain transactions were denominated in foreign currencies and the Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

ii. Management has set up a policy to require the Company to manage the foreign exchange

risk against the functional currency. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a foreign currency that is not the Company's functional currency.

- iii. The Company's businesses involve some non-functional currency operations. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| | <u>December 31, 2017</u> | | |
|--|----------------------------|----------------------|--------------|
| | Foreign currency Amount | <u>Exchange rate</u> | Book value |
| | <u>(In thousands)</u> | | <u>(NTD)</u> |
| (Foreign currency: functional currency) | | | |
| <u>Financial assets</u> | | | |
| <u>Monetary assets</u> | | | |
| JPY : NTD | \$ 1 | 0.2642 | \$ - |
| USD : NTD | 3,915 | 29.760 | 116,523 |
| EUR : NTD | - | 35.570 | - |
| CHF : NTD | - | 30.455 | - |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| JPY : NTD | \$ 749 | 0.2642 | \$ 198 |
| USD : NTD | 4,218 | 29.760 | 125,523 |
| <u>December 31, 2016</u> | | | |
| | Foreign currency Amount | <u>Exchange rate</u> | Book value |
| | <u>(In thousands)</u> | | <u>(NTD)</u> |
| (Foreign currency: functional currency) | | | |
| <u>Financial assets</u> | | | |
| <u>Monetary assets</u> | | | |
| JPY : NTD | \$ 2 | 0.2756 | \$ - |
| USD : NTD | 3,712 | 32.250 | 119,727 |
| EUR : NTD | - | 33.900 | - |
| CHF : NTD | - | 31.525 | - |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| JPY : NTD | \$ 1,601 | 0.2756 | \$ 441 |
| USD : NTD | 1,539 | 32.250 | 49,618 |
| EUR : NTD | - | 33.900 | - |

- iv. Total exchange gain (loss), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2017 and 2016, amounted to (\$7,710) and (\$3,221), respectively.
- v. Analysis of foreign currency market risk arising from significant foreign exchange variation:

| | | <u>Year ended December 31,2017</u> | | | |
|--|-----------|------------------------------------|------------------|-----------------------------|------|
| | | Sensitivity analysis | | | |
| | | Degree of | Effect on profit | Effect on other | |
| | | <u>variation</u> | <u>or loss</u> | <u>Comprehensive income</u> | |
| (Foreign currency: functional currency) | | | | | |
| <u>Financial assets</u> | | | | | |
| <u>Monetary assets</u> | | | | | |
| | JPY : NTD | 1% | \$ | - | \$ - |
| | USD : NTD | 1% | | 1,165 | - |
| | EUR : NTD | 1% | | - | - |
| <u>Financial liabilities</u> | | | | | |
| <u>Monetary items</u> | | | | | |
| | JPY : NTD | 1% | \$ | 2 | \$ - |
| | USD : NTD | 1% | | 1,255 | - |

| | | <u>Year ended December 31,2016</u> | | | |
|--|-----------|------------------------------------|------------------|-----------------------------|------|
| | | Sensitivity analysis | | | |
| | | Degree of | Effect on profit | Effect on other | |
| | | <u>variation</u> | <u>or loss</u> | <u>Comprehensive income</u> | |
| (Foreign currency: functional currency) | | | | | |
| <u>Financial assets</u> | | | | | |
| <u>Monetary assets</u> | | | | | |
| | JPY : NTD | 1% | \$ | - | \$ - |
| | USD : NTD | 1% | | 1,197 | - |
| | EUR : NTD | 1% | | - | - |
| <u>Financial liabilities</u> | | | | | |
| <u>Monetary items</u> | | | | | |
| | JPY : NTD | 1% | \$ | 4 | \$ - |
| | USD : NTD | 1% | | 496 | - |
| | EUR : NTD | 1% | | - | - |

Interest rate risk

- i. The Company's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company 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 Company to fair value interest rate risk. During the years ended December 31, 2017 and 2016, the Company's borrowings at variable rate were denominated in the NTD.
- ii. The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.
- iii. Based on the simulations performed, the impact on post-tax profit of a 5% shift would be a maximum increase of \$67 and \$60 for the years ended December 31, 2017 and 2016, respectively. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by the management.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures from sales to customers, including outstanding receivables and committed transactions.
- ii. For the year ended December 31, 2017, transactions were processed based on the regulations for credit management, and management does not expect any significant losses from non-performance by these counterparties.

