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Stock Code: 3661

Alchip Technologies, Limited

2016 Annual Report

Taiwan Stock Exchange Market Observation Post System: <http://mops.twse.com.tw>
Alchip Annual Report is available at: <http://www.alchip.com/>

Printed on April 18, 2017

I. Name, Title and Contact Information for Company's Spokesperson, Acting Spokesperson, Litigious and Non-litigious Agent

Spokesperson	Deputy Spokesperson
Name : Daniel Wang Title : Chief Financial Officer Tel : +886-2-2659-9357 E-mail : IR@alchip.com	Name : Thomas Tong Title : VP of Business Development Tel : +886-2-2799-2318 E-mail : IR@alchip.com
Litigious and Non-litigious Agent	
Name : Nancy Chan Title : Financial Controller Tel : +886-2-2799-2318 E-mail : IR@alchip.com	

II. Contact Information of Company's Headquarters, Branches and Plant

Office	Address	Tel.
(I) The Company		
Alchip Technologies, Ltd.	PO Box 309, Ugland House, Grand Cayman, KY-1104, Cayman Islands	886-2-2799-2318
(II) Subsidiaries		
1. The subsidiary in Taiwan: Alchip Technologies, Inc.	9F., No.12, Wenhua St., Neihu Dist., Taipei, Taiwan 114	886-2-2799-2318
2. The branch in Taiwan: Alchip Technologies, Ltd. Taiwan Branch	9F., No.12, Wenhua St., Neihu Dist., Taipei, Taiwan 114	886-2-2799-2318
3. The subsidiary in Hong Kong: Alchip Technologies, Ltd.	Bank of America Tower, 12 Harcourt Road Central, Hong Kong	852-2522-2922
4. The sub-subsidiary in Shanghai: Alchip Technologies, Ltd. (Shanghai)	Registered Address: Room 632-19, 2 F., No. 351, Guoshoujing Rd., Zhangjiang Hi-Tech Park, Shanghai Business Address: 11F, East tower Greenland Center, 596 Middle Longhua Road, Shanghai, China 200032	86-21-5235-0999
5. The subsidiary in Japan: アルチップ・テクノロジーズ Co., Ltd. (Alchip Technologies, K.K.)	10F Shin-Yokohama Square Bldg, 2-3-12 Shin-Yokohama, Kouhoku Yokohama Kanagawa Japan, 222-0033	81-45-470-1090
6. The subsidiary in U.S.: AlChip Technologies, Inc.	P.O. Box 5176 Santa Clara, CA 95054	1-408-727-3957
7. The sub-subsidiary in Wuxi: Alchip Technologies (Wuxi) Inc.	4F, Building A5, No.777, Jianzhuxi Road, Binhu District, Wuxi, Jiangsu, P.R.China	86-510-8512-0332
8. Alchip's BVI incorporated subsidiary: Alchip Investment Inc.	Portcullis TrustNet Chambers, 4th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands VG1110	886-2-2799-2318
9. The sub-subsidiary in Hefei: Alchip Technologies (Hefei) Inc.	Room 605-610, Building C4, Innovation Industrial Park, No.800 West Wangjiang Road, Hefei, P.R.China	86-551-65655001

III. Members of the Board of Directors

Title	Name	Nationality	Academic Qualifications and Principal Work Experience	
Chairman	Kinying Kwan	U.S., R.O.C.	Academic Qualifications	B.S. in Electronic Engineering, University of Illinois, U.S.
			Work Experience	CEO of Alchip Technologies, Limited Founder of Altius Solutions Director of Cirus Logic
Director	Herbert Chang	R.O.C.	Academic Qualifications	M.S. in Management Science, National Chiao Tung University
			Work Experience	President of Investar Capital inc. GM of Investar Capital inc.
Director	Ng, Benjamin Jin-Ping	Australia	Academic Qualifications	M.S. of Business Administration, Macquarie University, Australia B.S. of Engineering, University of New South Wales, Australia
			Work Experience	Advisory Partner of SAIF Advisors Ltd. Head of Corporate Business Development of Cisco Systems
Director	Johnny Shyang Lin Shen	U.S., R.O.C.	Academic Qualifications	B.S. of Electronic Engineering, California State University, Los Angeles, U.S.
			Work Experience	COO of Alchip Technologies, Limited GM of China Business Unit and VP of SoC Design Div., Alchip Technologies, Limited Senior Manager of Cadence Design System Manager of Altius/Simplex Solutions
Independent Director	Brian Chiang	R.O.C.	Academic Qualifications	B.S. of Business Administration, University of Southern California, U.S.
			Work Experience	Managing Director of Walden International Taiwan Co., Ltd.
Independent Director	Mao-Wei Hung	R.O.C.	Academic Qualifications	Ph.D., Finance, Northwestern University, U.S. M.A. in Economics, University of Wisconsin-Madison, U.S. B.A. in Economics, National Taiwan University
			Work Experience	Dean of College of Management, National Taiwan University Joint Appointment Research Fellow of the Institute of Economics, Academia Sinica Professor of the Department of Finance, McGill University, Canada
Independent Director	Binfu Chuang	U.S.	Academic Qualifications	M.S. in Electrical Engineering, Oregon State University, U.S. B.S., National Chiao Tung University
			Work Experience	Chairman of Shanghai SyncMOS Semiconductor Co., Ltd.

IV. Contact information of Share Transfer Agent

Name: Transfer Agent Department of CTBC Bank

Address: 5F., No. 83, Section 1, Chongqing S. Rd., Zhongzheng District, Taipei City 100, Taiwan

Tel: 886-2-6636-5566

Website: <https://www.ctcbank.com>

V. Contact information of Auditing CPA

CPA Firm: Deloitte & Touche

Name of CPA: Mr. Jamie Lee and S.C. Huang

Address: 12F., No. 156, Section 3, Minsheng E. Rd., Songshan District, Taipei City 105, Taiwan

Tel: 886-2-2545-9988

Website: <http://www.deloitte.com.tw>

VI. Names of stock exchanges where foreign securities are listed and inquiry on the information of foreign securities: None.

VII. The Company's web address: <http://www.alchip.com>

Notice to readers

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

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I. Letter to Shareholders

Dear Shareholders,

Given the sluggish global semiconductor market coupled with the financial impact from the bankruptcy of our bitcoin mining customer, KnC Group AB, Alchip posted revenue and profit decline in 2016. As stated, the financial impact of KnC's bankruptcy and the declining service revenue in the first half year were the main reason for our poor top and bottom line performance. However, Alchip walked out of the trough starting from third quarter. We posted the highest sales and profit numbers in the fourth quarter on new projects began to kick in. Overall, in 2016, the consolidated operating revenue was around USD114 million, a decline of 4.09% compared to 2015. In addition to the lowering gross margin, loss realization from customer's bankruptcy (KnC Group AB) led to our 2016 operating level turned negative. As a result, Alchip's posted net loss of NTD211M in 2016.

On the R&D front, Alchip maintains its leading position within the ASIC design service industry. About 82% revenue of Alchip is for advanced process nodes (40nm and more advanced). For business development, we keep on partnering with tier-one system customers, and complete a number of 16nm designs in fields such as networking and high performance computer.

To analyze by sales territories, benefit from the commencement of mass production for products of customers, Asia Pacific Region emerges as Alchip's first largest source of revenue. Japan was the second largest source of revenue. With networking products continuously entering into design and production, its proportion in 2016 has improved significantly compared to 2015. In despite of continuous support from the system customers, the operating revenue from China was the third largest source of revenue.

2016 Financial Performance

On New Taiwan Dollars (NTD), Alchip's 2016 total revenue came at NTD3,691M, down 2.50% YoY from NTD3,786M in 2015. The 2016 bottom line turned negative at NTD211M. On US Dollars (USD) basis, the 2016 revenue came at USD114M, down 4.09% YoY, and the net loss was USD6.5M. For other 2016 financial figures, the gross margin was 13.22%, operating margin was -5.68%, and the ROA and ROE were -5.79% and -7.85%, respectively.

Technological Developments

Given the increasing design demand for advanced process nodes from customers, Alchip had kept on investing in our design capability for advanced process nodes and customized IPs in 2016. Following the success of 16nm designs, Alchip is ready to provide the advanced 10nm design service to our customers and will continuously fortify our position within the advanced process node competition arena.

Corporate Developments

Alchip has deeply plowed the semiconductor industry for 14 years and occupied a certain position in fabless ASIC. In order to enhance our engineering resource and business development, Alchip set up a subsidiary in the High-Tech Industry Development Zone in Hefei, China in 2016. Furthermore, we named Jacky Ni as our Chief Operation Officer in the same time. Given Mr. Ni's intensive experience in China semiconductor/IC design industry, we believe Mr. Ni will help Alchip quickly expand business presence in China and enhance our operating efficiency in the near future.

Outlook for the future

Looking into 2017, Alchip will continue to explore market opportunities through our strengths in ability of advanced process nodes design, firmed strategic alliance with major IP partners, etc.. We believe new applications such as high performance computer, artificial intelligence, automobile electronic, IOT, etc. will be our future main focus as we already saw signals of business opportunities coming. Furthermore, from geographic prospective, we will keep focusing on Great China region, where we think posts significant potential of ASIC business opportunity. Last but not the least, we believe that through our core competence

of providing industry leading service for advanced processing nodes, Alchip will be able to post strong revenue and profit growth in 2017. In addition, Alchip will continuously create value to both our customers and shareholders.

Finally, thank once again with sincerity for sustained efforts of all employees and long-term support and encouragement from shareholders to the Company. We would like to extend our deepest gratitude for all of you !

Best wishes for good health and prosperity!



Kinying Kwan
Chairman



Johnny Shyang-Lin Shen
CEO



Daniel Wang
Chief Financial Officer

II. Company Profile

2.1 Date of Establishment and Company Introduction

Founded in British Cayman Islands on February 27, 2003 by the core technical team of the well-known System-on-Chip company from Silicon Valley under the Chairman Kinying Kwan's lead, Alchip Technologies, Limited (hereinafter referred to as the "Company" or "Alchip") is a leading provider of silicon design and manufacturing solutions for system companies developing high-complexity and high-volume application-specific integrated circuit (ASIC) and System-on-Chip (SoC) design. Headquartered in Taipei, Taiwan, it has established an ASIC manufacturing center in Hsinchu. Based on the consideration of global development policy, the Company built up subsidiaries in China, Japan, and America, and set up an office in Korea (hereinafter referred as the "Group"). The Company had a total of 251 employees in December 2016. The Group's management team has operated and deeply rooted in IC design services for years. The team is composed of SoC design experts from U.S. Silicon Valley and Japan with an average of over 20 years of management experience in the semiconductor industry and their capability for high-end process and chip design better than other competitors' in the industry. In just three years after its establishment, the Company had completed many ASIC design cases from 0.13 um down to 65 nm and put into mass production. In 2009, it started mass-production 40 nm design cases for customers. Stepped into 28 nm design cases in 2013, it completed multiple 28 nm and 20 nm design cases in 2014 and began offering customers the latest 16 nm process design service at the end of the same year. The Company completed the 14nm design case and had wafer start successfully in September 2015. Currently Alchip is ready to provide the advanced 10nm design service to our customers.

Alchip focuses on ASIC and SoC solutions for deep submicron process (40 nm and below). The goal is to help system customers complete low-cost and high-complexity chip design in the shortest time and to speed up the time to market for products of our customers. The Company has completed more than 280 design cases of high-end process SoC since its establishment. The four products application fields are high definition television, communication network equipment, other digital multimedia consumption electronic products (digital cameras, entertainment systems, mobile broadband, etc.) as well as niche products (medical devices, monitoring systems, etc.). Alchip creates impressive results in the application fields as described above, which makes it the first-choice IC design partner among many world-class system manufacturers.

2.2 Company Milestones

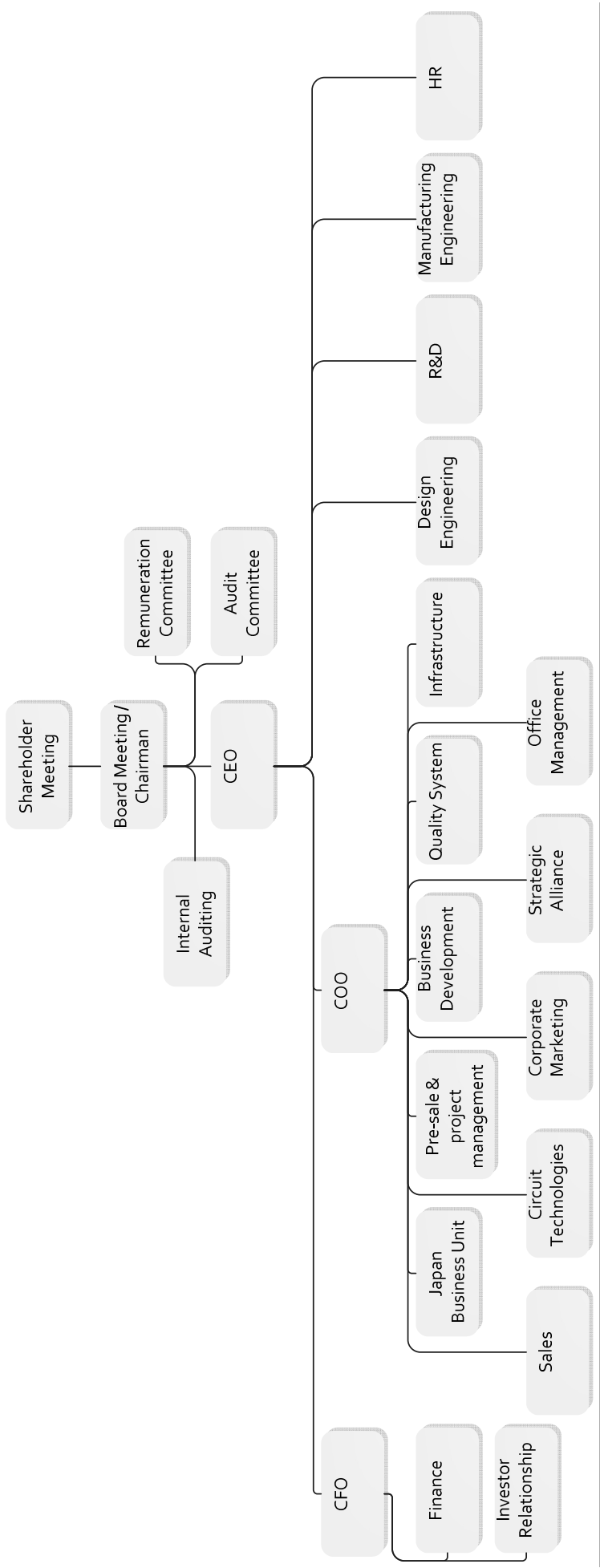
Aug. 2002	The subsidiary was established in Hong Kong.
Sep. 2002	The subsidiary was established in Shanghai.
Feb. 2003	Established an exempted company in the Cayman Islands.
Apr. 2003	Alchip Technologies (Cayman) invested in the subsidiaries in Hong Kong and Shanghai through share exchange.
May 2003	The subsidiary was established in U.S.
Aug. 2003	The first 0.13 um chip design was completed.
Feb. 2004	The subsidiary was established in Japan.
Jul. 2004	Joined the TSMC's Design Center Alliance (DCA).
Sep. 2004	Obtained the order for 0.13 um, 16M gate design from Japan's big firm M Company.
Nov. 2004	Completed the first SoC design for 90 nm, 6M gate high-end consumer electronics, and entered mass production in the second half of 2005.
Jan. 2005	The subsidiary was established in Taiwan.
Apr. 2005	Won the order for 90 nm, 500MHz high-speed calculation SoC design and became the first product across the globe to enter 90G mass production at TSMC.
Aug. 2005	The monthly shipment reached 1 million units of System on Chip (SoC).
Jun. 2006	Developed the 65 nm ARM 1176 embedded multi-core application processor.
Sep. 2006	Won the order for digital cameras SoC design from Japan's system big firm.
Nov. 2006	Passed ISO9001 certification.
Dec. 2006	The monthly shipment reached 2 million units of SoC.
Feb. 2007	Won the order for 65 nm SoC design.
May 2007	Won the order for HDTV SoC design from Japan's system big firm.
Jun. 2007	The monthly shipment reached 2.5 million units of SoC.
Jul. 2007	Adopted the Verigy V93000 Pin-Scale 800 system as its new-generation chip testing machine.
Jan. 2008	Won the order for mobile communication devices SoC design from a system big firm.
Feb. 2008	Got ARM authorization.
Mar. 2008	Won the order for digital TV SoC design from Japan's system big firm.
Mar. 2008	Joined the Cadence (Power Forward Initiative, PFI) Alliance.
Apr. 2008	Joined the ARM Connected Community to become an ARM partner.
May 2008	Became a partner of packaging technology with SONY Semiconductor Group.
Jun. 2008	Alchip was named as the "China's 10 Best Service IC Design House" by 2008 "Electronic Engineering Times" .
Aug. 2008	Adopted the Synopsys Eclipse's low-power design solutions.
Oct. 2008	Mass-produced 65 nm turnkey solution.
Nov. 2008	Won the first 65 nm design case for turnkey solution.
Dec. 2008	Alchip was awarded the special honor to be a "Green Partner" of a Japan's system big firm.
Dec. 2008	Set up heat flow and automated sorting machine.
Feb. 2009	Took part in the ebeam Initiative.
Apr. 2009	Alchip was elected to one of TSMC's global top 9 members of VCA.
Dec. 2009	The Company mass-produced 55 nm turnkey solution.
Dec. 2009	Completed the 40 nm design case for Mobile Game of a system big firm.
Mar. 2010	The monthly shipment reached 2.5 million units of SoC.
Oct. 2010	Completed the 32 nm application design case for HDTV of a system big firm.
Dec. 2010	The accumulated shipment of 55 nm design cases exceeded 10 million units of SoC.
Jan. 2011	Set up a UF3000 Wafer Prober.
Mar. 2011	Completed the 55 nm application design case for Tablet PC.
Apr. 2011	The accumulated shipment of 55 nm design cases exceeded 18 million units of SoC.
Jul. 2011	Alchip's Headquarters moved to Solar Technology Square, Taipei Neihu Technology Park.
Sep. 2011	Completed the 40 nm design case for imaging equipment.
Dec. 2011	Passed ISO 9001 extended authentication.
Feb. 2012	Gained the special honor to be a "2011 Best Supplier of the Year Award" of a Japan's big firm.
Mar. 2012	Won the order for 28 nm SoC design.
May 2012	Alchip's shipments in cooperation with ASE Group hit 50 million units of SoC.
Aug. 2012	The subsidiary was established in Wuxi China.
Sep. 2012	Completed the 28 nm design case for Mobile Game of a system big firm.
Dec. 2012	Alchip was awarded the special honor to be the Deloitte Technology Fast 500 Asia Pacific.
Dec. 2012	The subsidiary in Japan passed ISO9001 certification.

Jun. 2013	Won the No. 1 in the annual evaluation on partners of a Japan's big firm.
Jul. 2013	Completed the 28 nm design case for Bitcoin mining machine.
Aug. 2013	Completed the 40 nm design case for high-efficiency imaging equipment.
Sep. 2013	Completed the 28 nm design case for processor (supercomputer).
Nov. 2013	Passed ISO9001 certification.
Feb. 2014	Completed the 20 nm design case for Bitcoin mining machine.
May 2014	Completed the 28 nm design case for medical device of a Japan's big firm.
Jun. 2014	Won the No. 1 in the annual evaluation on partners of a Japan's big firm.
Jun. 2014	Completed the 28 nm design case for Litecoin mining machine.
Sep. 2014	Completed the 28 nm design case for entertainment machine of a Japan's big firm.
Oct. 2014	The Company's shares were publicly listed on the Taiwan Stock Exchange.
Jan. 2015	Alchip's BVI incorporated subsidiary and Alchip's Taiwan Branch were established.
Feb. 2015	Completed the 16 nm design case for Bitcoin mining machine.
Jul. 2015	Completed the 28 nm design case for high-efficiency imaging equipment of a Korea's firm.
Sep. 2015	Completed the 14 nm design case for Bitcoin mining machine.
Feb. 2016	Completed the 28 nm design case for imaging equipment of a Japan's big firm.
Jul. 2016	Completed the 28 nm design case for networking equipment of a China's big firm.
Oct. 2016	Alchip's Hefei sub-subsidiary was established.
Dec. 2016	Completed the 16 nm design case for HPC equipment of a Japan's big firm.

III. Corporate Governance Report

3.1 Organization

3.1.1 Organizational chart



3.1.2 Major corporate functions

Department Name	Responsibilities
Finance	Responsible for the Company's fund allocation and accounting treatments.
Investor Relationship	<ol style="list-style-type: none"> 1. Handling all matters relating to the Taiwan Stock Exchange. 2. Make routine communications with investors (natural persons and juridical persons). 3. Hold Investment Conferences for potential investors. 4. Invite investors to participate in negotiation conferences.
Strategy Alliance	<ol style="list-style-type: none"> 1. Develop and maintain partnerships with strategic suppliers. 2. Negotiate the target price with suppliers to provide pre-sales support for relevant departments. 3. Develop new suppliers or introduce competitive / high-end technologies from current suppliers to achieve the cost-effectiveness. 4. Develop and implement all procurement policies and ensure efficient operations of procurement and organizational interests.
Corporate Marketing	Responsible for all matters relating to the Company's global marketing.
Design Engineering	Complete the design realization from RTL or netlist to GDSII for customers.
R&D	<ol style="list-style-type: none"> 1. Provide design SOP, flow & methodology. 2. Circuit & customization.
Circuit Technologies	<ol style="list-style-type: none"> 1. Develop analog/mixed-signal silicon intellectual property. 2. Provide customized circuit design services and technical support for business units.
Manufacturing Engineering	<ol style="list-style-type: none"> 1. Develop and complete R&D direction and objectives of the Company's production technologies. 2. Provide advanced testing and packaging and solutions for product / component engineering.
Japan Business Unit	Japan Business development, customer services and project management of business units.
Sales	Business development and customer services.
Business Development	Corporate business strategy, analysis and development.
Pre-sale and project management	Pre-sale support and project management.
Quality System.	Responsible for the planning, implementation and management of the Company's quality policy.
Infrastructure	Responsible for the planning, implementation and management of information operations.
Internal Auditing.	Assist the Board of Directors, CEO, and management in the examination and assessment for the internal control system, measure the efficiency and effectiveness of operations, and provide timely proposals for improvement as the basis for amendment on the internal control systems so as to ensure its sustainable and effective operation.
Human Resources Management	Human Resources management and development.
Office Management	Control the whole administrative management such as the Company's administration & general affairs, and safety & hygiene.

3.2 Information on the Company's Directors, Supervisors, General Managers, Vice Presidents, Deputy Managers and Heads of All the Company's Divisions and Branches

3.2.1 Information on Directors

April 18, 2017

Title	Nationality	Name	Gender	Date Elected	Term of Office	Date of First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Academic Qualifications & Major Experience	Other Position	Executives, Supervisors or spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	U.S.A, R.O.C.	Kinying Kwan	Male	06/24/2016	3	02/27/2003	680,000	1.10%	680,000	1.12%	0	0%	0	0%	<p>Academic Qualifications: <ul style="list-style-type: none"> ■ B.S. in Electronic Engineering, of Illinois, U.S. </p> <p>Work Experience: <ul style="list-style-type: none"> ■ CEO of Alchip Technologies Limited ■ Founder of Altius Solutions ■ Deputy assistant general manager of Cirrus Logic </p>	<ul style="list-style-type: none"> ■ Executive Director of the Company's sub-sub-branch in Shanghai ■ Director of the Company's subsidiary in Taiwan ■ Director of the Company's subsidiary in Japan ■ Director of the Company's subsidiary in U.S. ■ Director of the Company's subsidiary in Hong Kong 			
Director	R.O.C.	Herbert Chang	Male	06/24/2016	3	04/09/2003	0	0%	0	0%	0	0%	0	0%	<p>Academic Qualifications: <ul style="list-style-type: none"> ■ M.S. in Management Science, National Chiao Tung University </p> <p>Work Experience: <ul style="list-style-type: none"> ■ President of Investor Capital inc. ■ General Manager of Capital inc. </p>	<ul style="list-style-type: none"> ■ Director of Monolithic Power Systems, Inc. ■ CEO of C Squared Management Corporation ■ General Manager of Mutuo Optronics Corporation ■ Supervisor of the Company's subsidiary in Taiwan 			

Director	AUS.	Benjamin Jin-Ping Ng	Male	06/24/ 2016	3	04/27/ 2007	100,000	0.16%	100,000	0.16%	0	0%	0	0%	None	None	None
Director	U.S.A, R.O.C.	Johnny Shyang-Lin Shen	Male	06/24/ 2016	3	05/18/ 2011	941,652	1.53%	941,652	1.55%	0	0%	0	0%	None	None	None

																	<p>■ Professor of International Business National Taiwan University</p> <p>■ Independent Director of Mutuo Optronics Corporation</p> <p>■ Supervisor of ShareHope Medicine Co., Ltd.</p>			
Independent Director	R.O.C.	Mao-Wei Hung	Male	06/24/2016	3	11/05/2010	0	0%	0	0%	0	0%	0	0%	0	0%	<p>Academic Qualifications:</p> <p>■ Ph.D., Finance, Northwestern University, U.S.</p> <p>■ M.A. in Economics, University of Wisconsin-Madison, U.S.</p> <p>■ B.A. in Economics, National Taiwan University</p> <p>Work Experience:</p> <p>■ Chair Professor of National Taiwan University</p> <p>■ Dean of College of Management, National Taiwan University</p> <p>■ Joint Appointment Research Fellow of the Institute of Economics, Academia Sinica</p> <p>■ Professor of the Department of Finance, McGill University, Canada</p>	None	None	None
Independent Director	R.O.C.	Brian Chiang	Male	06/24/2016	3	11/05/2011	0	0%	0	0%	0	0%	0	0%	0	0%	<p>Academic Qualifications:</p> <p>■ B.S. in Business Administration, University of Southern California, U.S.</p> <p>Work Experience:</p> <p>■ Managing Director of Walden International Taiwan Co., Ltd.</p>	None	None	None

Independent Director	U.S.A, R.O.C, Binfu Chuang	Male	06/24/2016	3	11/25/2010	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	Work Experience:	Academic Qualifications: <input checked="" type="checkbox"/> M.S., Oregon State University, U.S. <input checked="" type="checkbox"/> B.S., National Chiao Tung University <input checked="" type="checkbox"/> Chairman of Shanghai SyncMOS Semiconductor Co., Ltd.	Director and General Manager of Shanghai SyncMOS Semiconductor Co., Ltd.	None	None	None
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Professional qualifications and independence analysis of Directors

April 18, 2017

Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience		Independence Criteria(Note)										Number of Other Taiwanese Public Companies Concurrently Serving as an Independent Director							
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	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								
Name																				
Kinying Kwan		✓									✓								✓	0
Herbert Chang		✓	✓								✓								✓	0
Benjamin Jin-Ping Ng		✓	✓								✓								✓	0
Johnny Shyang-Lin Shen		✓	✓								✓								✓	0
Mao-Wei Hung	✓		✓								✓								✓	1

Brian Chiang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Binfu Chuang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	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. (However, if the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary, it doesn't apply.)
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 powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the GTSM".
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3.2.2 Inforamtion of General Managers, VPs, Deputy General Managers and Heads of All the Company's Divisions and Branches

April 18, 2017

Title	Nationality	Name	Gender	Date of Inauguration	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Academic Qualifications & Major Experience	Position(s) Held Concurrently in any Other Company	With Spouse or Relative Within the Second Degree of Kinship who is a Managerial Officer		
					Shares	Holding Percentage	Shares	Holding Percentage	Shares	Holding Percentage			Title	Name	Relation
CEO	U.S., R.O.C.	Johnny Shyang-Lin Shen	Male	01/01/2010	941,652	1.55%	0	0%	0	0%	<p>Academic qualifications:</p> <ul style="list-style-type: none"> ■ B.S. in Electronic Engineering, California State University, Los Angeles, U.S. <p>Work experience:</p> <ul style="list-style-type: none"> ■ COO of Alchip Technologies, Limited ■ GM of China Business Unit and VP of SoC Design Div., Alchip Technologies, Limited ■ Senior Manager of Cadence Design System ■ Manager of Altius/Simplex Solutions ■ Senior Engineer of Sun Microsystems ■ Engineer of Tandem Computer 	<ul style="list-style-type: none"> ■ Director and CEO of the Company's subsidiary in Taiwan ■ CEO of the Company's sub-subsubsidiary in Shanghai ■ Executive Director of the Company's sub-subsubsidiary in Wuxi ■ Managerial Officer of the Company's branch in Taiwan ■ Director of the Company's sub-subsubsidiary in Hefei 	None	None	None
COO	China	Jacky Ni	Male	11/11/2016	0	0%	0	0%	0	0%	<p>Academic qualifications:</p> <ul style="list-style-type: none"> ■ M.S. in Electrical Engineering, Hefei University of Technology ■ B.S. in Electrical Engineering, Hefei University of Technology <p>Work experience:</p> <ul style="list-style-type: none"> ■ Deputy Country Manager, Synopsys Inc. Shanghai office ■ Sr. Sales Manager, SUN Microsystems (China) Co., Ltd. 	<ul style="list-style-type: none"> ■ Chairman of the Company's sub-subsubsidiary in Hefei 	None	None	None

Title	Nationality	Name	Gender	Date of Inauguration	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Academic Qualifications & Major Experience	Position(s) Held Concurrently in any Other Company	With Spouse or Relative Within the Second Degree of Kinship who is a Managerial Officer		
					Shares	Holding Percentage	Shares	Holding Percentage	Shares	Holding Percentage			Title	Name	Relation
GM of Japan Business Unit	Japan	Kozo Fujita	Male	08/15/2012	489,915	0.81%	0	0%	0	0%	<p>Academic qualifications:</p> <ul style="list-style-type: none"> ■M.S. in Industrial Engineering, Osaka Prefecture University ■B.S. in Industrial Engineering, Kinki University <p>Work experience:</p> <ul style="list-style-type: none"> ■VP, Business Development of Alchip Technologies, Limited ■Director of Candence Design Systems ■Director of Simplex Solutions 	<ul style="list-style-type: none"> ■Chairman and GM of the Company's subsidiary in Japan 	None	None	None
Deputy GM of Japan Business Unit	Japan	Junichiro Hosaka	Male	07/02/2009	40,000	0.07%	0	0%	0	0%	<p>Academic qualifications:</p> <ul style="list-style-type: none"> ■B.A. in Economics, YOKOHAMA National University <p>Work experience:</p> <ul style="list-style-type: none"> ■Chief Financial Officer of Alchip Technologies, Limited ■Chief Financial Officer of Inno Micro Corporation ■General Manager of FOI Corporation ■Manager of Verisity Design KK ■Manager of Candence Design Systems 	<ul style="list-style-type: none"> ■Director of the Company's subsidiary in Japan 	None	None	None
GM of China	R.O.C.	Andy Lin	Male	11/11/2016	55,000	0.09%	0	0%	0	0%	<p>Academic qualifications:</p> <ul style="list-style-type: none"> ■MBA, University of Oxford ■B.S. in Business Administration, National Taiwan University <p>Work experience:</p> <ul style="list-style-type: none"> ■VP of China Business Unit 	<ul style="list-style-type: none"> ■Director and GM of the Company's sub-subsiary in Hefei 	None	None	None

Title	Nationality	Name	Gender	Date of Inauguration	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Academic Qualifications & Major Experience	Position(s) Held Concurrently in any Other Company	With Spouse or Relative Within the Second Degree of Kinship who is a Managerial Officer		
					Shares	Holding Percentage	Shares	Holding Percentage	Shares	Holding Percentage			Title	Name	Relation
											<ul style="list-style-type: none"> ■ Sales Manager of Logitech International S.A. 				
VP of Business Development	R.O.C.	Thomas Tong (Note 1)	Male	09/10/2007	-	-	-	-	-	-	-	-	-	-	-
VP of Design Engineering	R.O.C.	Leo Cheng	Male	08/15/2012	9,025	0.01%	0	0%	0	0%	<p>Academic qualifications:</p> <ul style="list-style-type: none"> ■ M.S. in Electronic Engineering, University of Southern California, U.S. <p>Work experience:</p> <ul style="list-style-type: none"> ■ Director, Design Engineering Div. of Alchip Technologies, Limited ■ Senior Engineer of Cirrus Logic Inc. 	<ul style="list-style-type: none"> ■ GM of the Company's sub-subsiary in Wuxi ■ Supervisor of the Company's sub-subsiary in Hefei 	None	None	None
VP of Corporate Marketing	R.O.C.	David Chiang (Note 2)	Male	09/09/2009	-	-	-	-	-	-	-	-	-	-	-
Chief Financial Officer	R.O.C.	Daniel Wang	Male	12/29/2011	20,000	0.03%	0	0%	0	0%	<p>Academic qualifications:</p> <ul style="list-style-type: none"> ■ MBA of Baruch College-The City University of New York, U.S. <p>Work experience:</p> <ul style="list-style-type: none"> ■ Representative of Fubon Securities Co., Ltd. Shanghai Representative Office 	<ul style="list-style-type: none"> ■ Director of Alchip's BVI incorporated subsidiary 	None	None	None

Title	Nationality	Name	Gender	Date of Inauguration	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Academic Qualifications & Major Experience	Position(s) Held Concurrently in any Other Company	With Spouse or Relative Within the Second Degree of Kinship who is a Managerial Officer		
					Shares	Holding Percentage	Shares	Holding Percentage	Shares	Holding Percentage			Title	Name	Relation
Financial Controller	R.O.C.	Nancy Chan	Female	09/18/2004	20,000	0.03%	0	0%	0	0%	Academic qualifications: ■M.S. in Risk Management, University of Reading, United Kingdom ■B.S. in Accounting, National Taiwan University Work experience: ■Deputy Manager of Deloitte & Touche	■Director of Alchip's BVI incorporated subsidiary	None	None	None

Note 1: Mr. Thomas Tong resigned from the Company's insider on Nov. 11, 2016.

Note 2: Mr. David Chiang resigned from the Company's insider on Nov. 11, 2016.

3.2.3 Remuneration of Directors, Supervisors, General Managers and Vice Presidents in the most recent year

A. Remuneration of Directors

Unit: NT\$ thousand

Title	Name	Remuneration				Relevant Remuneration Received by Directors Who are Also Employees				Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%) (Note2)		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) (Note 1)		The company	Companies in the consolidated financial statements			
Chairman	Kinying Kwan	7,265	0	0	0	0	0	0	0	0	0	0	-	N/A
Director	Herbert Chang	0	0	0	581	0	581	0	0	0	0	0	-	N/A
Director	Benjamin Jin-Ping Ng	0	0	0	581	0	581	0	0	0	0	0	-	N/A
Director	Johnny Shyang-Lin Shen	0	0	0	0	8,228	0	8,228	0	0	0	0	-	N/A
Independent Director	Mao-Wei Hung	0	0	0	581	0	581	0	0	0	0	0	-	N/A
Independent Director	Brian Chiang	0	0	0	581	0	581	0	0	0	0	0	-	N/A
Independent Director	Binfu Chuang	0	0	0	581	0	581	0	0	0	0	0	-	N/A

Note 1: On March 10, 2017, the Board of the Company approved that there is no compensation distribution to directors and employees.

Note 2: The company had net loss in 2016.

Range of Remuneration	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	Herbert Chang, Benjamin Jin-Ping Ng, Mao Wei Hung, Brian Chiang, Binfu Chuang, Johnny Shyang-Lin Shen	Herbert Chang, Benjamin Jin-Ping Ng, Mao Wei Hung, Brian Chiang, Binfu Chuang, Johnny Shyang-Lin Shen	Herbert Chang, Benjamin Jin-Ping Ng, Mao Wei Hung, Brian Chiang, Binfu Chuang	Herbert Chang, Benjamin Jin-Ping Ng, Mao Wei Hung, Brian Chiang, Binfu Chuang
NT\$2,000,001 ~ NT\$5,000,000	-	-	-	-
NT\$5,000,001 ~ NT\$10,000,000	Kinying Kwan	Kinying Kwan	Kinying Kwan, Johnny Shyang-Lin Shen	Kinying Kwan, Johnny Shyang-Lin Shen
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	7	7	7

B. Remuneration to Supervisors: It is not applicable as the Company does not have supervisors.

C. Remuneration to General Managers and Vice Presidents

Unit: NT\$ thousand

Title	Name	Salary(A)		Severance Pay and Pensions (B)		Bonuses and Allowance (C)		Compensation to Employees(D) (Note1)				Ratio of total compensation (A+B+C+D) to net income after tax(%) (Note2)		Compensation Received from Non-consolidated subsidiary
		The Company	Companies in the Consolidated Financial Statements	The Company	Companies in the Consolidated Financial Statements	The Company	Companies in the Consolidated Financial Statements	The Company	The Company	Companies in the Consolidated Financial Statements	Companies in the Consolidated Financial Statements			
CEO	Johnny Shyang-Lin Shen	43,031	43,031	753	753	0	0	Cash	0	Stock	0	-	-	0
COO	Jacky Ni													
GM of Japan Business Unit	Kozo Fujita													
Deputy GM of Japan Business Unit	Junichiro Hosaka													
GM of China	Andy Lin													
VP of Business Development (Note 3)	Thomas Tong													
VP of Design Engineering	Leo Cheng													
VP of Corporate Marketing (Note 4)	David Chiang													
CFO	Daniel Wang													
Financial Controller	Nancy Chan													

Note 1: On March 10, 2017, the Board of the Company approved that there is no compensation distribution to employees.

Note 2: The company had net loss in 2016.

Note 3: Mr. Thomas Tong resigned from the Company's insider on Nov. 11, 2016.

Note 4: Mr. David Chiang resigned from the Company's insider on Nov. 11, 2016.

Remuneration Scale Table

Remuneration Scale to the Company's General Managers and VPs	Name of General Managers and VPs	
	The company	Companies in the Consolidated Financial Statements
Under NT\$ 2,000,000	Jacky Ni/Andy Lin	Jacky Ni/Andy Lin
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (exclusive)	Thomas Tong /Daniel Wang /David Chiang/Nancy Chan	Thomas Tong /Daniel Wang /David Chiang/Nancy Chan
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive)	Johnny Shyang-Lin Shen/Leo Cheng/ Kozo Fujita/Junichiro Hosaka	Johnny Shyang-Lin Shen/Leo Cheng/ Kozo Fujita/Junichiro Hosaka
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive)	-	-
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive)	-	-
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive)	-	-
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive)	-	-
Over NT\$100,000,000	-	-
Total	10	10

4. Employees' bonus paid to Managerial Officers

December 31, 2016; Unit: NT\$ thousand

	Title	Name	Stock Dividend(Note 1)	Cash Dividend(Note 1)	Total	Percentage of the Total Amount to the Net Income After Tax (%)
Executive Officers	CEO	Johnny Shyang-Lin Shen				
	COO	Jacky Ni				
	GM of Japan Business Unit	Kozo Fujita				
	Deputy GM of Japan Business Unit	Junichiro Hosaka				
	GM of China	Andy Lin	0	0	0	-
	VP of Business Development	Thomas Tong (Note 2)				
	VP of Design Engineering	Leo Cheng				
	VP of Corporate Marketing	David Chiang (Note 3)				
	CFO	Daniel Wang				
	Financial Controller	Nancy Chan				

Note 1: On March 10, 2017, the Board of the Company approved that there is no compensation distribution to employees.

Note 2: Mr. Thomas Tong resigned from the Company's insider on Nov. 11, 2016.

Note 3: Mr. David Chiang resigned from the Company's insider on Nov. 11, 2016.