(c) Liquidity risk

- i. Company treasury monitors rolling forecasts of the Company'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. Such forecasting

takes into consideration of the Company's debt financing plans, covenant compliance, compliance with targeted internal balance sheet ratios.

ii. Unused borrowing details of the Company is as follows:

| | <u>December 31,2017</u> | <u>December 31,2016</u> |
|------------------|-------------------------|-------------------------|
| Floating rate | | |
| Current maturity | \$ 50,000 | \$ 105,800 |

The amount of Current maturity borrowing are for the Company's annual operational needs.

iii. The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

None-derivative financial liabilities :

| December 31,2017 | <u>Less than 1</u> | Between 1 | Between 2 | More than |
|--|--------------------|--------------------|--------------------|----------------|
| | <u>year</u> | <u>and 2 years</u> | <u>and 5 years</u> | <u>5 years</u> |
| Short-term borrowings | \$ 25,025 | \$ - | \$ - | \$ - |
| Accounts payable | 161,724 | - | - | - |
| Other payables | 64,056 | - | - | - |
| Long-term borrowings (including current portion) | 23,080 | - | - | - |
| None-derivative financial liabilities : | | | | |
| December 31,2016 | <u>Less than 1</u> | Between 1 | Between 2 | More than |
| | <u>year</u> | <u>and 2 years</u> | <u>and 5 years</u> | <u>5 years</u> |
| Accounts payable | \$ 86,645 | \$ - | \$ - | \$ - |
| Other payables | 79,347 | - | - | - |
| Long-term borrowings (including current portion) | 25,805 | 43,251 | - | - |

iv. The Company does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: None.

- B. Provision of endorsements and guarantees to others: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): please refer to attached Table 1.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- 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: None.
- H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: None.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: None.

(2) Information on investees

None.

(3) Information on investments in Mainland China

None.

14. SEGMENT INFORMATION

(1) General information

The Company operates business only in a single industry relating to silicon wafer. The chief operating decision-maker, Board of Directors who considers the Company as a single performance management entity and assesses performance, makes strategic decisions and allocates resources based on the financial statements of the Company, has identified that the Company has only one reportable operating segment.

(2) Measurement of segment information

The Board of Directors evaluates the performance of the operating segments based on the quarterly financial statements.

(3) Information about segment profit or loss, assets and liabilities

The Company has only one reportable operating segment. Segment profit or loss, assets and liabilities are in agreement with those shown in the financial statements.

(4) Reconciliation for segment profit or loss, assets and liabilities

The Company has only one reportable operating segment. Segment profit or loss, assets and liabilities are in agreement with those shown in the financial statements, thus there is no reconciliation.

(5) Information on products and services

Revenue from external customers is mainly arising from the sales and processing of solar energy related products, detail of revenue balance is as follows:

| | <u>Years ended December 31,</u> | |
|-------------------------------|---------------------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| Multi-crystalline solar wafer | \$ 763,768 | \$ 1,328,674 |
| Processing fees revenue | <u>184,839</u> | <u>42,312</u> |
| | <u>\$ 948,607</u> | <u>\$ 1,370,986</u> |

(6) Geographical information

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

| | <u>Years ended December 31,</u> | | | |
|------------------------|---------------------------------|---------------------------|---------------------|---------------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| | <u>Revenue</u> | <u>Non-current assets</u> | <u>Revenue</u> | <u>Non-current assets</u> |
| Taiwan | \$ 884,608 | \$ 2,343,537 | \$ 1,239,848 | \$ 2,774,622 |
| Asia(excluding Taiwan) | 1,376 | - | 126,354 | - |
| Europe | - | - | 4,784 | - |
| America | <u>62,623</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 948,607</u> | <u>\$ 2,343,537</u> | <u>\$ 1,370,986</u> | <u>\$ 2,774,622</u> |

(7) Major customer information

Information about the Company's sales revenue of major customers for the years ended December 31, 2017 and 2016 is as follows:

| | <u>Years ended December 31,2017</u> | <u>Years ended December 31,2016</u> |
|-----------|-------------------------------------|-------------------------------------|
| Company A | \$ 175,896 | \$ 246,606 |
| Company B | 172,058 | 19,088 |
| Company C | 149,550 | 237,299 |
| Company D | 125,995 | 415,273 |
| Company E | 108,927 | - |
| Company F | <u>22,061</u> | <u>135,179</u> |
| | <u>\$ 754,487</u> | <u>\$ 1,053,445</u> |

DANEN TECHNOLOGY CORPORATION
DETAILS OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| Item | Description | Amount |
|----------------------------------|--------------------------------------|-------------------|
| Petty cash and cash on hand | | \$ 80 |
| Cash in banks | | |
| Demand deposits | | 54,697 |
| Foreign currency demand deposits | JPY 1,477, exchange rate 0.2642 | 76,491 |
| | USD 2,570,226.3, exchange rate 29.76 | |
| | EUR 7.13, exchange rate 35.57 | |
| | CHF 0.28, exchange rate 30.455 | |
| Time deposits | | 574,000 |
| | | <u>\$ 705,268</u> |