3.2.4 Comparison of the remunerations to Directors, General Managers, and VPs in proportion to the net income after tax from the Company and companies included in the consolidated financial statements in the most recent 2 years, and specify the policies, standards, combinations, procedures for determining remunerations and correlation with business performance

A. The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent years to Directors, General Managers, and VPs of the Company to the net income

Title	Ratio of the Total Remuneration Amount to the Net Income After Tax (%)			
	2015		2016(Note)	
	The Company	Companies in the Consolidated Financial Statements	The Company	Companies in the Consolidated Financial Statements
Directors	20.41%	20.41%	-	-
GMs, and VPs	36.67%	36.67%	-	-

Note: The Company had net loss in 2016.

B. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with business performance

- (1) Remuneration to Directors are determined by the position at the Company, participation and contribution.
- (2) Remuneration to General Managers and VPs are determined according to the Company's regulations and HR policies, while taking into account each individual's position, performance and contribution, and industry standards.

3.3 Implementation Status of Corporate Governance

3.3.1 Operations of the Board

A total of seven (A) meetings of the Board of Directors were held in 2016 and the current year up to the date of publication of the annual report with their attendance shown as follows.

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【 B/A 】	Remarks
Chairman	Kinying Kwan	7	0	100%	
Director	Herbert Chang	7	0	100%	
Director	Benjamin Jin-Ping Ng	3	4	43%	
Director	Johnny Shyang-Lin Shen	7	0	100%	
Independent Director	Mao-Wei Hung	6	1	86%	
Independent Director	Brian Chiang	6	1	86%	
Independent Director	Binfu Chuang	7	0	100%	

Other mentionable items:

- The operation of the Board with any of the following conditions, the date of Board meeting, term, agenda items, all opinions of Independent Directors, and how the company handles opinions of Independent Directors should be stated clearly:

(1) For matters specified in Article 14-3 of the Securities Exchange Act.

Date of Board meeting	Agenda items	Opinions of from Independent Directors	The Company's Conduct for the opinions of Independent Directors
03/04/2016	<ol style="list-style-type: none"> The amendment to the Memorandum and Articles of Association of the Company was approved and adopted. The bonus scheme for the employees and Directors for the year of 2015 was approved. The amendment to the Guideline for Acquisition and Disposal of Assets was approved. The election of directors at the Annual General Meeting scheduled on June 24, 2016 ("Annual General Meeting") was approved. The newly elected Directors at the Annual General Meeting to be released from any restrictions on its participation in competing businesses was approved. 	None	None

	<p>6. The monthly remuneration scheme for the Directors for the year of 2016 was approved.</p> <p>7. The evaluation and appointment of Certified Public Accountant were approved.</p>		
09/29/2016	The establishment of a subsidiary in Hefei, China through Hong Kong subsidiary was approved.	None	None
03/10/2017	<p>1. The amendment to the Guideline for Acquisition and Disposal of Assets was approved.</p> <p>2. Release of prohibition on Directors from participation in competing business was approved.</p> <p>3. The evaluation and appointment of Certified Public Accountant was approved.</p> <p>4. The monthly remuneration scheme for the Directors for the year of 2017 was approved.</p>	None	None

(2) Except the former item, other Board resolutions where Independent Directors have expressed opposition or qualified opinions that have been noted in the record or declared in writing.

2. If there are Directors' avoidance of motions in conflict of interest, the Directors' names, contents of motion, causes for avoidance and voting should be specified: None.

3. Measures taken to strengthen the functions of the Board (such as the establishment of audit committee, enhancement on information transparency) during the current year and past year and evaluation of measures:

The Audit Committee and Remuneration Committee were established in 2010 and 2011 respectively and have assisted the Board in fulfilling its responsibilities in accordance with the Audit Committee Charter and Remuneration Committee Charter.

3.3.2 Operation of Audit Committee

A total of seven (A) Audit Committee meetings were held in 2016 and the current year up to the date of publication of the annual report. Records of attendance by independent directors are shown as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【 B/A 】	Remarks
Independent Director	Mao Wei Hung	6	1	86%	
Independent Director	Brian Chiang	6	1	86%	
Independent Director	Binfu Chuang	7	0	100%	

Other mentionable items:

1. The operation of the Audit Committee with any of the following conditions, 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:

(1) For matters specified in Article 14-5 of the Securities and Exchange Act.

Date of Board meeting	Contents of Motion	Resolutions of Audit Committee	The conduct of the Company for the comments from Audit Committee
03/04/2016	<ol style="list-style-type: none"> 1. The amendment to the Memorandum and Articles of Association of the Company was approved and adopted . 2. The bonus scheme for the employees and Directors for the year of 2015 was approved. 3. The consolidated financial statements for the year ended December 31, 2015 of the Company was approved. 4. The amendment to the Guideline for Acquisition and Disposal of Assets was approved. 5. The monthly remuneration scheme for the Directors for the year of 2016 was approved. 6. The evaluation and appointment of Certified Public Accountant were approved. 	They were approved by Audit Committee.	None.
07/29/2016	The semi-annual consolidated financial statement for the period ended June 30, 2016 of the Company was approved.	It was approved by Audit Committee.	None.
09/29/2016	The establishment of a subsidiary in Hefei, China through Hong Kong subsidiary was approved.	It was approved by Audit Committee.	None.

03/10/2017	<ol style="list-style-type: none"> 1. The consolidated financial statement for the year ended December 31, 2016 of the Company was approved. 2. The amendment to the Guideline for Acquisition and Disposal of Assets was approved. 3. The release of prohibition on Directors from participation in competing industries was approved. 4. The evaluation and appointment of Certified Public Accountant was approved. 5. The monthly remuneration scheme for the Directors for the year of 2017 was approved. 	They were approved by Audit Committee.	None.
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(2) Except the former item, other resolutions which were not approved by the Audit Committee but were approved by two thirds or more of all directors: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. Communication between Independent Directors and Internal Auditors and Accounts (including major items, methods, and results that were communicated concerning the company's financial and business situations):

The Internal Auditor submits the Internal Audit Report to each Independent Director monthly for review and reports in Board meeting quarterly for the audit operations and the implementation status. If there are any special circumstances, the Internal Auditors will immediately notify the audit committee.

The Company's Certified Public Accountant reported the audit results on 2016 financial statements and other communication matters required by relevant laws and regulations in the meeting of the audit committee on March 10, 2017. The communication channel between the Audit Committee and the CPAs has been functioning well.

3.3.3 Corporate governance implementation status and deviations from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reason for any such deviation

Item	Implementation Status		Deviations from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	
I. Does the company establish and disclose the Corporate Governance Best Practice Principles based on “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies”?	V		The Company has considered the Company’s operations and formulated the “Corporate Governance Principles” based on the “Corporate Governance Best Practice Principles for the TWSE/GTSM Listed Companies”. In addition, the Company has implemented properly in accordance with relevant laws and regulations, and disclose them on the Market Observation Post System and the Company’s website.
II. Shareholding Structure & Shareholders’ rights			
1. Does the company have an Internal Operation procedures for appropriate handling shareholders’ suggestions, inquiries, disputes and litigation matters, and implement them in accordance with the procedures?	V		1. The Company has designed the spokesperson to handle shareholders’ suggestions, disputes, etc. and coordinate the relevant departments for implementation.
2. Does the company possess a list of major shareholders and beneficial owner of these major shareholders?	V		2. The Company tracks the shareholdings of directors, officers, and shareholders holding more than 10% of the outstanding shares of the Company.
3. Has the company built and executed a risk management system and firewall between and the Company and its affiliates?	V		3. The Company has formulated the “Operating Procedures for the Group, Specific Companies, and Related Parties Transactions” to clearly identify the division of authority and responsibility between it and its affiliated enterprises with respect to management of personnel, assets, and financial matters, established independent financial systems among affiliated enterprises, and scrupulously operated risk control and firewalls mechanism through the internal audit system.

Item	Implementation Status		Deviations from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	
4. Has the company establish internal rules prohibiting insiders trading on undisclosed information?	V		No material difference.
<p>III. Composition and Responsibilities of the Board of Directors</p> <p>1. Has the company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly?</p>	V	<p>1. The Board consists of seven directors, in which three of them are Independent Directors as adopted in accordance with the “Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies”. The Company has stated the diversification policy for composition of the Board members in Corporate Governance Best Practice Principles and adopted the policy. To achieve the better corporate governance, each Board member has his own specialized field and knowledge of industry.</p>	No material difference.

Name	Item of Diversity				
	Nationality	Management	Leadership	Industry	Finance
Kinying Kwan	U.S.A、R.O.C	V	V	V	
Herbert Chang	R.O.C	V	V	V	
Ng, Benjamin Jin-Ping	Australia	V			
Johnny Shyang-Lin Shen	U.S.A、R.O.C	V	V	V	

Item	Implementation Status		Deviations from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons												
	Yes	No													
		<table border="1"> <thead> <tr> <th colspan="3">Brief Description</th> </tr> </thead> <tbody> <tr> <td>Mao-Wei Hung</td> <td>R.O.C</td> <td>Y</td> </tr> <tr> <td>Brian Chiang</td> <td>R.O.C</td> <td>Y</td> </tr> <tr> <td>Binfu Chuang</td> <td>U.S.A、R.O.C</td> <td>Y</td> </tr> </tbody> </table>	Brief Description			Mao-Wei Hung	R.O.C	Y	Brian Chiang	R.O.C	Y	Binfu Chuang	U.S.A、R.O.C	Y	
Brief Description															
Mao-Wei Hung	R.O.C	Y													
Brian Chiang	R.O.C	Y													
Binfu Chuang	U.S.A、R.O.C	Y													
<p>2. Other than the Remuneration Committee and the Audit Committee which are required by law, does the Company plan to set up other Board committees?</p> <p>3. Does the company establish methodology for evaluating the performance of its Board Directors, on an annual basis?</p> <p>4. Does the company regularly evaluate its independence of CPAs?</p>	Y	<p>2. Other various functional committees have not been set up under the law by the Company in addition to the remuneration committee and audit committee.</p> <p>3. The Board of the Company always conducts the matters in accordance with the “Regulations Governing Procedure for Board of Directors Meetings of Public Companies.” The Company has not established methodology for the performance evaluation of Board Directors.</p> <p>4. The Company’s Audit Committee and Board of Directors annually evaluate the independence, competence, and professionalism of CPAs and required CPAs to present the “Statement of Independence”. They are reported to the Board of Directors after the Company ensures that the accountants have no other financial interests and business relationship with the Company except certification fee and case expenses on finance or taxation. When the Board of the Company discusses and appoints CPAs, each accountant’s personal resume and Statement of Independence (not in violation of the No. 10 Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China) are also presented for the Board to discuss and evaluate their independence .</p>	<p>The Company has not set up other various functional committees.</p> <p>The Company has not established regulations governing the Board performance evaluation and regularly conducted the performance evaluation.</p> <p>No material difference.</p>												

Item	Implementation Status		Deviations from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	
IV. Does the company set up a full-(or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnish information required for business execution by directors and supervisors, handle matters relating to board meetings and shareholders meetings according to laws, handle corporate registration and amendment registration, handle corporate registration and amendment registration)?	V		No material difference.
V. Has the company established a means of communicating with its stakeholders (including but not limited to shareholders, employees, customers and suppliers) or created a Stakeholders Section on its company website? Does the company respond to stakeholders' questions on corporate responsibilities?	V		No material difference.
VI. Has the company appointed a professional registrar for its Shareholders' meetings?	V		No material difference.
VII. Information disclosure			
1. Has the company set up a website to disclose information regarding its finances, operations, and corporate governance status?	V		No material difference.
2. Does the company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investors conference etc.)?	V		No material difference.

Item	Implementation Status		Deviations from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	
VIII. Does the company have other information that would help better understand the Company’s implementation of corporate governance? (including but not limited to employee rights and benefits, employees caring, investor relations, supplier relationship, the rights of related parties, continuing education for directors and supervisors, implementation of risk management policies and risk assessment standards, implementation of customer policies, liability insurance purchased by the Company directors and supervisors)?	V	<p>1. The Company has formulated and implemented relevant regulations in accordance with government acts regarding labor, welfare, safety, and health to protect employee rights and benefits and care employees’ life.</p> <p>2. In accordance with applicable public company rules, the Company discloses the Company’s business operations and financial status for investors, and maintains investor relations by properly dealing with inquiries from investors.</p> <p>3. The Company arranges the training institutions specified by the competent authority to provide further education for Directors every year.</p> <p>4. The Company annually maintains D&O Insurance for Directors and Independent Directors to reduce risks.</p>	No material difference.
IX. In terms of the corporate governance evaluation results which has been disclosed by the Corporate Governance Center of Taiwan Stock Exchange in the most recent year, describe the improved items and present the actions and amendment for unimproved items. 1. Improved items : The Company has adopted electronic voting as one of the methods for shareholders to vote for resolutions since 2016. 2. Remedy for unimproved items: To improve the setting of company website, such as whistle-blowing system and to disclose office environment & employee safety protection.			

3.3.4 Composition, responsibilities and operations of the Remuneration Committee shall be disclosed if the company has a Remuneration Committee in place

The purpose of the Company's compensation committee is to assist the Board of Directors in implementation and evaluation of the Company's overall compensation and benefits policies and remuneration to managerial officers.

A. Information on members of Remuneration Committee

Identity (Note1)	Criteria	Meets One of the Following Professional Qualification Requirements, Together with at Least Five-year Work Experience			Independence Criteria (Note2)								Number of Other Taiwanese Public Companies Concurrently Serving as a Member of the Remuneration Committee	Remarks (Note3)	
		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			
Convener	Mao-Wei Hung	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Committee Member	Brian Chiang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Committee Member	Binfu Chuang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

Note 1: Please fill the Identity field with Director, Independent Director, or Others.

Note 2: Please tick the corresponding boxes if members have been any of the following 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. However, if the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary, it doesn't apply.
- (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 that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
- (6) Not a director, supervisor, managerial officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional individual who, or an owner, partner, director, supervisor, or managerial officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
- (8) Not been a person of any conditions defined in Article 30 of the Company Law.

B. Operations of the Remuneration Committee

- (1) The Company's remuneration committee consists of three members.
- (2) The members' term of office for this session: From June 24, 2016 to June 23, 2019. Mr. Mao-Wei Hung, the remuneration committee chair convened the regular meeting three (3) times during the year 2016 and the current year up the date of publication of the annual report. The records of attendance of members are shown as follows:

Title	Name	Attendance in Person(B)	By Proxy	Actual Attendance Rate (%) (B/A)(Note)	Remarks
Convener	Mao-Wei Hung	3	0	100%	
Committee Member	Brian Chiang	2	1	67%	
Committee Member	Binfu Chuang	3	0	100%	

Other mentionable items:

1. If the Board of Directors declines to adopt, or modifies a recommendation of the remuneration committee, the date of board meeting, term, agenda items, results of resolutions of the remuneration committee, and how the company handles opinions of the remuneration committee should be stated clearly (If the remuneration approved by the Board of Directors is better than the recommendation of the remuneration committee, the difference and the reason should be stated clearly.): No such situation occurred.
2. If resolutions of the remuneration committee are objected by members or become subject to a qualified opinion, which have been recorded or declared in writing, then the date of the meeting, the session, the nature of the motion, all members' opinions and the response to members' opinion should be specified: No such situation occurred.

3.3.5 Corporate social responsibility

Systems and measures that the company has adopted with respect to environmental protection, community participation, contributions to society, services to society, social and public interests, consumer rights and interests, human rights, safety and health, and other corporate social responsibilities and activities, and the state of implementation.

Item	Status of Implementation		Deviations from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	
I. Corporate Governance Implementation			
1. Does the company establish its corporate social responsibility policies or systems and review the results of the implementation?	V		1. The Company has established the “Corporate Social Responsibility Best Practices Principles” and followed the principles to handle relevant matters on the Company’s social responsibility.
2. Does the company organize education and training on corporate social responsibility on a regular basis?	V		2. The Company organizes training as well as awareness programs on a regular basis, of which part has been included in the employee performance appraisal. It will subsequently continue to promote and improve to combine closely ethics education with incentive and discipline system.
3. Does the company establish an exclusively (or concurrently) dedicated unit to be in charge of proposing and enforcing the corporate social responsibility, have top management be authorized to handle it by the Board of Directors, and to report to the Board of Directors on a periodic basis?	V		3. The Company has an concurrently dedicated unit to be in charge of the promotion of corporate social responsibility, report on the implementation to the CEO regularly, collect and report the summary of implementation to the Board of Directors yearly.
4. Does the company adopt reasonable remuneration policies, combine the employee performance		V	4. The Company has not combined the employee performance appraisal system with corporate social responsibility policies. It will continue to conduct the planning in such direction for the future to combine the employee performance with implementation of corporate social responsibility policies.

Item	Status of Implementation		Deviations from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	
1. Does the company adopt relevant management policies and processes in compliance with relevant laws and regulations, and the International Bill of Human Rights?	V	1. The Company handles matters related to employee benefits and formulates management procedures in accordance with relevant labor laws where subsidiaries are located to protect legitimate rights and interests of employees.	No material difference.
2. Does the company establish a grievance mechanism and channel and respond to any employee's grievance in an appropriate manner?	V	2. The Company establishes a dedicated mailbox for grievance. The head of Human Resource Dept. is dedicated to handling of employee's grievance.	No material difference.
3. Does the company provide safe and healthful work environments for its employees, organize training on safety, and health for its employees on a regular basis?	V	3. The Company provides safe and healthful work environments for its employees, conducts health examination for its employees, and organizes training on safety of working environment on a regular basis to prevent occupational accidents.	No material difference.
4. Does the company establish a platform to facilitate regular two-way communication between the management and the employees, and by reasonable means, inform employees of operation changes that might have material impacts?	V	4. The Company convenes a labor-management meeting on a regular basis and explains operating principles and current situation to employees. Vice versa, employees may also express their questions and suggestions related to the Company's operations through such channel.	No material difference.
5. Does the company establish effective training programs to foster career skills for its employees?	V	5. The Company's heads of departments are in charge of career planning and implementation of the relevant training based on each employee's job attributes and skills.	No material difference.

Item	Status of Implementation		Deviations from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	
6. Does the company establish relevant policies on consumer rights and interests and procedure for accepting consumer complaints in the process of research and development, procurement, production, operations, and services?	V		No material difference.
7. Does the company follow relevant laws, regulations, and international guidelines when marketing or labeling its products and services?	V		No material difference.
8. Prior to engaging in commercial dealings, does the company assess whether there is any record of a supplier's impact on the environment and society?	V		No material difference.
9. When the company enters into a contract with any of its major suppliers, does the content include that the contract may be terminated or rescinded any time if the supplier has violated such policy and has caused significant negative impact on the environment and society?		V	The Company will continuously discuss with major suppliers that the terms stipulating “the contract may be terminated or rescinded any time if the supplier has violated such policy and has caused significant negative impact on the environment and society” to be included in

Item	Status of Implementation		Deviations from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	
IV. Enhancing Information Disclosure of 1. Does the company disclose relevant information relating to its corporate social responsibility initiatives to improve information transparency on the company website and Market Observation Post System?	V		No material difference.
V. If the company promulgates its own corporate social responsibility principles in accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies,” please state clearly the discrepancy in the operation thereof and the principles: The Company has established the “Corporate Social Responsibility Best Practice Principles” and followed such principles to handle relevant matters on the Company’s corporate social responsibility.			
VI. Other significant information which would help better understand the implementation of corporate social responsibility (such as environmental protection, community participation, contribution to society, service to society, social and public interests, consumer rights and interests, human rights, safety and health, other corporate social responsibilities and activities, and the state of implementation. (1) The Company received Green Partner certification from a world-class company in 2008 as its partner in green supply chain. The Company will continue to make efforts to provide excellent quality of environmentally friendly products and fulfill environmental responsibility as a citizen of the world. (2) The Company launches fundraising activities and donations of materials from time to time for socially disadvantaged minorities and objects affected.			
VII. If the company’s products or Corporate Social Report Responsibility have passed verification standards of relevant certification body, it should be stated clearly. None.			

3.3.6 Implementation of Ethical Corporate Management: The Company has formulated the “Operational Procedures and Guidelines for Ethical Management” to foster a corporate culture of ethical management and sound development and offer to establish good commercial practices, and follow them to handle relevant matters

Item	Status of Implementation		Discrepancy from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and the Reasons
	Yes	No	
<p>I. Establishment of ethical corporate management policies and programs</p> <p>1. Have the ethical corporate management policies, actions, and the commitment by the Board of Directors and the management on rigorous and thorough implementation of such policies been clearly specified in the rules and external documents of the Company?</p>	V		No material difference.
<p>2. Does the company establish relevant policies which are duly enforced to prevent unethical conduct and provide implementation procedures, guidelines, consequence of violation and complaint procedures in such policies?</p>	V		No material difference.
<p>3. Does the company adopt prevention measures against any matter set forth in Paragraph 2, Article 7 of the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” or business activities within their business scope which are possibly at a higher risk of being involved in an unethical conduct, and strengthen the preventive</p>	V		No material difference.

Item	Status of Implementation		Discrepancy from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and the Reasons
	Yes	No	
measures?			
<p>II. Implementation of ethical management</p> <p>1. Does the company assess the ethics records of whom it has business relationship with and include business conduct and ethics related clauses in the business contracts?</p>	V		No material difference.
<p>2. Does the company establish a dedicated unit that is under the Board of Directors and responsible for promoting the ethical management, and report the status of the dedicated unit’s implementation to the Board of Directors on a regular basis?</p>	V		No material difference.
<p>3. Does the company adopt policies for preventing conflicts of interest, offer appropriate means, and carry them out?</p>	V		No material difference.

Item	Status of Implementation		Discrepancy from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and the Reasons
	Yes	No	
<p>4. Does the company establish effective accounting systems and internal control systems to facilitate ethical corporate management, and the internal audit unit periodically examine the systems may engage a certified public accountant to carry out the audit?</p>	V		No material difference.
<p>5. Does the company periodically organize training internally and externally on the ethical management?</p>	V		No material difference.
<p>III. State of implementation of the company's whistle-blowing system?</p>			

Item	Status of Implementation		Discrepancy from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and the Reasons
	Yes	No	
1.Does the company adopt a concrete whistle-blowing system and incentive measures, establish convenient whistle-blowing channels, and appoint appropriate dedicated personnel to handle whistle-blowing system?	V		1.The Company applies ethical corporate management when creating its employee performance appraisal system and human resource policies, establishes a clear and effective reward and discipline system and appeal system. If employees make appeals, they can response them to the dedicated personnel through E-Mail. The Company will take actions directly in response and undertake the appropriate protective measures to protect personal information and privacy. 2.The Company has established a whistle-blowing system for both insiders and outsiders to report any illegal behavior and appointed dedicated personnel to handle the system. 3.The Company adopts the confidentiality mechanism for whistle-blowers and prohibits from disclosure of any information related to whistle-blowers to protect whistle-blowers from inappropriate disciplinary actions due to their whistle-blowing.
2.Does the company adopt standard operating procedures for the investigation of reported misconduct and relevant confidentiality mechanism?	V		No material difference.
3.Does the company adopt measures for protecting whistle-blowers from inappropriate disciplinary actions due to their whistle-blowing?	V		No material difference.
IV. Enhancing Disclosure of Information 1.Does the company disclose its ethical corporate management best practice principles and the effectiveness of promotion on the company website and the Market Observation Post System?	V		The Company has set up a website in Chinese/English (http://www.alchip.com) and continued to disclose the information regarding the latest financial statements, implementation of corporate governance, other statutory public disclosure, etc.
V. If the company has established its own ethical corporate management principles for TWSE/GTSM Listed Companies”, please state clearly the discrepancy in the operation thereof and the principles: Details are shown as above.			No material difference.
VI. Other significant information which would help better understand the implementation of ethical corporate management (such as the companies’ resolve and policies to advocate the ethical corporate management to business transaction suppliers, invitation to them to participate the training, review and improvement for adoption of the company’s own ethical corporate management best practice principles): The Company pays attention on the development of relevant local and international regulations concerning ethical corporate management at all times, based on which the Company’s “Operational Procedures and Guidelines for Ethical Management” will be reviewed and improved with a view to achieving better implementation of ethical management.			No material difference.

3.3.7 If the company has adopted corporate governance best-practice principles or related bylaws, disclose the methods of inquiry for such principles or bylaws

Principles or bylaws can be referred through the Market Observatory Post System.

3.3.8 Other significant information that will provide a better understanding of the company's implementation of corporate governance, if any, such information may also be disclosed

None.

3.3.9 The section on the implementation of the company's internal control systems shall disclose as follows

A. A Statement on Internal Control: Details can be found on pages 50 and 51.

B. Where a CPA has been engaged to carry out a special audit of the internal control systems, disclose the CPA audit report: None.

3.3.10 The penalties delivered to the company and the staffs of the company, or the penalties delivered by the company to the staffs for violations of internal control system, the major nonconformity, and the corrective action in the most recent years and up to the date of the annual report

None.

3.3.11 Major resolutions of Board Meetings and Shareholders' Meeting during the most recent year and the current year up to the date of publication of the annual report

A. Board Meeting:

Date	Major Resolutions
03/04/2016	<ol style="list-style-type: none">1. The amendment to the Memorandum and Articles of Association of the Company was approved and adopted.2. The bonus scheme for the employees and Directors for the year of 2015 was approved.3. The consolidated financial statements for the year ended December 31, 2015 of the Company was approved.4. The 'Proposal for the Company to enhance its capability of preparing Financial Report' was approved.5. The proposal of 2015 Dividend Distribution was approved.6. The business report of 2015 was approved.7. The Internal Control System Statement for the year ended December 31, 2015 of the Company was approved.8. The amendment to the Regulation Governing the Election of Directors was approved.9. The amendment to the Guideline for Acquisition and Disposal of Assets was approved.10. The election of directors at the upcoming Annual General Meeting scheduled on June 24, 2016 ("Annual General Meeting") was approved.11. The newly elected Directors at the Annual General Meeting to be released from any restrictions on its participation in competing businesses was approved.12. The monthly remuneration scheme for the Directors for the year of 2016 was approved.13. The remuneration packages for the senior managers (executives) for the year of 2016 were approved.14. The change of Certified Public Accountant was approved.

	<p>15. The evaluation and appointment of Certified Public Accountant was approved.</p> <p>16. The change of executive Director of Alchip Technologies, Ltd. in Shanghai was approved.</p> <p>17. 2016 Employee Stock Option Plan was approved.</p> <p>18. The date and meeting agenda of 2016 Annual General Meeting of the Company were approved.</p>
05/06/2016	<p>1. The consolidated financial statements for the period ended March 31, 2016 of the Company was approved.</p> <p>2. The review of qualification of Independent Director candidates and the list of candidates of independent director was approved.</p> <p>3. The subsequently ratification for the amendment of 2016 Employee Stock Option Plan was approved.</p>
06/24/2016	The appointment for the Chairman of the Company was approved
07/29/2016	<p>1. The semi-annual consolidated financial statement for the period ended June 30, 2016 of the Company was approved.</p> <p>2. The record date of distribution of cash dividend was approved.</p> <p>3. The appointment of members of Remuneration Committee was approved.</p> <p>4. The Treasury Stock Plan was approved.</p>
09/29/2016	The establishment of a subsidiary in Hefei, China through Hong Kong subsidiary was approved.
11/11/2016	<p>1. The consolidated financial statements for the period ended September 30, 2016 of the Company was approved.</p> <p>2. The Audit Plan for the year of 2017 of the Company was approved.</p> <p>3. The capital reduction via Buyback Treasury Stocks nullifying was approved.</p> <p>4. The application of loan credit line with Standard Chartered Bank was approved.</p> <p>5. The appointment of Chief Operating Officer of the Company was approved.</p> <p>6. The personnel changes of the Company were approved.</p> <p>7. The grant list of 2016 Employee Stock Option was approved.</p>
03/10/2017	<p>1. The consolidated financial statement for the year ended December 31, 2016 of the Company was approved.</p> <p>2. The proposal of 2016 Deficit Compensation was approved.</p> <p>3. The business report of 2016 was approved.</p> <p>4. The Internal Control System Statement for the year ended December 31, 2016 of the Company was approved.</p> <p>5. The amendment to the Corporate Governance Best-Practice Principles was approved.</p> <p>6. The amendment to the Corporate Social Responsibility Best Practices Principles was approved.</p> <p>7. The amendment to the Guideline for Acquisition and Disposal of Assets was approved.</p> <p>8. The release of prohibition on Directors from participation in competing industries was approved.</p> <p>9. The evaluation and appointment of Certified Public Accountant was approved.</p> <p>10. The certain Power of Attorney for transaction of investment was approved.</p> <p>11. The replacement of Litigation Agent and Non-Litigation Agent was approved.</p> <p>12. 2017 Employee Stock Option Plan was approved.</p> <p>13. The grant list of 2016 Employee Stock Option was approved.</p> <p>14. The date and meeting agenda of 2017 Annual General Meeting of the Company were approved.</p> <p>15. The remuneration packages for the senior managers (executives) for the year of 2017 were approved.</p> <p>16. The monthly remuneration scheme for the Directors for the year of 2017 was approved.</p>

	Ad hoc motion: 1. The Treasury Stock Plan was approved.
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B. Shareholders' Meeting:

Date	Major Resolutions	Implementation
06/24/2016	<ol style="list-style-type: none"> 1. Amendmends to the Memorandum and Articles of Association of the Company 2. 2015 Business Report and the Consolidated Financial Statements for the year ended December 31, 2015 of the Company. 3. 2015 Dividend Distribution. 4. Election of 7 Directors (including 3 Independent Directors) 5. Proposal of Release the Prohibition on Directors from Participation in Competitive Business. 6. Amendment to the Regulation Governing the Election of Directors. 7. Amendment to the Guideline for Acquisition and disposal of Assets. 	<ol style="list-style-type: none"> 1. Approved and adopted. 2. Approved. 3. <ol style="list-style-type: none"> (1)The Company distributed 2015 bonus, US\$922,286 to shareholders of the Company. (2) The Record date was set on August 24, 2016 and the dividend distribution was completed on September 21, 2015. 4. <ol style="list-style-type: none"> (1)The tenure of all newly elected Directors should commence on June 24, 2016 and expire on June 23, 2019. (2) The list of Directors elected: Kinying Kwan, Herbert Chang, Benjamin Jin-Ping Ng, Johnny Shyang-Lin Shen, Mao-Wei Hung, Brian Chiang, Binfu Chuang. 5. Approved. 6. Approved and adopted. 7. Approved and adopted.

3.3.12 Major issues of record or written statements made by any Director or Independent Directors dissenting to important resolutions passed by the Board of Directors during the most recent year and the current year up to the date of publication of the annual report

None.

3.3.13 A summary of resignations and dismissals of persons connected with the company's financial report (including the chairman, General Manager, Chief Accounting Officer, Chief Financial Officer, Chief Internal Auditor, Chief Research and Development Officer, etc.) during the most recent year and the current year up to the date of the publication of the annual report

No such case.

3.4 Information on CPA Professional Fees

3.4.1 Audit Fee

Name of Accounting Firm	Name of CPA	Period Covered by CPA's Audit	Remarks
Deloitte & Touche	Jamie Lee	2016.01.01~2016.12.31	
	S.C. Huang		

Fee Range	Fee Items	Audit Fee	Non-audit Fee	Total
1	Under NT\$ 2,000,000	-	-	-
2	NT\$2,000,000(inclusive)~ NT\$4,000,000	-	2,082	2,082
3	NT\$4,000,000(inclusive)~ NT\$6,000,000	5,807	-	5,807
4	NT\$6,000,000(inclusive)~ NT\$8,000,000	-	-	-
5	NT\$8,000,000(inclusive)~NT\$10,000,000	-	-	-
6	Over NT\$100,000,000 (inclusive)	-	-	-

In case of any of the following situations, the company shall disclose information as follows:

- A. Amount of non-auditing relevant fees charged by the appointed independent auditors and related parties reaching 25% of the Company's annual auditing expenses:

Unit: NT\$ thousand

Name of Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resources	Others	Subtotal		
Deloitte & Touche	Jamie Lee	5,807	-	-	-	2,082	7,889	2016.01.01 ~ 2016.12.31	Non-audit fee includes price transfer and tax return
	S.C. Huang								

- B. When the company changes its accounting firm and the audit fees paid for the year in which such change took place are lower than those for the previous year, the amounts of the audit fees before and after the change and the reasons for change shall be disclosed: Not applicable.
- C. When the audit fees paid for the current year is more than 15 percent less than those for the previous year, the reduction in the amount of audit fees, reduction percentage, and reasons therefor shall be disclosed: Not applicable.

3.5 Information on Change of CPA

Due to relevant regulatory requirements on rotation, Deloitte & Touche has rotated audit partners for Alchip in 2016, Accountant Janice Wang and Accountant S.C. Huang were replaced by Accountant Jamie Lee and Accountant S.C. Huang.

3.6 The Company's Chairman, Chief Executive Officer, Chief Financial Officer, and Managers in Charge of its Finance and Accounting Matters Has Held a Position at the Accounting Firm of its CPA or at an Affiliated Enterprise of Such Accounting Firm in the Most Recent Year

None.

3.7 Any Transfer of Equity Interests and/or Pledge of or Change in Equity Interests During the Most Recent Year and the Current Year Up to the Date of the Publication of the Annual Report by a Director, Managerial Officer, or Shareholders Holding More Than 10% of the Shares of the Company

3.7.1 Change in equity interests by Directors, managerial officers, or major shareholders

Unit: Shares

Title	Name	2016		As of Apr. 18, 2017	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Director	Herbert Chang	0	0	0	0
Director	Benjamin Jin-Ping Ng	0	0	0	0
Independent Director	Mao Wei Hung	0	0	0	0
Independent Director	Brian Chiang	0	0	0	0
Independent Director	Binfu Chuang	0	0	0	0
CEO/Director	Johnny Shyang-Lin Shen	0	0	0	0
COO	Jacky Ni	0	0	0	0
GM of Japan Business Unit	Kozo Fujita	0	0	0	0
Deputy GM of Japan Business Unit	Junichiro Hosaka	0	0	0	0
GM of China	Andy Lin	0	0	0	0
VP of Business Development	Thomas Tong (Note1)	0	0	0	0
VP of Design Engineering	Leo Cheng	(33,000)	0	0	0
VP of Corporate Marketing	David Chiang (Note2)	0	0	0	0
Chief Financial Officer	Daniel Wang	0	0	0	0
Financial Controller	Nancy Chan	0	0	0	0
Major Shareholder	SB Asia Infrastructure Fund L.P. (Note3)	0	0	(6,380,000)	0
Major Shareholder	InveStar Semiconductor Development Fund, Inc. (II) LDC	0	0	0	0

Note 1: Mr. Thomas Tong resigned from the Company's insider on Nov. 11, 2016.

Note 2: Mr. David Chiang resigned from the Company's insider on Nov. 11, 2016.

Note3: SB Asia Infrastructure Fund L.P. resigned from the Company's insider on Feb. 16, 2017.

3.7.2 Information where the counterparty in any transfer of equity interests is a related party

None.

3.7.3 Information where the counterparty in any pledge of equity interests is a related party

None.

3.8 Relationship among the Top Ten Shareholders

April 18,2017

Name	Shareholding		Spouse's/minor's Shareholding		Shareholding by Nominee Arrangement		Relationship between any of the Company's Top Ten Share holders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation	
InveStar Semiconductor Development Fund, Inc. (II) LDC	6,581,092	10.84%	0	0	0	0	-	-	
Standard Chartered Bank in custody for KGI Asia Limited	4,227,000	6.96%	0	0	0	0	-	-	
CTBC Bank in custody for SB Asia Infrastructure Fund L.P.	3,405,292	5.61%	0	0	0	0	-	-	
Capital Securities Corp. in custody for Capital HK customers	2,374,000	3.91%	0	0	0	0	-	-	
C Squared Venture Capital Inc.	1,439,207	2.37%	0	0	0	0	C Squared Investment Inc.	One of Board Directors is the same	
CTBC Bank in custody for Keen Castle Holdings Limited	1,167,881	1.92%	0	0	0	0	-	-	
CTBC Bank in custody for Star Global Investment Group Limited	1,140,262	1.88%	0	0	0	0	-	-	
C Squared Investment Inc.	1,081,334	1.78%	0	0	0	0	C Squared Venture Capital Inc.	One of Board Directors is the same	
Wen Chung chia	1,055,000	1.74%	0	0	0	0	-	-	
Johnny Shyang-Lin Shen	941,652	1.53%	0	0	0	0	-	-	

3.9 The Total Number of Shares and Total Equity Interest Held in any Single Enterprise by the Company, its Directors, Managerial Officers, General Manager, and any Companies Controlled Either Directly or Indirectly by the Company

December 31, 2016 Unit: shares/%

Investee Enterprise	Investment by the Company		Investment by Directors, Supervisors, Managerial Officers, General Manager, and Directly or Indirectly Controlled Companies		Total Investment	
	Shares	%	Shares	%	Shares	%
Alchip(HK)	11,831,970,100	100%	-	-	11,831,970,100	100%
Alchip(US)	391,000,000	100%	-	-	391,000,000	100%
Alchip (JP)	2,000	100%	-	-	2,000	100%
Alchip(TW)	25,000,000	100%	-	-	25,000,000	100%
Alchip (SH)	(Note)	100%	-	-	(Note)	100%
Alchip(Wuxi)	(Note)	100%	-	-	(Note)	100%
Alchip BVI	50,000	100%	-	-	50,000	100%
Alchip(HeFei)	(Note)	100%	-	-	(Note)	100%

Note: Alchip(SH), Alchip(Wuxi) and Alchip(Hefei) are limited companies, so no shares issued.

Alchip Technologies, Limited
Statement on Internal Control System

Date: March 10, 2017

Based on the results of self assessment of the internal control system conducted by the Company for the fiscal year 2016, we hereby declare as follows:

- I. The company acknowledges and understands that the establishment, enforcement and preservation of the internal control system are the responsibility of the Board, and that the company has already established such a system. The purpose is to provide reasonable assurance to the effectiveness and efficiency of business operations (including profitability, performance and security of assets), reliability, timeliness, transparency, and regulatory compliance of reporting, and compliance with applicable laws, regulations, and bylaws.
- II. There are inherent limitations to even the most well designed internal control system. As such, an effective internal control system can only reasonably ensure the achievement of the aforementioned goals. Moreover, the operating environment and situation may change, impacting the effectiveness of the internal control system. The internal control system of the Company features a self-monitoring mechanism. Once identified, any deficiency will be rectified immediately.
- III. The Company determines the effectiveness of the internal control system in design and enforcement in accordance with the “Regulations Governing Establishment of Internal Control Systems by Public Companies” (hereinafter referred to as “the Regulations”). The Regulations are instituted for judging the effectiveness of the design and enforcement of the internal control system. There are five components of effective internal control as specified in the Regulations with which the procedure for effective internal control is measured, namely: (1) Control environment, (2) Risk assessment, (3) Control activities, (4) Information and Communications, and (5) Monitoring activities. Each of the elements in turn contains certain audit items. Refer to the Regulations for details.
- IV. The Company has adopted the aforementioned internal control system for an internal audit on the effectiveness of the design and enforcement of the internal control system.
- V. Based on the aforementioned audit findings, the Company holds that it has reasonably preserved the achievement of the aforementioned with the internal control system as of December 31, 2016 (including the monitoring over the subsidiaries), including the effectiveness and efficiency in operation, reliability, timeliness, transparency, and regulatory compliance of reporting, and compliance with relevant regulatory requirements, and that the design and enforcement of internal control are effective.

- VI. This statement of declaration shall form an integral part of the annual report and prospectus of the company and will be publicly announced. If any fraudulent information, concealment or unlawful practices are discovered in the content of the aforementioned information, the Company shall be held liable under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.
- VII. This statement was approved by the Board on March 10, 2017 in the presence of seven (7) directors, who concurred unanimously.