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DANEN TECHNOLOGY CORPORATION
DETAILS OF ACCOUNTS RECEIVABLE, NET
DECEMBER 31, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| <u>Name of Customer</u> | <u>Description</u> | <u>Amount</u> | <u>Note</u> |
|--------------------------------|--------------------|------------------|--|
| Company A | | \$ 8,532 | |
| Company C | | 10,764 | |
| Company F | | 22,986 | |
| Company G | | 6,375 | |
| Others | | <u>2,141</u> | None of the balances of each remaining accounts is greater than 5% of this account balance. |
| | | 50,798 | |
| Less : Allowance for bad debts | | (200) | |
| | | <u>\$ 50,598</u> | |

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DANEN TECHNOLOGY CORPORATION
STATEMENT OF INVENTORIES
YEAR ENDED DECEMBER 31, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| Item | Description | Amount | | Note |
|---|-------------|-------------------|--------------|--|
| | | Cost | Market price | |
| Raw materials | | \$ 40,372 | \$ 42,434 | Use net realizable value as market price |
| Supplies | | 12,596 | 13,630 | |
| Work in process | | 39,429 | 39,118 | |
| Semi-finished goods | | 17,754 | 14,739 | |
| Finished goods | | 24,982 | 19,459 | |
| | | 135,133 | \$ 129,380 | |
| Less: Allowance for inventory valuation and obsolescence losses | | (23,286) | | |
| | | <u>\$ 111,847</u> | | |

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DANEN TECHNOLOGY CORPORATION
DETAILS OF LONG-TERM BORROWINGS
DECEMBER 31, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| <u>Type of borrowings</u> | <u>Creditors</u> | <u>Description</u> | <u>Maturity</u> <u>Within one year</u> | <u>Maturity longer</u> <u>than one year</u> | <u>Total</u> | <u>Contract period</u> | <u>Interest</u> <u>Rate</u> | <u>Financing</u> | <u>Collateral</u> <u>Or guarantee</u> |
|---------------------------|----------------------|--------------------|---|--|--------------|------------------------|--------------------------------|------------------|--|
| Unsecured borrowings | TAIWAN BUSINESS BANK | | \$ 22,917 | \$ - | \$ - | 2016.11.28~2018.11.28 | 1.45% | - | None |

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DANEN TECHNOLOGY CORPORATION
DETAILS OF OPERATING REVENUE
YEAR ENDED DECEMBER 31, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| Item | Quantity | Amount | Note |
|-------------------------------|-----------------|-------------------|------|
| Multi-crystalline solar wafer | 38,753 thousand | \$ 763,768 | |
| Processing fees revenue | | 184,839 | |
| | | <u>\$ 948,607</u> | |

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DANEN TECHNOLOGY CORPORATION
DETAILS OF OPERATING COSTS
YEAR ENDED DECEMBER 31, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| <u>Item</u> | <u>Description</u> | <u>Amount</u> | <u>Note</u> |
|--|--------------------|-------------------|-------------|
| Direct material | | | |
| Opening balance of raw materials | | \$ 55,533 | |
| Add: Purchases during the year | | 593,330 | |
| Less: Ending balance of raw materials | | (40,373) | |
| Sales of raw material | | (235,814) | |
| Transfer to manufacturing expenses and research and development expenses | | <u>(2,161)</u> | |
| Materials used during the year | | 370,515 | |
| Indirect material | | | |
| Opening balance of supplies | | 18,273 | |
| Add: Purchases during the year | | 188,297 | |
| Less: Ending balance of supplies | | (12,596) | |
| Transfer to manufacturing expenses and research and development expenses | | <u>(193,974)</u> | |
| Supplies used during the year | | - | |
| Direct labour | | 68,677 | |
| Manufacturing overhead | | <u>600,152</u> | |
| Manufacturing cost | | 1,039,344 | |
| Add: Opening balance of work in process and semi-finished goods | | 40,385 | |
| Less: Ending balance of work in process and semi-finished goods | | (39,429) | |
| Production loss | | (18,698) | |
| Other adjustments | | (84) | |
| Cost of finished goods | | 1,021,518 | |
| Add: Opening balance of finished goods | | 55,449 | |
| Less: Ending balance of finished goods | | (42,618) | |
| Semi-finished goods sold | | <u>(39,715)</u> | |
| Cost of goods manufactured | | 994,634 | |
| Unamortised manufacturing | | 360,307 | |