Alchip Technologies, Limited



Kinying Kwan
Chairman



Johnny Shyang-Lin Shen
CEO

IV. Capital Overview

4.1 Capital and Shares

4.1.1 Capitalization

A. Issued shares

Unit:share/NT\$

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in capital		Remark		
		Shares	Amount	Shares	Amount (NT\$ thousand)	Sources of Capital	Capital Increased by Assets Other than Cash	Other
2010.07	10	100,000,000	1,000,000,000	52,420,842	523,364,710	Capital surplus transferred to capital	None	-
2010.07	10	100,000,000	1,000,000,000	53,871,342	538,713,420	New shares issued upon the exercise of share options	None	-
2013.11	10	100,000,000	1,000,000,000	53,947,342	539,473,420	New Shares issued upon the exercise of share options	None	-
2014.03	10	100,000,000	1,000,000,000	54,113,342	541,133,420	New Shares issued upon the exercise of share options	None	-
2014.04-08	10	100,000,000	1,000,000,000	54,753,342	547,533,420	New Shares issued upon the exercise of share options	None	-
2014.09	10	100,000,000	1,000,000,000	54,784,842	547,848,420	New Shares issued upon the exercise of share options	None	-
2014.10-12	10	100,000,000	1,000,000,000	62,465,842	624,658,420	New shares issued through capital increase by cash	None	-
2014.10-12	10	100,000,000	1,000,000,000	63,481,815	634,818,150	New Shares issued upon the exercise of share options	None	-
2015.01-03	10	100,000,000	1,000,000,000	63,766,815	637,668,150	New Shares issued upon the exercise of share options	None	-
2015.08	10	100,000,000	1,000,000,000	61,567,815	615,678,150	Cancellation of Treasury Stocks	None	-
2016.11	10	100,000,000	1,000,000,000	60,702,815	607,028,150	Cancellation of Treasury Stocks	None	-

Note: Capitalization before July, 2010 is as follows:

Unit:share/NT\$ unless otherwise specified

Month/ Year	Authorized capital	Paid-in capital				Remarks		
	Number of shares	Number of shares	Share swap ratio	Number of shares issued	Amount issued	Source of capital stock	Share capital paid by the property other than cash	Others
Common stock:								
February 27, 2003	100,000,000	4,850,500	1:1	9,067,502	US\$4,533.75	Establishment of capital stock	None	—
2005		2,025,374				New Shares issued upon the exercise of share options	None	—
2006		640,194				New Shares issued upon the exercise of share options	None	—
2007		315,188				New Shares issued upon the exercise of share options	None	—
2008		623,246				New Shares issued upon the exercise of share options	None	—
2009		14,000				New Shares issued upon the exercise of share options	None	—
Before July 9, 2010		599,000				New Shares issued upon the exercise of share options	None	—
Preferred stock (Note 2)								
February 2003 (Note 1)	2,500,000	1,250,000	1:1.08	1,346,914	US\$673.46	Issuance of series A preferred stock	None	—
April, May, August 2003	11,500,000	8,750,000	1:1.08	12,071,574	US\$6,035.79	Issuance of series B preferred stock	None	—
April, May 2008		2,452,991				Issuance of series B preferred stock	None	—
October 2004	10,052,000	10,052,000	1:1.08	10,831,346	US\$5,415.67	Issuance of series C preferred stock	None	—
February, September, October 2009	666,666	480,770	1:1.08	519,231	US \$259.61	Issuance of series C-1 preferred stock	None	—
March 2006	3,864,668	3,864,668	1:1.5	5,806,705	US \$2,903.35	Issuance of series D preferred stock	None	—
March 2006	3,099,616	3,099,616	1:2.19	6,777,570	US \$3,388.78	Issuance of series D-1 preferred stock	None	—
June 2010	6,000,000	6,000,000	1:1	6,000,000	US\$3,000	Issuance of series E preferred stock	None	—
The exchange rate of NT\$32.19 to US\$1 for conversion was approved by the shareholders' meeting on July 9, 2010, and became effective on July 9, 2010, with a par value was changed from US\$0.0005 to NT\$10 per share.								

Note 1: 5,000,000 shares of series A preferred stock were originally issued, and 2,500,000 shares of which were converted to series C preferred stock in October, 2004. Additionally, 1,250,000 shares of which were converted to series D/D-1 preferred stock in March 2006.

Note 2: Preferred stocks were all converted to common stocks on June 30, 2010.

B. Capital and Shares

April 18, 2017; Unit: Share

Type of Stock	Authorized Capital			Remarks
	Outstanding Shares	Un-issued Shares	Total Shares	
Common Stock	60,702,815	34,097,168	100,000,000	

C. Information for shelf registration: Not applicable.

Securities Type	Volume to be issued		Issued Amount		Purpose of Issuance and Expected Benefits for Securities Issued	Scheduled Issuance Period for Securities Unissued	Remarks
	Total Shares	Authorized Amount	Shares	Price (NT\$)			
N/A							

4.1.2 Status of shareholders

April 18, 2017

Item	Government Agencies	Financial Institutions	Treasury Stocks	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	0	0	0	21	3,855	54	3,930
Shareholding (shares)	0	0	0	1,010,000	31,291,772	28,401,043	60,702,815
Shareholding Percentage	0%	0%	0%	1.66%	51.55%	46.79%	100.00%

Note: The percentage of shareholding for the capital investment from China is 0.

4.1.3 Shareholding distribution status

April 18, 2017, Unit: shares/%

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	127	14,415	0.02%
1,000 ~ 5,000	2,841	5,746,320	9.47%
5,001 ~ 10,000	429	3,536,825	5.83%
10,001 ~ 15,000	120	1,586,250	2.61%
15,001 ~ 20,000	105	1,952,996	3.22%
20,001 ~ 30,000	98	2,581,000	4.25%
30,001 ~ 40,000	53	1,938,752	3.19%
40,001 ~ 50,000	31	1,422,000	2.34%
50,001 ~ 100,000	60	4,545,960	7.49%
100,001 ~ 200,000	28	3,909,000	6.44%
200,001 ~ 400,000	21	5,806,662	9.57%
400,001 ~ 600,000	3	1,489,915	2.45%
600,001 ~ 800,000	4	2,760,000	4.55%
800,001 ~ 1,000,000	1	941,652	1.55%
1,000,001 or over	9	22,471,068	37.02%
Total	3,930	60,702,815	100.00%

4.1.4 List of major shareholders

April 18,2017;Unit:shares/%

Shareholder's Name	Shareholding	
	Shares	Percentage
InveStar Semiconductor Development Fund, Inc. (II) LDC	6,581,092	10.84%
Standard Chartered Bank in custody for KGI Asia Limited	4,227,000	6.96%
CTBC Bank in custody for SB Asia Infrastructure Fund L.P.	3,405,292	5.61%
Capital Securities Corp. in custody for Capital HK customers	2,374,000	3.91%
C Squared Venture Capital Inc.	1,439,207	2.37%
CTBC Bank in custody for Keen Castle Holdings Limited	1,167,881	1.92%
CTBC Bank in custody for Star Global Investment Group Limited	1,140,262	1.88%
C Squared Investment Inc.	1,081,334	1.78%
Wen Chung Chia	1,055,000	1.74%
Johnny Shyang-Lin Shen	941,652	1.55%

4.1.5 Market price, net worth, earnings per share,dividends per common share

Unit: NT\$; Thousand of Shares

Items	2015	2016	As of April 18,2017
Market Price per Share			
Highest Market Price	109	47	59.4
Lowest Market Price	30.5	23.15	28.5
Average Market Price	51.71	30.31	43.13
Net Worth per Share			
Before Distribution	45.92	42.13	-
After Distribution	45.44	(Note 1)	-
Earnings per Share			
Weighted Average Shares (thousand shares)	62,357	61,305	-
Basic Earnings Per Share	2.07	(3,45)	-
Dividends per Share			
Cash Dividends	0.48205	(Note1)	-
Stock Dividends			
Dividends from Retained Earnings	-	-	-
Dividends from Capital Surplus	-	-	-
Accumulated Undistributed Dividends	-	-	-
Return on Investment			
Price / Earnings Ratio (Note2)	24.98	-	-
Price / Dividend Ratio (Note 3)	107.27	(Note 1)	-
Cash Dividend Yield Rate (Note 4)	0.93%	(Note 1)	-

Note 1: Pending on the approval of 2017 shareholders' meeting.

Note 2: Price / Earnings Ratio = Average Market Price / Earnings per Share

Note 3: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share

Note 4: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

4.1.6 Company's Dividend Policy and Implementation Status

A. The Company's Dividend Policy: The regulations of dividend distribution are shown below in accordance to the Memorandum and Articles of Association of the Company.

- (1) The Company shall set aside no less than 1% of its annual profits (the annual profits specified in this Article refers to the annual income before tax and before bonuses are set aside for employees and Directors) as bonus to employees of the Company and set side no more than 2% of its annual profits as bonus to Directors, provided however that the Company shall first offset its losses in previous years that have not been previously offset. The distribution of bonus to employees may be made by way of cash or Shares, which may be distributed under an incentive programme approved pursuant to Article 11.1 above. The employees under Article 34.1 may include certain employees of the Subsidiaries who meet the conditions prescribed by the Company. The distribution of bonus to employees and to Directors shall be approved by a majority of the Directors present at a meeting attended by two-thirds or more of the total number of the Directors and shall be reported to the Members at the general meeting. A Director who also serves as an executive officer of the Company and/or its Subsidiaries may receive a bonus in his capacity as a Director and a bonus in his capacity as an employee.
- (2) As the Company is in the growing stage, the dividend distribution may take the form of a cash dividend and/or stock dividends and shall take into consideration the Company's capital expenditures, future expansion plans, and financial structure and funds requirement for sustainable development needs etc. The Company may distribute profits in accordance with a proposal for distribution of profits prepared by the Directors and approved by the Members by an Ordinary Resolution at any general meeting. The Directors shall prepare such proposal as follows: the proposal shall begin with the Company's Annual Net Income after tax and offset its losses in previous years that have not been previously offset, then set aside a statutory capital reserve in accordance with the Applicable Public Company Rules, and set aside a special capital reserve, if one is required, in accordance with the Applicable Public Company Rules or as requested by the authorities in charge. Except otherwise stipulated by the applicable laws and the Applicable Public Company Rules, the Company may take into consideration the circumstances and development stage of the Company, in response to any future funding requirement and long term financial planning, while satisfying the shareholders expectation in respect of cashflow, propose profit distribution plan in connection with the retained earnings for approval at the meetings of the shareholders; the distribution of retained earnings may proceed by way of cash dividend or by applying such sum in paying up in full unissued Shares for allotment and distribution credited as fully paid-up pro rate to the Members, and the total amount of Dividends shall not be lower than 10% of the profit of the then current year after deducting the aforementioned amounts, and provided the total amount of cash dividend to be distributed shall be no lower than 10% of the aggregate dividend distributed to shareholders and no more than 100% of the aggregate dividend distributed to shareholders.
- (3) The Directors shall specify the exact percentages or amounts to be distributed as bonuses to Directors and employees in preparing the proposal for distribution of profits, and the Members may amend such proposal prior to its approval. A Director who also serves as an executive officer of the Company may receive a bonus in his capacity as a Director and a bonus in his capacity as an employee. Except otherwise stipulated by the applicable laws and the Applicable Public Company Rules, the Company may take into consideration the circumstances and development stage of the Company, in response to any future funding requirement and long term financial planning, while satisfying the shareholders expectation in respect of cashflow, propose profit distribution plan in

connection with the retained earnings for approval at the meetings of the shareholders; the distribution of retained earnings may proceed by way of cash dividend or by applying such sum in paying up in full unissued Shares for allotment and distribution credited as fully paid-up pro rate to the Members, and the total amount of Dividends shall not be lower than 10% of the profit of the then current year after deducting the aforementioned amounts, and provided the total amount of cash dividend to be distributed shall be no lower than 10% of the aggregate dividend distributed to shareholders and no more than 100% of the aggregate dividend distributed to shareholders.

- (4) Subject to the Statute, the Articles and the Applicable Public Company Rules, the Directors may declare Dividends and distributions on Shares in issue and authorise payment of the Dividends or distributions out of the funds of the Company lawfully available therefor. No Dividend or distribution shall be paid except out of the realised or unrealised profits of the Company, or out of the share premium account or as otherwise permitted by the Statute.
- (5) Except as otherwise provided by the rights attached to Shares, all Dividends shall be declared and paid in proportion to the number of Shares that a Member holds. If any Share is issued on terms providing that it shall rank for Dividend as from a particular date that Share shall rank for Dividend accordingly.
- (6) The Directors may deduct from any Dividend or distribution payable to any Member all sums of money (if any) then payable by him to the Company on any account.
- (7) The Directors may, after obtaining an Ordinary Resolution, declare that any distribution other than a Dividend be paid wholly or partly by the distribution of specific assets and in particular of shares, debentures, or securities of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the basis of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees as may seem expedient to the Directors.
- (8) Any Dividend, distribution, interest or other monies payable in cash in respect of Shares may be paid by wire transfer to the holder or by cheque or warrant sent through the post directed to the registered address of the holder. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent.
- (9) No Dividend or distribution shall bear interest against the Company.
- (10) Any Dividend which cannot be paid to a Member and/or which remains unclaimed after six months from the date of declaration of such Dividend may, in the discretion of the Directors, be paid into a separate account in the Company's name, provided that the Company shall not be constituted as a trustee in respect of that account and the Dividend shall remain as a debt due to the Member. Any Dividend which remains unclaimed after a period of six years from the date of declaration of such Dividend shall be forfeited and shall revert to the Company.

B. Proposed Distribution of Dividend for 2017 Annual General Meeting

The company had net loss in 2016, and will propose no distribution of dividend at the 2017 Annual General Meeting.

4.1.7 The influence of stock dividend distribution resolved by 2016 Annual General Meeting on the Company's operating performance and earning per share (EPS)

Not applicable.

4.1.8 Directors' Remuneration and Employee Compensation

A. The percentages or ranges with respect to compensation to employees and Directors as set forth in the company's Articles of Incorporation:

The Company will allocate no less than 1% as compensation to employees and no more than 2% as compensation to Directors of its profits before tax prior to the deduction of compensation to employees and Directors for the year, respectively.

B. The basis for estimating the amount of compensation to employees and Directors, the basis for calculating the number of shares to be distributed as stock bonuses, and the accounting treatment of discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

The Company had net loss before tax in 2016 and proposed no distribution of compensation to employees and directors at the Board meeting on March 10, 2017. If there is discrepancy between the actual distributed amount and the estimated figure, it will be adjusted to enter into accounts according to changes in accounting estimate at the year of distribution.

C. Information on the distribution of compensation approved by the Board of Directors:

(1) Distribution in cash or shares of compensation to employees and Directors. If there are any discrepancies between such an amount and the estimated figure for the year these expenses are recognized, the discrepancy, reasons therefor, and how it is treated shall be disclosed: None.

(2) The amount of distribution in shares of compensation to employees, and as a percentage of the sum of the current after-tax net income on individual or separate financial statements and total compensation to employees: None.

D. The actual distribution of compensation to employees and Directors for the previous year (including the share number, dollar amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual distribution and the recognized compensation to employees and directors, additionally the discrepancy, reasons therefor, and how it is treated:None.

4.1.9 List of Share Buyback as of April 16, 2017

Batch Order	1 st Batch	2 nd Batch	3 rd Batch	4 th Batch (Note)
Purpose of the Buyback	Maintain the company's credibility and shareholders' equity	Maintain the company's credibility and shareholders' equity	Maintain the company's credibility and shareholders' equity	Maintain the company's credibility and shareholders' equity
Actual Buyback period	2015/03/06~2015/05/05	2015/05/15~2015/06/12	2016/8/26~2016/9/26	2017/3/13~2017/5/9 (Estimated buyback period)
Price range for Buybacks	NT\$50.05 to NT\$123.82	NT\$35.91 to NT\$87.58	NT\$19.01~ NT\$41.21	NT\$28.88 ~NT\$57.54
Number of shares bought back	1,015 thousand shares of common stock	1,184 thousand shares of common stock	865 thousand shares of common stock	0 shares of common stock
Total Value of Shares bought back	NT\$60,917,192	NT\$52,462,561	NT\$21,692,815	NT\$0
Number of shares that have already been canceled and transferred	1,015 thousand shares of common stock	1,184 thousand shares of common stock	865 thousand shares of common stock	0 shares of common stock
Accumulated number of shares held by the Company	0 share of common stock	0 share of common stock	0 share of common stock	0 share of common stock
Ratio of the accumulated number of shares held by the Company to the total number of ordinary shares issued	0%	0%	0%	0%

Note: As to the date of publication of the Annual Report, April 18, 2017, there was no share buyback.

4.1.10 Information on the Company's issuance of bonds

None.

4.1.11 Information on issuance of preferred shares

None.

4.1.12 Information on issuance of global depository receipts

None.

4.1.13 Employee Stock Options

A. Issuance of Employee Stock Options

						April 18, 2017
Types of Employee Stock Options	Employee Stock Options in 2003 (Note 2)	Employee Stock Options in 2015	Employee Stock Options in 2015	Employee Stock Options in 2016	Employee Stock Options in 2016	Employee Stock Options in 2016
Approval date	Not applicable	March 30, 2015	March 30, 2015	April 26, 2016	April 26, 2016	April 26, 2016
Issue date	(Note 2)	April 24, 2015	March 4, 2016	November 11, 2016	March 10, 2017	March 10, 2017
Units issued	14,518,700	864,000	1,136,000	1,200,000	800,000	800,000
Shares of stock options to be issued as a percentage of outstanding shares	23.92%	1.40%	1.87%	1.98%	1.32%	1.32%
Period	The stock options shall be valid for 10 years from the Grant date and shall expire after such period	The stock options shall be valid for 10 years from the Grant date and shall expire after such period	The stock options shall be valid for 10 years from the Grant date and shall expire after such period	The stock options shall be valid for 10 years from the Grant date and shall expire after such period	The stock options shall be valid for 10 years from the Grant date and shall expire after such period	The stock options shall be valid for 10 years from the Grant date and shall expire after such period
Method of performance	Issuance of new shares	Issuance of new shares	Issuance of new shares	Issuance of new shares	Issuance of new shares	Issuance of new shares
Period and percentage in which subscription is restricted (%)	After one full year, 25% of stock options can be exercised, with 1/48 of the total shares vesting every month.	After two full years, 50% of stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised.	After two full years, 50% of stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised.	After two full years, 50% of stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised.	After two full years, 50% of stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised.	After two full years, 50% of stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised.
Exercised shares	6,913,875 shares	0 shares	0 shares	0 share	0 share	0 share
Amount of the shares exercised	US\$8,085,478.07	US\$0	US\$0	US\$0	US\$0	US\$0
Unexercised shares	797,111 shares	854,000 shares	1,026,000 shares	1,200,000 shares	797,000 shares	797,000 shares
Price per share of the unexercised shares	An average of US\$2.6	NT\$58.40	NT\$37.80	NT\$25.40	NT\$41.70	NT\$41.70

Percentage of unexercised shares to total issued shares	1.31%	1.39%	1.67%	1.98%	1.31%
Number of invalid shares (Note 1)	6,807,714 shares	10,000 shares	110,000 shares	0 share	3,000 share
Impact on possible dilution of shareholdings	Financial Statements will be presented in the accordance with the International Accounting Standards. However, after one full year upon expiration of the employee stock options granted by the Company, 25% of the granted stock options can be exercised, with 1/48 of the total shares vesting every month. The influence on shareholders' interests will be gradually diluted. There are 840,112 shares that are estimated to be able to subscribe by the end of 2016, accounted for 1.36% of 61,567,815 shares of common stocks current issued and outstanding currently.	Financial Statements will be presented in the accordance with the International Accounting Standards. However, after two full years upon expiration of the employee stock options granted by the Company, 50% of the granted stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised. The influence on shareholders' interests will be gradually diluted.	Financial Statements will be presented in the accordance with the International Accounting Standards. However, after two full years upon expiration of the employee stock options granted by the Company, 50% of the granted stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised. The influence on shareholders' interests will be gradually diluted.	Financial Statements will be presented in the accordance with the International Accounting Standards. However, after two full years upon expiration of the employee stock options granted by the Company, 50% of the granted stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised. The influence on shareholders' interests will be gradually diluted.	Financial Statements will be presented in the accordance with the International Accounting Standards. However, after two full years upon expiration of the employee stock options granted by the Company, 50% of the granted stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised. The influence on shareholders' interests will be gradually diluted.

Note 1: The number of invalid shares were from employees' turnover and expired employee stock options.

Note 2: (1) Amendments to 2003 Employee Stock Options have been adopted by the Board of Directors in July 2010 to replace the aforementioned rules.

- (2) 1,500,000 shares were issued on 2003/04/09; 505,200 shares were issued on 2003/06/06; 940,000 shares were issued on 2003/08/08; 179,600 shares were issued on 2003/10/13; 964,000 shares were issued on 2003/12/22; 374,200 shares were issued on 2004/04/02; 293,000 shares were issued on 2004/06/18; 732,400 shares were issued on 2005/01/14; 219,000 shares were issued on 2005/04/15; 995,000 shares were issued on 2005/07/15; 318,000 shares were issued on 2005/12/16; 230,000 shares were issued on 2006/01/17; 610,600 shares were issued on 2006/04/20; 412,000 shares were issued on 2006/07/31; 644,000 shares were issued on

2006/10/18; 474,000 shares were issued on 2007/01/29; 411,500 shares were issued on 2007/04/27; 950,000 shares were issued on 2007/09/21; 892,500 shares were issued on 2007/10/19; 357,000 shares were issued on 2008/01/25; 627,300 shares were issued on 2008/04/29; 421,000 shares were issued on 2008/07/25; 530,000 shares were issued on 2008/10/30; 282,000 shares were issued on 2009/02/05; 248,000 shares were issued on 2009/04/24; 321,000 shares were issued on 2009/07/31; 424,000 shares were issued on 2009/10/30; 392,000 shares were issued on 2010/01/15; 139,000 shares were issued on 2010/05/07.

B. List of executives and the top ten employees receiving Employee Stock Options

April 18, 2017

	Title	Name	No. of Subscribed Shares	Ratio of Subscribed Shares to Total Issued Shares	Exercised				Unexercised				
					No. of Shares	Price (US\$)	Amount (US\$ thousand)	Ratio of Shares to Total Issued Shares	No. of Shares	Price (US\$)	Amount (US\$ thousand)	Ratio of Shares to Total Issued Shares	
Executives	CEO	Johnny Shyang – Lin Shen	2,475	4.08%	269	2.6	699.40	0.44%	447	2.6	1162.20	0.74%	
	COO	Jacky Ni			0	1.8079 (Note 3)	0	0%	560	1.8079 (Note 3)	1012.42	0.92%	
	GM of Japan Business Unit	Kozo Fujita			0	1.1906 (Note 4)	0	0%	259	1.1906 (Note 4)	468.25	0.43%	
	Deputy GM of Japan Business Unit	Junichiro Hosaka			0	0.7990 (Note 5)	0	0%	940	0.7990 (Note 5)	751.06	1.55%	
	GM of China	Andy Lin			578	2.6	1,502.8	0.95%	112.5	2.6	261.58	0.19%	
	VP of Business Development	Thomas Tong (Note 1)											
	VP of Design Engineering	Leo Cheng											
	VP of Corporate Marketing	David Chiang (Note 2)											
	CFO	Daniel Wang											
	Financial Controller	Nancy Chan											
Top Ten Employees	Sr. Director of Sales	Robert Chang											
	Director of Design Engineering	Hiroyuki Furuzono											

Top Ten Employees		Director of Business Development	Xing Ge	1,070.5		1.76%		0	1.8079 (Note 3)	0	0%	140	1.8079 (Note 3)	253.11	0.23%
	Sr. Director of R&D	James Huang						0	1.1906 (Note 4)	0	0%	135	1.1906 (Note 4)	160.73	0.22%
	VP of MFG Engineering	Vincent Ku						0	0.7990 (Note 5)	0	0%	55	0.7990 (Note 5)	43.95	0.09%
	HR Director	Jennie Le						0	1.3434 (Note 6)	0	0%	50	1.3434 (Note 6)	67.17	0.08%
	Special Assistant of COO	Hiroyuki Nagashima													
	Director of Design Engineering	Mitsuya Takashima													
	Sr. Director of Strategy Alliance	Peter Teng													
	Director of Business Development	John Huafang Wei													

Note 1: Mr. Thomas Tong resigned the Company's insider on Nov. 11, 2016.

Note 2: Mr. David Chiang resigned the Company's insider on Nov. 11, 2016.

Note 3: The price of the stock option is NT\$57.40.

Note 4: The price of the stock option is NT\$37.80.

Note 5: The price of the stock option is NT\$25.40.

Note 6: The price of the stock option is NT\$41.70.

C. Status of any private placement of employee stock warrants during the 3 most recent years and up to the date of the publication of the Annual Report:
None.

4.1.14 Issuance of New Restricted Employee Shares

None.

4.1.15 Status of mergers or acquisitions

None.

4.1.16 Issuance of new shares for merging and transferring the stocks of other companies

None.

4.2 Implementation of Fund Usage Plan

None.

V. Overview of Business Operations

5.1 Business Activities

5.1.1 Business scope

A. Main areas of business operations

Alchip engages in Application Specific IC (ASIC) and System-on-Chip (SoC) design, manufacturing and production, and is especially good at deep-submicron and high-end processing chips with high complexity.

B. Operational proportion

Unit:NT\$ thousand;%

Category	2015		2016	
	Amount	Percentage	Amount	Percentage
ASIC and Chip production	3,469,030	91.63%	3,562,647	96.52%
NRE	313,830	8.29%	124,291	3.37%
Others	2,881	0.08%	4,039	0.11%
Total	3,785,741	100.00%	3,690,977	100.00%

C. Main products and Services

- (1) ASIC and Chip production: Provide customers with Non-Recurring Engineering (NRE) of Application Specific Integrated Circuit (ASIC) and System on Chip (SoC), and mass production management of wafer manufacturing, packaging, and testing.
- (2) Non-Recurring Engineering (NRE): Mainly provide the circuit design component database and all kinds of Silicon Intellectual Property (SIP) required by product design, produce circuit diagrams for mask process, and manufacture masks, wafer, cutting, and packaging on a consign basis and then deliver the trial production samples after doing product testing by our engineers.
- (3) Others: Only provide customers with back-end wafer fabrication, packaging, and testing.

D. New products development

The Company will continue to endeavor to R&D and manufacturing of state-of-the-art integrated circuit to enhance technologies and ensure quality of service, including special customized design software tools required by SoC development, R&D in the internal Design Methodology, and advanced design technology. It will also provide the most effective solution depending on different market segment, and establish corresponding platforms and Silicon Intellectual Property solutions (including: DDR/ LVDS/ OSC/ AFE/ USB/ PCIE).

5.1.2 Industry overview

A. Current status and Development of the Industry

With the great leap forward in semiconductor process technology, the complexity of chips is getting higher and higher. The semiconductor industry announces to enter an era of specialization. The Company specially provides design and manufacturing services of Application Specific Integrated Circuit (ASIC) and System on Chip (SoC) with high complexity and mass production. The current status and development of the industry is described as follows:

- (1) Rise of fabless ASIC

In the past, a system company could choose to develop its own ASIC/SoC to get the advantage of differentiation and stay competitive, or to entrust the turnkey production process including design, manufacturing, packaging, and testing to reliable ASIC partners (such as IBM and LSI Logic). However, as the process technology enters into the generation of deep submicron, expenditures on R&D in technology, investments in machinery, equipment, and factories rise rapidly. The existing Integrated Design Manufacturers (IDMs) are unable to afford the investment in the infrastructure and overtaken by pure-play foundries. As a result, more system companies concentrate resources on product specifications and front-end design, and outsource the back-end design and production of products to professional fabless ASIC companies.

Through collaboration with strategic partners (including wafer fabrication, packaging, and testing house), a fabless ASIC company provides a complete solution from RTL/Netlist to chip manufacturing, packaging, and testing. Thus, the system company enjoys the faster time to market, lower costs, and more professional design capability.

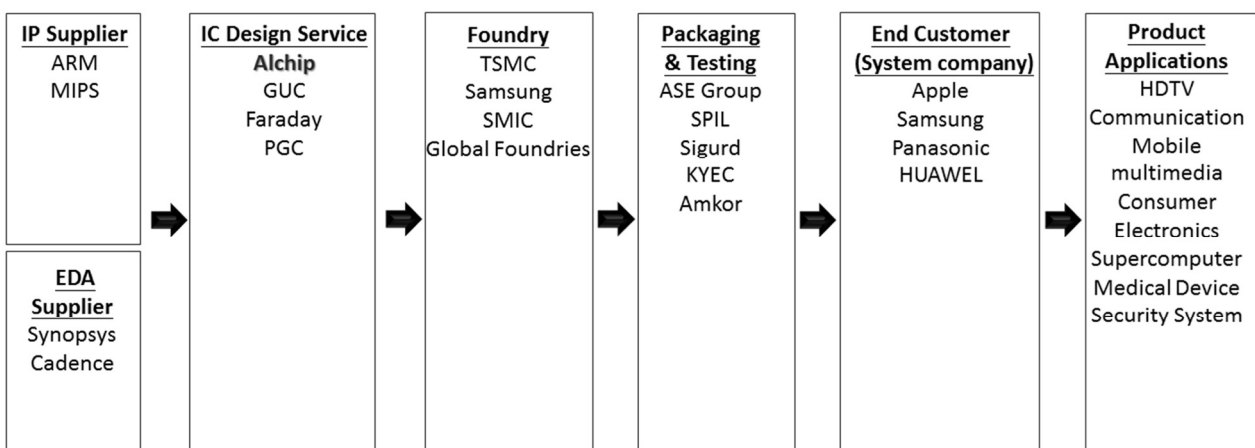
(2) Overview of System on Chip (SoC)

With the evolution of IC manufacturing process and many consumer electronics development towards miniaturization, the market demand for thin, short, power-saving multifunction increase dramatically, this makes SoC become the trend for the development of system companies in the future. SoC refers to the integration of the core processor, logic unit, memory unit, and a variety of I/O interfaces onto a single chip. One chip alone can get the system function completely and leave the extra space to chips performing other different functions, such as GPS positioning, WiMax, Audio/Video IC, camera IC, TV chip, etc. through which the operational functions of system products can be enhanced.

Since all stages of the SoC design have encountered validation and analysis bottlenecks, the difficulty in integration will greatly increase when using external IPs. In addition, the investment amount surges and the risk in design iteration increases while the process moving towards more sophisticated nanoscale development. Only through design provide solutions from allocation and specifications to design principles working closely together with the back-end process can high value added services to customers. At present, there is a lack of large and capable fabless ASIC companies in the industry. Therefore, not many orders are released from system big firms, which leaves plenty of room for future growth in the market.

B. Relevance among the upper-stream, middle-stream and down-stream in the industry

The fabless ASIC industry drives the development of all system applications, silicon intellectual property (SIP), manufacturing, packaging, testing, etc., forming the industry chain with specialization and division of labor. Each performs one's own functions as shown below:



C. Trends of product development

- (1) Application Specific Integrated Circuit (ASIC): It refers to an integrated circuit used in the particular application. On the circuit board, one unit of ASIC chip specifically designed by each company can always be found. The ASIC chip application market is broadly divided into six segments including Computers and Peripherals, Wired Communications, Wireless Communications, Consumer, Automotive, and Industrial and Others, respectively. In which, consumer electronics still account for the highest proportion with the growth momentum mainly coming from mobile communications and high-definition TV applications, and wireless communications, computers, and peripherals coming in second.
- (2) System on Chip (SoC): With the evolution of the process, all system functions can be integrated into a single chip. That is, the platform-based design method can be achieved through the highly integrated SoC. This design method can effectively solve issues such as the complexity and time to market of different grades of products. In the future, we can foresee that the consumer electronics can be platformized as a result of the design trend of SoC integrated chips.

D. Market competition

The primary competitors of fabless ASIC companies are Integrated Design Manufacturer (IDM) and companies of the same type. As we shift into the generation of deep submicron, large IDMs begin to decline and find themselves unable to compete with fabless ASIC companies because of the high cost of production. Currently, most IDMs gradually transform into the Fab-lite/Fabless model. Moreover, in the competition with other companies of the same type, the time to market of products becomes the main appeal of fabless ASIC customers. With the continuous improvement of the processing speed of chips, and the algorithm of modulation and demodulation becoming more complex at the same time, the designers have to evaluate carefully how to define and optimize the low-power consumption strategy for the entire chip in the shortest design cycle, and think deeply about how the package design can tolerate the ultra-high power consumption to ensure the signal quality of high-speed interfaces. Therefore, only with fabless ASIC companies holding professional technical capabilities and capable of providing integration services can we stay ahead under the circumstances of the intense competition.

5.1.3 Research and Development

A. In 2015 and 2016, the Company invested NT\$412,321 thousand and NT\$423,931 thousand in R&D, respectively.

B. Technologies have been developed successfully

Alchip combines the software tools for design (EDA) and design technologies that are researched and developed internally, including circuits, physical design, and unique software tools for design, to provide customers with services improving efficiency, reduced size, lower power consumption, and fast deployment. Technologies that are researched and developed internally are shown below:

- (1) Hierarchical physical design and timing budgeting method: Through this method, the chip design can be divided into multiple parts that can be designed at the same, grasp the timing of each part while controlling the timing for each part to meet timing requirements for chips.
- (2) Physical design method: Through this method, various types of Silicon Intellectual Property (IP) are used in the high-density chip design to reduce the chip size and achieve cost cutting goals.
- (3) Timing and electrical design method: This method can improve the defect-free rate by adjusting several parameters.

- (4) Power consumption distribution method: This method can reduce power consumption and enhance electrical efficiency.
- (5) Design for Testability (DFT): This method can maximize the scope of testability and reduce other unnecessary tests reduce the testing time and cost.
- (6) Technology in the stage of product planning and specification development: Alchip conducts the cost planning for customers, including the selection of System-on-Chip (SoC) or System in Package (SiP), planning of system cost and bill of material (BOM) costs, consideration of process maturity and Silicon Intellectual Property (IP) stability, feasibility of next-generation process (half node), and evaluation on Static Random Access Memory (SRAM) repair. It also makes selection for testing of finished products and solutions, including the joint development of test solutions with IP vendors, establishment of built-in test module (DFT, BIST), and with testing machines to achieve mass production, adoption of two sets, four sets, or even eight sets of circuit boards being tested simultaneously while making mass production to save testing cost. Finally, it develops the most appropriate packaging approach and builds a good partnership with the packaging house to exploit the best quality of the finished product and market efficiency.
- (7) Prototype and technology in the stage of production: In the prototype creation and chip mass production stage, Alchip works closely with suppliers via professional equipment and technology (built-in testing machines and test grips) to help customers reduce the time taken to enter mass production while analyzing product characteristics and sensitivity, and to formulate process conditions and test specifications for the mass production process,. It also provides a small number of prototypes for customers to manufacture system engineering prototyping machines. In the final acceptance inspection process of prototyping machines of customers, Alchip prepares the mass production of chips, including the analysis on reliability/qualification. Upon entering mass production, it continues to improve the defect-free rate and shorten the testing time to reduce production costs for customers.

C. Products have been developed successfully

Alchip have developed 280 units of products since its establishment. Products can be divided into four domains as described below:

Four domains	Product application	Current status/Process	Design outlook and planning
Digital TV Category	High-Definition Digital TV Related Applications	<ul style="list-style-type: none"> • Including 65nm/40nm/32nm • 2010: 7 design cases, have been in mass production • 2011: 6 design cases, have been in mass production • 2012: 5 design cases, have been in mass production • 2013: 8 design cases, have been in mass production • 2014: 1 design case, have been in mass production • 2015: 3 design cases, have been in mass production • 2016: 1 design case, has been in mass production 	<ul style="list-style-type: none"> • Continued to design and mass produce the chips for Japan's digital TV big firms • Have begun to design the new generation of products
CommunicationCategory	Information Network	<ul style="list-style-type: none"> • Including 65nm/55nm/40nm • 2010: 1 design case, have 	Continued to design and mass produce the

	Equipment	<ul style="list-style-type: none"> • been in mass production • 2011: 3 design cases, have been in mass production • 2012: 2 design cases, have been in mass production • 2013: 2 design cases, have been in mass production 	chips required in communication network LTE, TD-SCDMA for communication big firms.
	Supercomputer (Networking)	<ul style="list-style-type: none"> • Including 90nm/65nm/40nm/28nm • 2006: 1 design case, have been in mass production • 2010: 1 design case, have been in mass production • 2012: 2 design cases, have been in mass production • 2013: 2 design cases, have been in mass production • 2014: 1 design case, have been in mass production • 2015: 2 design cases, have been in mass production • 2016: 3 design cases 	<ul style="list-style-type: none"> • Continue to mass produce supercomputer networking chips for academic institutions • Cooperate with Z University in 2006, as the world's fastest supercomputer at that time
Mobile Multimedia Consumer Electronics Category	High-Definition Camera Recorder	<ul style="list-style-type: none"> • Including 65nm/55nm/40nm • 8 design cases, have been in mass production 	Continued to design and mass produce the chips required by Japan's DSC big firms
	Digital Camera	<ul style="list-style-type: none"> • Including 65nm/55nm/40nm/28nm • 2010: 3 design cases, have been in mass production • 2011: 3 design cases, have been in mass production • 2012: 3 design cases, have been in mass production • 2013: 2 design cases, have been in mass production • 2015: 3 design cases, have been in mass production • 2016: 1 design case 	Continued to design and mass produce the chips for the first manufacturer in the world to develop digital cameras
	Mobile Phone	<ul style="list-style-type: none"> • Including 90/55/40nm/28nm • 2010: 2 design cases, have been in mass production • 2011: 3 design cases, have been in mass production • 2012: 2 design cases, have been in mass production • 2013: 1 design case, have been in mass production • 2014: 1 design case, have been in mass production 	Continued to design and mass produce the chips required by communication big firms
	Multimedia	<ul style="list-style-type: none"> • Including 	Continued to design

	Player	<ul style="list-style-type: none"> 180nm/130nm/90nm 2009: 4 design cases, have been in mass production 2011: 1 design case, have been in mass production 2012: 1 design case, have been in mass production 	and mass produce the chips required by multimedia big firms
	Tablet PC	<ul style="list-style-type: none"> Including 55m 2011: 1 design case, have been in mass production 	Continued to design and mass produce the chips required by multimedia big firms
	Game Machine	<ul style="list-style-type: none"> 90nm/65nm/40nm/28nm 2012: 1 design case, have been in mass production 	Continued to design and mass produce the chips required by video game machine big firms
Niche Market Category	Bitcoin/Litecoin Mining Machine	<ul style="list-style-type: none"> 28nm/20nm/16nm/14nm 2013: 3 design cases, have been in mass production 2014: 5 design cases, have been in mass production 2015: 2 design cases, have been in mass production 	<ul style="list-style-type: none"> Design and mass produce the world's fastest Bitcoin mining 28nm chip for Swedish company; complete the design of next-generation 16nm chip Design the chips for a number of Chinese mining equipment & machinery manufacturers
	Game Machine	<ul style="list-style-type: none"> 28nm 2014: 1 design case, have been in mass production 2016: 1 design case 	Design and mass produce the 28nm game machine graphics chip for Japanese big firms
	Medical Imaging Equipment	<ul style="list-style-type: none"> 130nm/28nm A total of 3 design cases, have been in mass production 	Design and mass produce the chips for Japan's medical device big firm
	Security System Equipment	<ul style="list-style-type: none"> 180nm 2010: 1 design case, have been in mass production 2012: 1 design case, have been in mass production 2013: 1 design case, have been in mass production 	Design and mass produce the chips for several security equipment big firms
Others Category	Automobile Electronics Equipment	<ul style="list-style-type: none"> 180nm 2011: 1 design case, have been in mass production 2012: 1 design case, have been in mass production 	Design and mass produce the chips for Japan's system big firms

- (1) Success case - the world's fastest supercomputer system chip
Alchip completed the communication network chip used in supercomputers for customers in 2011. This design of ultra high-speed computer system chip achieved one-pass design tapeout and one-pass silicon success. Alchip was responsible for the complete design integration which includes physical, electrical, timing and thermal design of this SoC project. The chip adopted TSMC's 65nm process and contained over 60 million logic gates aiming at 800MHz performance whole chip while consuming over 54 watts of power in 20mm by 17mm die size. Instead of the traditional ring method, the unique two-dimensional array of Area I/O technology was used to narrow the experience area. Finally, Alchip successfully made its output through the flip-chip packaging technology and won the championship of the world's fastest operator thanks to the computing power of its end products.
- (2) Success cases – tier-one system companies
- A. A Company: The Japan's system firm has given its most important product lines to Alchip since 2003, including high-definition digital TV, game machine, digital camera, and video camera.
- B. B Company: The Taiwanese I Company has cooperated with Alchip to produce the digital camera chips since 2009. The latest generation of products has been given to Alchip for production.