DANEN TECHNOLOGY CORPORATION
DETAILS OF OPERATING COSTS
YEAR ENDED DECEMBER 31, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | |
|---|---------------------|
| expenses | |
| Raw material sale cost | 235,814 |
| Cost of semi-finished goods sold | 39,715 |
| Production loss | 18,698 |
| Gain from reversal of inventory market value decline | (8,309) |
| Revenue from sale of scraps | (796) |
| Other adjustments | (70,256) |
| Operating costs | <u>\$ 1,569,807</u> |

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DANEN TECHNOLOGY CORPORATION
DETAILS OF MANUFACTURING OVERHEAD
YEAR ENDED DECEMBER 31, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| Item | Description | Amount | Note |
|--|-------------|--------------------|---|
| Depreciation | | \$ 540,950 | |
| Supplies expenses | | 177,268 | |
| Utilities expenses | | 101,452 | |
| Indirect labour | | 36,312 | |
| Others | | 104,477 | None of the balances of each remaining accounts is greater than 5% of this account balance. |
| Less: Unamortised manufacturing expenses | | (<u>360,307</u>) | |
| | | <u>\$ 600,152</u> | |

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DANEN TECHNOLOGY CORPORATION
DETAILS OF SELLING EXPENSES
YEAR ENDED DECEMBER 31, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| <u>Item</u> | <u>Description</u> | <u>Amount</u> | <u>Note</u> |
|--------------------|--------------------|-----------------|--|
| Wages and salaries | | \$ 5,148 | |
| Supplies expenses | | 1,482 | |
| Utilities expenses | | 505 | |
| Insurance expenses | | 492 | |
| Others expenses | | 1,459 | None of the balances of each remaining accounts is greater than 5% of this account balance |
| | | <u>\$ 9,086</u> | |

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DANEN TECHNOLOGY CORPORATION
DETAILS OF GENERAL AND ADMINISTRATIVE EXPENSES
YEAR ENDED DECEMBER 31, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| Item | Description | Amount | Note |
|---------------------------|-------------|------------------|---|
| Wages and salaries | | \$ 30,142 | |
| Insurance expenses | | 2,495 | |
| Professional service fees | | 2,472 | |
| Others expenses | | <u>11,751</u> | None of the balances of each remaining accounts is greater than 5% of this account balance. |
| | | <u>\$ 46,860</u> | |

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DANEN TECHNOLOGY CORPORATION
DETAILS OF RESEARCH AND DEVELOPMENT EXPENSES
YEAR ENDED DECEMBER 31, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| Item | Description | Amount | Note |
|--------------------|-------------|------------------|---|
| Wages and salaries | | \$ 8,667 | |
| Insurance expenses | | 771 | |
| Utilities expenses | | 742 | |
| Others expenses | | 745 | None of the balances of each remaining accounts is greater than 5% of this account balance. |
| | | <u>\$ 10,925</u> | |

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DANEN TECHNOLOGY CORPORATION
DETAILS OF EMPLOYEE BENEFIT EXPENSE,
DEPRECIATION, AND AMORTIZATION
YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | 2017 | | | 2016 | | |
|----------------------------------|-----------------|--------------------|------------|-----------------|--------------------|------------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Employee benefit expense (Note) | | | | | | |
| Wages and salaries | \$ 101,320 | \$ 42,212 | \$ 143,532 | \$ 139,784 | \$ 45,827 | \$ 185,611 |
| Labour and health insurance fees | 8,778 | 3,473 | 12,251 | 10,829 | 4,118 | 14,947 |
| Pension costs | 3,669 | 1,745 | 5,414 | 4,635 | 2,075 | 6,710 |
| Other personnel expenses | 6,653 | 880 | 7,533 | 9,454 | 851 | 10,305 |
| Total | 120,420 | 48,310 | 168,730 | 164,702 | 52,871 | 217,573 |
| Depreciation | 540,949 | 1,609 | 542,558 | 547,793 | 1,708 | 549,501 |
| Amortisation | 847 | 587 | 1,434 | 1,034 | 645 | 1,679 |

Note: As of December 31, 2017 and 2016, the number of employees of the Company was 220 and 280, respectively.

DANEN TECHNOLOGY CORPORATION
HOLDING OF MARKETABLE SECURITIES
(NOT INCLUDING SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES)
YEARS ENDED DECEMBER 31, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Attached Table 1.

| Holding company | Marketable securities name and type | Relations with Securities issuer | Account name | At the end of the period | | | | Notes |
|------------------------------|-------------------------------------|----------------------------------|--|------------------------------------|------------|--------------------|------------|-------|
| | | | | Number of shares (thousand shares) | Book value | Shareholding ratio | Fair value | |
| Danen technology corporation | Centrillion Technologies, Taiwan. | | Financial Assets Carried at Cost - non-current | 3,100 | \$ 155,000 | 10.64 | \$ 155,000 | |