5.1.4 Long-term and short-term business development plans

In the future, Alchip will still continue to focus on its core businesses – R&D, design and manufacturing in high-end processing SoC, and work closely with world-class manufacturing suppliers to improve Taiwan's international status in the chip design industry through leading technologies. The Company's short- and long-term business development plans are described in three aspects of R&D, business, and production as follows.

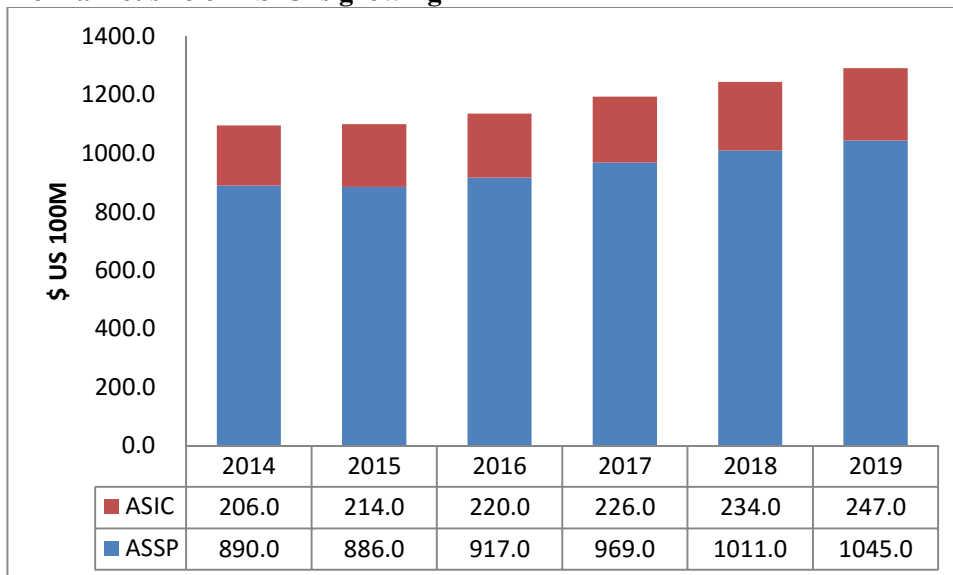
Item	Short-term business development plan	Long-term business development plan
R&D	<ol style="list-style-type: none"> 1. Customize and verify analog circuits 2. Optimize the design process, and shorten the time required for the design process. 3. Reinforce R&D in the advanced process, and strengthen the ability SoC integration capabilities and advances in quality of design. 4. Research and develop the power saving design method. 5. At the time of product design, consider clearly DFT, DFM, DFP, etc. to make mass-production costs predictable and controllable. 	<ol style="list-style-type: none"> 1. Deepen R&D in the high-end analog circuits customization and verification and expand the Silicon Intellectual Property library. 2. Cooperate with foundries, and continuously deep plow the R&D in advanced IC product design. 3. Continuously advance the standardization of design process, shorten the design time, reduce the R&D in the power consumption design method. 4. Improve the performance and energy saving of silicon intellectual property such as application of ARM high-end processors. 5. Intensify SoC front-end design capability, and develop various application platform architecture. 6. Enhance the system analysis capability to ensure the predictability of chips being integrated into the system by customers, such as: SI, PI.
Business	<ol style="list-style-type: none"> 1. Focus on system customers, and choose products with a high market potential. 2. Introduce the existing products of system 	<ol style="list-style-type: none"> 1. Build service bases for major customers in the world, thoroughly develop long-term partnerships with customers

	<p>customers into the advanced process to reduce costs and power consumption.</p> <ol style="list-style-type: none"> Increase the system integration such as SoC or SiP. Develop customers through market orientation, find customers with the development potential, and focus on customers of four domains of the Company. 	<p>and core technologies, and visibility and market share</p> <ol style="list-style-type: none"> Strengthen the strategic alliance with silicon intellectual property suppliers and long-term partnerships. Working with customers to develop various application platform architecture, help customers establish cooperative alliances, and increase the competitiveness of system integration e.g. SoC or SiP. Continue to enhance the cooperation between the upstream and downstream firms, and broaden the scope to include market information.
Production	<ol style="list-style-type: none"> Enhance the cooperation among the upstream, midstream, and downstream. Provide customers with high-quality supply chain management to create the added value of the production. Build long-term partnerships with foundries. 	<ol style="list-style-type: none"> Strengthen the link between design and production, continuously reduce production costs, and improve the defect-free rate. Provide customers with higher-quality supply chain management and more professional back-end consulting capability to create added values of production. Build long-term close partnerships with foundries, including verification and R&D in the Silicon Intellectual Property.

5.2 Market and Sales Overview

5.2.1 Market analysis

A. The market size of ASIC is growing



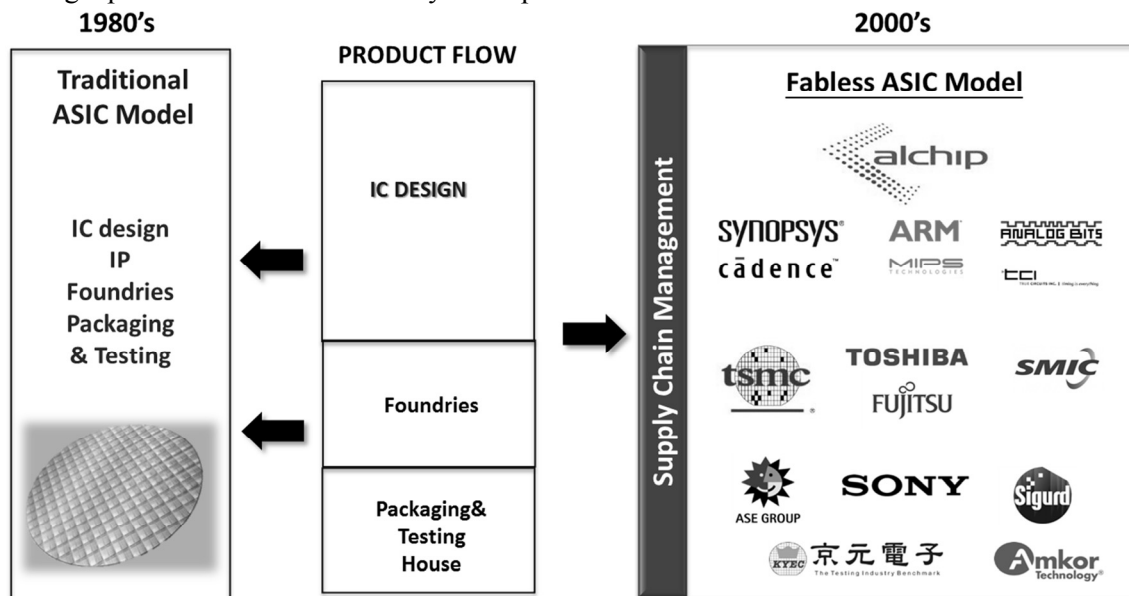
Source: Dataquest September, 2015

Since its invention, semiconductors have been developed for 60 years. Looking at the development of the semiconductor industry after entering the generation of deep submicron, there are three key trends: the business model from system companies' vertical integration to specialization and division of labor

nowadays; process technology following Moore's Law developed to date already moving towards 16 nm process node; system products adopting package stacking technology (SiP) and integrated System-on-Chip (SoC) mode to achieve the greatest market competitiveness.

(1) Trend I: The industry with specialization and division of labor

The semiconductor industry was mainly a closed production system vertically integrating the upstream, midstream, and downstream until the early 1980s, and the system company undertakes to do everything by itself. The pure play foundry business model was formally established with the foundation of the first pure-play foundry, TSMC, and UMC in 1987. After 2000, the specialization and division of labor in the semiconductor industry is increasingly apparent except that large IDMs still have IC design and foundries. Today, system companies concentrate on the R&D in core technology and engagement in brand marketing, and give the back-end design and production supply chain management to fabless ASIC companies. The fabless ASIC companies allied with their strategic partners to form the industry with specialization and division of labor.



(2) Trend II: High-end process takes the place of low-end process

ASIC design seeks the high-end process to reduce costs, power consumption, and size. In respect of wafer fabrication, as we shift into the generation of submicron and deep submicron, one unit of medium-scaled (5 ~ 10M gate) SoC cost millions of dollars. Mask for 90nm cost approximately 0.7 millions of dollars that exceeded one million dollars after entering the 65 nm process. Mask for 40 nm process cost approximately 2 million dollars and cost more than 5 million dollars for 16nm process. Based on the statistics from the market institution, ICinsights, the market scale of the global foundries is approximately 50.9 billion dollars in 2016. With TSMC for example, the market scale has reached 29.4 billion dollars in 2016 due to the leading process technology.

(3) Trend III: The system integration gradually moves to SoC (system design) / SiP (Packaging technology) System products are faced with intense market competition. Shorter development time and cost effective design are the primary requirements of customers. ASIC design is not only SIP integration but also a system-level integration. To pursue the high-end process, we have to take the chip packaging and testing technology into account to gain the competitive advantage of cost, power consumption, and volume. In response to the whole new SoC, it may be required to take a lot of time and money, which results in the SiP package stacking technology. Compared with the traditional IC packaging, the SiP package stacking technology can reduce design time, increase packaging density, lower risks, and save system costs. In the future, the SoC will gradually move towards the

cross-platform collaboration to make the most competitive integration across platforms through SiP / SoC integration mode.

- (4) Trend IV: System manufacturers will gradually move towards outsourcing ASIC design and production

Under the pressure from functional diversity and cost competitiveness, major manufacturers of system products with large demand in markets, such as cameras, tablet PCs, smart phones, etc. have to face cost pressures and future competitiveness. Therefore, they begin to think about the adoption of self-developed ASIC strategy in order to gain advantages of differentiation and competitiveness. System manufactures will concentrate more on keeping core firmware in hand and gradually move towards outsourcing ASIC design and production in terms of software technology.

B. Sales by region

Unit:NT\$thousand

Regions of sales	2015		2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Taiwan	968,025	25.57	1,602,290	43.41
Japan	829,241	21.90	923,943	25.03
Mainland China	1,088,555	28.75	872,681	23.64
Korea	440,970	11.65	161,751	4.38
Europe	380,081	10.04	85,724	2.32
Others	78,869	2.08	44,588	1.22
Total	3,785,741	100.00	3,690,977	100.00

C. Market share

According to financial information bulletins of companies, the total sales of the domestic design service industry was approximately NT\$19.4 billion in 2016. The Company's operating revenue was approximately NT\$3.69 billion, with market share of 19.3% ranked as the third.

D. Demand and Supply Conditions for the Market in the Future, and Market Growth Potential

With applications of SoC more widely and diverse needs of end products, IC manufacturers and IC design companies clearly sense that their design productivity is far less than the process technology advanced. To achieve purposes of faster time to market and lower IC design costs, system manufacturers must work with fabless ASIC companies with the capability to integrate various Silicon Intellectual Property. As a result, the demand for fabless ASIC will grow more and more.

From the perspective of growth in all regions, Asia-Pacific region remains the center of future growth, driven by the growth momentum coming from the huge domestic market in Mainland China. The Company constantly researches and develops the design process and technology of advanced processes (40 nm and below) over a long period of time, makes improvements on the use of general commercial software for R&D design (EDA), and enhances its supplier chain management to make products of customer groups lead the market through abundant design resources and technical support while the Company's operating revenue increasing in 2017.

E. Competitive Niche

- (1) High-end process experience:

Currently the technical experience of fabless ASIC companies for the most part still remains in 90-nm node and above. The design team of Alchip focuses on the design cases with high complexity (over 20 million gates) for advanced processes (40 nm and below), develops and mass produces a series of System on Chip successfully for world-class system companies. It can effectively overcome challenges from electrical closure (including power management, timing convergence, system

interface, and signal completeness), Design for Test (DFT), Design for Manufacturing (DFM), or the system-level, and further shorten the design time and enhance the efficiency of chips to help customers reduce costs, increase production efficiency, decrease power consumption, and optimize of chip size.

(2) Customization service:

To satisfy customer needs, the Company provides moderate flexibility and creates customized design for customers. Alchip recognizes its market position in SoC design with high complexity for advanced processes. It always has a full communication and understanding first for any customer's requirement, offers all-round services from design to mass production, and includes Silicon Intellectual Property required by products of customers going on the market for the future in the Company's R&D plan and prepares them in advance to shorten the design time in the future.

(3) Quality Assurance:

Alchip's goal is to develop and provide the highest-quality solutions to customers, achieve the highest standard of excellence, and continue to boost creativity. To help customers seize the market opportunity, the Company introduces the Design for Test (DFT) method in the design stage. The hardware circuit is additionally installed on a chip, which allows the faults and manufacturing defects to be detected when testing the chip, and further the testing cost is reduced and the defect-free rate of chip mass production is improved, making all tasks certain to be completed rapidly and effectively and reducing risks in IC design. Meanwhile, Alchip also implements strict quality policies, continuously reviews and enhances its services in order to complete tasks given by customers in a time-sensitive, highly cost-effective manner and ensure products and quality meeting customers' requirements.

(4) Master the advanced process design technologies:

The Company's core team masters design capabilities of advanced processes, and has quite the understanding of the variability in advanced processes. Risks resulting from the lack of the variability in advanced processes of general commercial EDA software can be properly predicted and prevented. It is more complex for advanced processes systems. In the chip design and packaging process, the system analysis is also taken into consideration to ensure the predictability that customers get chips integrated into systems, such as: Signal Integrity (SI) and Power Integrity (PI). Alchip's advanced process design solutions have also obtained empirical results from more than 200 million units of mass-production chips. After adoption of Alchip's design programs, customers can complete product design goals in the shortest time and gain the cost-effectiveness under high-volume mass production..

(5) Reliability:

High-complexity SoC design faces challenges in reliability, quality, cost, and time for products to market. The Company has completed more than 280 design projects since its establishment in 2003, and obtained the world's and system company's quality certification. Regardless of high-end system chips, high-complexity chips, and advanced-process chips, success has been achieved for all wafer start at the first attempt by far. Alchip considers environment variation factors that may occur at early design stage of circuits to reduce time and costs in re-designs and re-spins, and achieve high defect-free rate. Alchip accomplishes the reliability assurance through careful planning and implementation, concentration on the reliability, pre-sale support, and continuous improvement in the reliability for related products.

(6) Long-term customer relationships and strategic alliance partners:

The Company has long-term relationships with all customers, and pursues shared goals for better, faster results and lower costs. In respect of supply chain management, it also maintains good

partnership with upstream and downstream strategic partners, and provides customers with complete solutions and products that are more competitive.

F. Advantages, disadvantages and responsive strategies in the development of perspective

(1) Advantageous factors:

- i. Complete supply chain of Taiwan's semiconductor industry: The semiconductor has division of labor based on specialization and close relationship between upstream and downstream. Taiwan has advanced-process wafer fab, packaging, and testing houses and complete satellite suppliers, which has a comparative advantage in the development of IC design services. Besides, the convenience of location attracts manufacturers around the globe to place orders in Taiwan in view of the first-class international competitiveness.
- ii. Heavy demand for semiconductor products from Taiwan: Taiwan's OEM/ODM business mode has very high production efficiency and economies of scale in sub-contract manufacturing for not only semiconductor but also system products. Therefore, there is a huge demand in Taiwan's domestic market to support orders from foreign manufacturers.
- iii. Support by government policy: The electronics industry has been strongly supported by the government through investments OEM/ODM in the semiconductor sector, and fostering information technology, consumer electronics, and IC manufacturing industries. Thus, talented people and industrial structure are both beneficial for long-term development.

(2) Disadvantageous factors and responsive measures:

- i. Since engineers with advanced-process experience are very few, talented people are not easy to find and develop. Retaining professional personnel has become increasingly competitive because of the flourishing of IC industry. Companies often have to pay a high price for recruiting outstanding talents. As a result, to enhance employees' cohesion and sense of belonging towards the Company, the Company has to pay higher cost of human resource.

【Responsive Measure】

- ① The Company develops its own talents over a long period through internal and external professional education and training as well as on-the-job training, and improves employee benefits and reduces turnover rate.
- ② Adoption of employee stock options to keep talents.
- ii. As the industry looks promising and capacity requirements are going up, the Company needs to steadily expand its production capacity to improve service quality. Additionally, IDM industry mode is no longer competitive. The market trend for system customers to look for partners is becoming more and more obvious. Currently, the design service industry is limited in size, and requires expanding its scale to gain big orders from world-class system companies.

【Responsive Measure】

- ① Simplify the development and design process to improve productivity.
- ② Build the application specific Silicon Intellectual Property platform to shorten the design time and resource input.

5.2.2 Main Product Application and Production Flow

A. Main product application

Alchip's major products are divided into four categories:

- (1) HDTV market: The Company has developed more than 40 designs of digital TV chips since its establishment. A high-definition TV is not only an entertainment device as before. Through transmission over Internet, acting as the information multimedia center at home, it connects to the

security system with the capabilities of storing, sharing, and computing. The boundaries between digital TVs and computers will become increasingly blurred in the future.

- (2) Communication market: The market for network, storage, and computing devices is growing. To meet higher standards for performance, these devices must use increasingly complex high-efficiency and high-density System on Chips. The Company collaborated with China's large system manufacturing firm to complete multiple 3M, GO TD/LTE mobile communications baseband chips and put them into mass production. It also continued to mass-produce supercomputer networking chips for academic institutions, and the project product was chosen as the world's fastest supercomputer. The characteristics lies in a multitude of customized design with high degree of complexity and difficulty or particularly rigorous process conditions and testing, such as master chips of communications equipment with tens of millions units of logic gates frequently. The complexity and difficulty is found in not only design, but also testing and packaging that will be taken into account consequently.
- (3) Consumer electronics products: including designs for applications such as mobile phones, digital cameras/video cameras, entertainment systems, portable media players, tablet PC master chips, and peripheral chips. Among which, mobile communication devices have integrated with features of MP3, camera, GPS, mobile TV, wireless surfing, gaming machine, etc., and they will become a personal finance and identification tool in the future. In the semiconductor sector, the consumer market is the fastest growing segment. In response to the fierce competition in the market, Alchip provides predicable chip realization time, adopts the applied efficiency circuits with empirical experiences, completes prototype chips and enters mass production as soon as possible so that customers can get maximum returns on their investments.
- (4) Niche market products: including ASIC design in special applications such as surveillance systems, entertainment machines, and medical equipment and instruments.

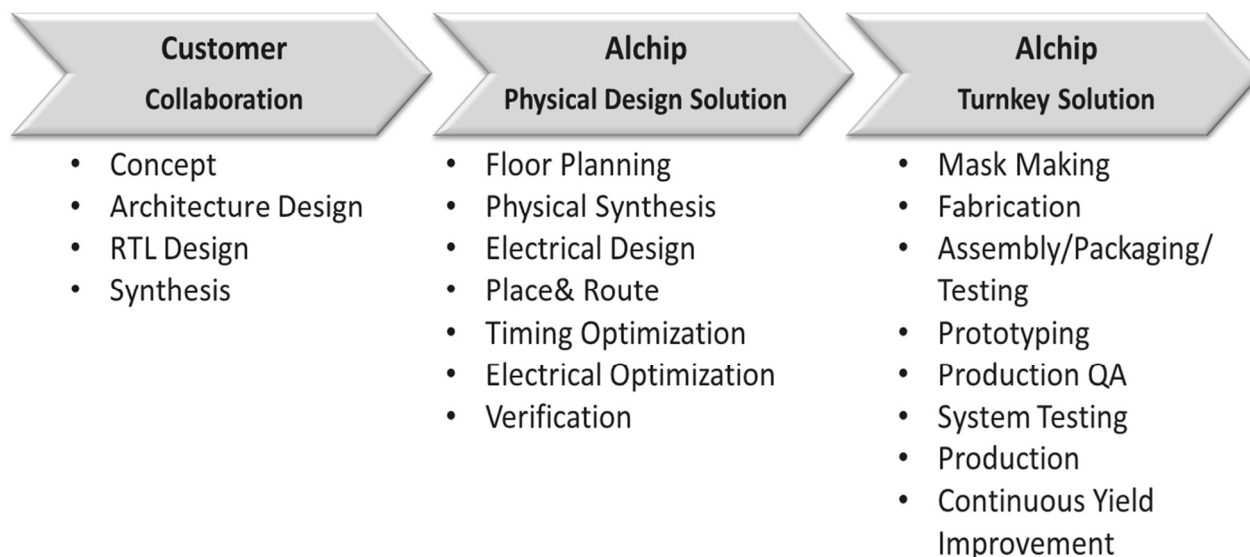


B. Production process of major products:

Chip design is composed of front-end design and back-end design. The front-end design is provided by the system company, and back-end design, production, and manufacturing, on the other hand, are subcontracted to Alchip.

At the front-end design, the concept of a product is decided by the customer. RTL (Register Transform Level) is used to describe functions required by IC and determine the operating speed of the product. Finally, the target database containing all the details (basic functional logic) is established. Through the use of synthesis software, RTL is converted to net list, in which, electronic circuits are converted to logic gates, and the function defined therein is realized through Synthesis Software while the operating clock defined by designer is optimized, and the completed design is given to the fabless ASIC supplier for back-end design.

The back-end design is divided into two phases. The first phase begins with the initialization of the design case and ends in receipt of customer's final net list, which takes about 6 to 8 weeks. The second phase in which engineers use physical design software to convert Net List to the actual layout, and generate the file named GDSII for manufacturing masks (commonly known as tape out). This phase takes about 4 to 6 weeks.



Alchip provides not only the back-end design service, but also a complete turn-key service from design to wafer fabrication, packaging, and testing for customers. In Alchip's service process, the wafer fabrication phase begins after delivery of GDSII file to foundries for manufacturing. The period from delivery of GDSII to completion of chip's finished product testing takes about 8 to 12 weeks. The chip manufacturing process is roughly divided into the following steps: wafer fabrication (wafer fab for short), wafer probe, assembling, initial test and final test. Alchip builds close working relationships with suppliers for overall back-end design and production.

- (1) Silicon Intellectual Property suppliers: Alchip works closely with silicon intellectual Property suppliers and seeks the most appropriate capacity/price ratio. Alchip can provide products of principal IP suppliers around the globe. Customers can adopt their own IP and then combine them flexibly with IP provided by Alchip.
- (2) Foundries: Alchip chooses cooperative firms based on the customer's demand. The open foundries business mode adopted by it does not need to depend on a fixed foundry and so the design capability and development in itself is limited. The Company keeps good partnerships with most foundries

(such as: TSMC, Samsung, SMIC, Global Foundries, etc.). It also cooperates closely with TSMC in R&D at the back-end design for deep-submicron and high-end processing SoC.

- (3) Packaging/testing house: Considering the packaging/testing when manufacturing products, in the early design stage, the manufacturing & production team and design & engineering team of Alchip will work together with customers and packaging/testing houses in the supply chain and ensure that each part is correct in the process of commercialization. In the meantime, the logistics group of Alchip makes chips produce timely and deliver them to customers through sound planning production process, and good interaction with supply chain companies.

The following is a list of individual suppliers in the semiconductor industry chain:

Foundry	
Packaging & Testing house	
SIP Supplier	 <p>(over 30 partners)</p>

5.2.3 Raw Material Supply

Main raw material	Main source	Supply status
Wafer	Taiwan	Good

5.2.4 Major suppliers and customers

A. Major suppliers contributing more than 10% of total purchase amount in years 2015 and 2016

Unit: NT\$ thousand/%

Item	2015				2016			
	Supplier	Amount	Percentage of full-year net purchase (%)	Relationship with the issuer	Supplier	Amount	Percentage of full-year net purchase (%)	Relationship with the issuer
1	TSMC	1,119,850	98.66	None	TSMC	1,262,732	82.74	None
2	-	-	-	-	Z Company	260,440	17.06	None

Explanation: Alchip is a professional IC design company, and its main purchase item is wafer. Alchip pursues quality and ensures delivery time, and has the long-term cooperation and builds stable partnership with wafer foundries.

Z company is a new supplier in 2016 which was appointed by customer.

B. Major customers contributing more than 10% of total sales amount in years 2015 and 2106

Unit: NT\$ thousand/%

Item	2015				2016			
	Customer	Amount	Percentage of full-year net sales (%)	Relationship with the issuer	Customer	Amount	Percentage of full-year net sales (%)	Relationship with the issuer
1	I Company	745,505	19.69	None	I Company	1,440,748	39.03	None
2	S Company	730,478	19.30	None	K Company	397,625	10.77	None
3	N Company	490,237	12.95	None	-	-	-	None
4	A Company	383,427	10.13	None	-	-	-	None

Explanation: The increase in the sales amount of I Company and K Company is due to the increase in demand for chip production in 2016.

5.2.5 Production output in years 2015 and 2016

Unit:thousand;NT\$thousand

Output	Year	2015		2016	
		Quantity	Value	Quantity	Value
Major Products					
ASIC and Chip production		48,904	2,221,649	38,636	2,458,245
NRE		-	102,466	-	11,402
Others		225	1,918	204	2,335
Total		49,129	2,326,033	38,840	2,471,982

Note: Alchip is a professional IC design company, and has no its own wafer fabrication capacity. The capacity of general manufacturing industry is not applicable. NRE refers to IC design services coming into contract. Since contracts for cost input is different to each project, it is not applicable to calculation of quantity and value.

5.2.6 Sales amount in years 2015 and 2016

Unit: NT\$ thousand

Shipments & Sales	Year	2015				2016			
		Domestic sales		Overseas sales		Domestic sales		Overseas sales	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Major Products									
ASIC and Chip production		24,471	966,478	20,633	2,502,553	31,299	1,600,850	7,278	1,961,797
NRE		-	-	-	313,830	-	-	-	124,291
Others		107	1,547	61	1,333	127	1,440	46	2,599
Total		24,578	968,025	20,694	2,817,716	31,426	1,602,290	7,324	2,088,687

5.3 Information on Employees

The Company's number of employees employed, their average years of service, average age, the percentage of employees at each education level for the two most recent years:

Year		2015	2016	The Current Year up to March 31, 2017
Number of Employees	Supervisor of Managerial Level or Above	71	60	76
	General staff	173	191	187
	Total	244	251	263
Average age		31.34	31.78	31.43
Average years of service		3.18	3.37	3.68
Percentage of Employees at Each Education Level	Ph.D.	1%	1%	2%
	Master	44%	50%	39%
	College	52%	47%	56%
	Senior High School and below (inclusive)	3%	2%	3%

5.4 Expenditure on Environmental Protection

Total losses (including damage awards) and fines for environmental pollution in the most recent year as well as the current year up to the date of the publication of the annual report, and describe the responsive measures (including corrective measures) and possible disbursements to be made in the future (including an estimate of losses, fines, and compensation resulting from any failure to adopt responsive measures. If the loss cannot be reasonably estimated, make a statement to that effect.): None.

5.5 Labor Relations

5.5.1 Describe employee benefit plans, continuing education, training, retirement systems, and the status of their implementation, and labor-management agreements and measures for upholding employees' rights and interests

A. Employee benefit plans

The Group's employee benefit plans are implemented in accordance with relevant laws and regulations where subsidiaries are located, including labor and health insurance, group insurance, pension distribution, and annual health examination. The subsidiaries of the Group also establish employee welfare committees responsible for planning and handling employees' welfare matters including cash gifts for holidays and festivals, employee travel, regular group recreation activity, and year-end party.

B. Continuing education and training

To enhance employees' professional capabilities and achieve the company's goals in cultivation of talent, the Company makes annual training programs for employees based on the Company's development strategy and employees' needs, scrupulously implements training, and conducts reviews and auditing on training performance in accordance with ISO Standard for Training Management and Process.

C. Retirement systems and status of their implementation

The Group's retirement systems are implemented in accordance with relevant laws and regulations where subsidiaries are located, and appropriates labor pension reserve funds monthly and deposits such amount in employees' designated account to provide protection for employees' security.

D. Labor-management agreements and measures for upholding employees' rights and interests

The Group has always valued employees' rights and interests as well as their opinions. We keep labor relations harmonious, and employees may make communications and submit their suggestions on the company's operations through regular labor-management conference. Therefore, no material labor dispute has occurred up to now.

5.5.2 Describe any loss sustained as a result of labor disputes in the most recent year and the current year up to the date of the publication of the annual report, disclose an estimate of losses incurred to date or likely to be incurred in the future, and mitigation measures. If the loss cannot be reasonably estimated, make a statement to that effect

The Group has always maintained harmonious labor relations. There is no loss sustained as a result of labor disputes, and no losses incurred as a result of labor disputes are estimated to be incurred in the future year.

5.6 Material Contracts

Supply and sales contracts, technical cooperation contracts, engineering/construction contracts, long-term loan contracts, and other contracts that would affect shareholders' equity, where said contracts are either still effective as of the date of the publication of annual report, or expired in the most recent year are listed as follows:

5.6.1 Alchip Technologies, Limited, Alchip(Holdco)

Agreement	Counterparty	Start/end Dates of Contracts	Major Content	Restrictive Clauses
Manufacturing	A Company	One year from June 25, 2009 (If any party does not terminate the contract in writing three (3) months before the expiration of the contract, the contract will be extended for one year. The same shall apply hereafter.)	Alchip (Holdco) provides manufacturing and delivers the manufacturing products as agreed by both parties to A Company.	None
Design and production	S Company	Five years from September 15, 2013	Alchip (Holdco) provides product R&D services, manufactures, and sells integrated circuit products to S Company based on the Statement of Work attached with the contract.	None
Design and production	Y Company	Five years from April 1, 2014	Alchip (Holdco) provides product R&D services, manufactures and sells integrated circuit products to Y Company based on the Statement of Work attached with the contract.	None
Technology licensing	E Company	March 4, 2008	E Company licensed relevant patents on technologies to Alchip (Holdco) for use.	None
Partner	F Company	One year from March 13, 2009 (automatically extended for one year annually)	F Company appointed Alchip (Holdco) as its "Value Chain Aggregator".	None

Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco), Alchip (TW), Alchip (JP), Alchip (Wuxi), and Alchip (Shanghai) on July 29, 2016. G Company licensed Alchip (Holdco), Alchip (TW), Alchip (JP), Alchip (Wuxi), and Alchip (Shanghai) the right to use Licensed Products and patented technologies with expiration date on October 31, 2019).	None
Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco) and Alchip(Shanghai) on August 1, 2014. G Company licensed relevant patents on technologies to Alchip (Holdco) and Alchip(Shanghai) for use with expiration date on August 4, 2017).	None
Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco) and Alchip(Shanghai) on October 26, 2015. G Company licensed relevant patents on technologies to Alchip (Holdco) and Alchip(Shanghai) for use with expiration date on October 26, 2018).	None
Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco) and Alchip(Shanghai) on July 29, 2016. G Company licensed relevant patents on technologies to Alchip (Holdco) and Alchip(Shanghai) for use with expiration date on August 31, 2019).	None
Software licensing	H Company	From June 29, 2006 to the termination by H Company as agreed in the contract	H Company licensed Alchip (Holdco) the right to use Licensed Materials	None
Technology licensing	H Company	From January 6, 2014 to January 5, 2017	H Company licensed relevant patents on technologies to Alchip (Holdco) for use.	None

5.6.2 Alchip Technologies, Inc.,Alchip(Taiwan)

Agreement	Counterparty	Start/end dates of contracts	Major content	Restrictive clauses
Lease contract	CyberLink Corp.	From August 1, 2014 to July 31, 2019	Lease the property located in “9F., No. 12, Wenhua St., Neihu Dist., Taipei City” and “9F.-1, No. 12, Wenhua St., Neihu Dist., Taipei City” as office space.	None

5.6.3 Alchip Technologies, Limited, TW Branch

Agreement	Counterparty	Start/end dates of contracts	Major content	Restrictive clauses
Design and Production	I Company	5 years from October 29, 2014	Alchip (TW Branch) provides product R&D services, manufactures and sells integrated circuit products to I Company based on the Statement of Work attached with the contract.	None
Lease contract	TAI YUAN TESTILE	From January 1, 2016 to December 31, 2018	Lease the property located in “11F.-1, No. 1, Taiyuan 1st St., Zhubei Vil., Zhubei City, Hsinchu County” as office space	None

5.6.4 Alchip Technologies, Limited, Alchip(Shanghai)

Agreement	Counterparty	Start/end dates of contracts	Major content	Restrictive clauses
Software licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Shanghai) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco), Alchip (TW), Alchip (JP), Alchip (Wuxi), and Alchip (Shanghai) on July 29, 2016. G Company licensed Alchip (Holdco), Alchip (TW), Alchip (JP), Alchip (Wuxi) and Alchip (Shanghai) the right to use Licensed Products and patents on technologies with expiration date on October 31, 2019).	None
Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco) and Alchip (Shanghai) on August 1, 2014. G Company licensed relevant patents on technologies to Alchip (Holdco) and Alchip (Shanghai) for use with expiration date on August 4, 2017).	None
Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco) and Alchip (Shanghai) on October 26, 2015. G Company licensed relevant patents on technologies to Alchip (Holdco) and Alchip (Shanghai) for use with expiration date on October 26, 2018).	None
Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco) and Alchip (Shanghai) on July 29, 2016. G Company licensed relevant patents on technologies to Alchip (Holdco) and Alchip (Shanghai) for use with	None

			expiration date on August 31, 2019.	
Lease contract	Shanghai Greenland Group Riverside Property Co Ltd.	From August 31, 2015 to August 31, 2017	Lease the property located in “11F, East Building, Greenland Center, No. 596, Middle Longhua Rd., Xuhui District, Shanghai City” as office space	None

5.6.5 Alchip Technologies, KK Alchip(Japan)

Agreement	Counterparty	Start/end dates of contracts	Major content	Restrictive clauses
Manufacturing	K Company	March 1, 2015	Alchip (Japan) provides manufacturing and delivers the manufacturing products as agreed by both parties to K Company.	None

VI. Financial Highlights

6.1 Financial Highlights

6.1.1 Condensed balance sheet and statements of comprehensive income/ statements of income(Consolidated) –IFRS

A. Balance sheet (Consolidated)

Unit: NT\$ thousand

Item	Year	Financial Summary for The Last Five Years(Note1)				
		2012	2013	2014	2015	2016
Current assets		1,357,185	1,344,212	2,689,501	2,581,575	2,266,456
Property, Plant and Equipment		245,359	327,780	358,202	444,654	216,976
Intangible assets		95,832	206,642	179,262	143,811	117,058
Other Non-Current assets		44,519	26,318	92,237	744,971	688,160
Total assets		1,742,895	1,904,952	3,319,202	3,915,011	3,288,650
Current liabilities	Before distribution	237,636	248,750	540,679	1,087,814	731,082
	After distribution	237,636	258,496	580,112	1,117,493	(Note2)
Non-current liabilities		-	-	-	-	-
Total liabilities	Before distribution	237,636	248,750	540,679	1,087,814	731,082
	After distribution	237,636	258,496	580,112	1,117,493	(Note2)
Equity attributable to owner of the company		1,505,259	1,656,202	2,778,523	2,827,197	2,557,568
Share capital		538,713	539,473	634,818	615,678	607,028
Capital surplus		731,345	731,887	1,418,141	1,392,250	1,388,223
Retained earnings	Before distribution	301,089	414,213	615,653	662,507	421,432
	After distribution	301,089	404,467	576,220	632,828	(Note2)
Other equity		(65,888)	(29,371)	109,911	156,762	140,885
Treasury stock		-	-	-	-	-
Non-controlling interest		-	-	-	-	-
Total equity	Before distribution	1,505,259	1,656,202	2,778,523	2,827,197	2,557,568
	After distribution	1,505,259	1,646,456	2,739,090	2,797,518	(Note2)

Note 1: Financial information for the year 2012~2016 is audited by CPAs.

Note 2: Earnings distribution of the year 2016 has not been resolved by the shareholders' meeting.

B. Statements of comprehensive income(Consolidated)

Unit: NT\$ thousand

Item \ Year	Financial Summary for The Last Five Years (Note)				
	2012	2013	2014	2015	2016
Operating revenues	2,671,121	2,583,563	4,691,741	3,785,741	3,690,977
Gross profit	610,147	757,863	953,307	822,497	487,833
Income from operations	59,227	186,058	342,198	140,827	(209,745)
Non-operating income & expenses	(24,530)	(33,883)	(42,690)	27,409	8,432
Income before tax	34,697	152,175	299,508	168,236	(201,313)
Net Income from operations of continued segments	21,855	113,124	211,186	128,936	(211,396)
Net income	21,855	113,124	211,186	128,936	(211,396)
Other comprehensive income (income after tax)	(65,888)	36,517	139,282	46,851	(15,877)
Total comprehensive income	(44,033)	149,461	350,468	175,787	(227,273)
Net income attributable to shareholders of the parent	21,855	113,124	211,186	128,936	(211,396)
Net income attributable to non-controlling interest	-	-	-	-	-
Comprehensive income attributable to Shareholders of the parent	(44,033)	149,461	350,468	175,787	(227,273)
Comprehensive income attributable to non-controlling interest	-	-	-	-	-
Earnings per share (NT\$)	0.41	2.10	3.77	2.07	(3.45)

Note: Financial information for the year 2012~2016 is audited by CPAs.

6.1.2 Condensed balance sheet and statements of comprehensive income/ statements of income(Consolidated)- ROC GAAP

A.Balance sheet(Consolidated)

Unit: NT\$ thousand

Item	Year	Financial Summary for The Last Five Years (Note)				
		2012	2013	2014	2015	2016
Current assets		1,384,481				
Fund & Investment		-				
Fixed assets		249,377				
Intangible assets		95,766				
Other assets		23,112				
Total assets		1,752,736				
Current liabilities	Before distribution	241,566				
	After distribution	241,566				
Long-term liabilities		-				
Other liabilities		-				
Total liabilities	Before distribution	241,566				
	After distribution	241,566				
Share capital		538,713				
Capital surplus		641,020				
Retained earnings	Before distribution	264,904				
	After distribution	264,904				
Unrealized gain or loss on financial instruments		-				
Cumulative translation adjustments		66,533				
Net loss unrecognized as pension cost		-				
Total equity	Before distribution	1,511,170				
	After distribution	1,511,170				

Not applicable

Note: Financial information for the year 2012 is audited by CPAs.

B.Statements of income(Consolidated)

Unit: NT\$ thousand

Item	Year	Financial Summary for The Last Five Years (Note)				
		2012	2013	2014	2015	2016
Operating revenue		2,623,365				
Gross profit		589,305				
Income from operations		47,186				
Non-operating income & interests		14,181				
Non-operating expenses & loss		(39,786)				
Income from operations of continued departments - before tax		21,581				
Income from operations of continued departments - after tax		9,196				Not applicable
Income from discontinued operations		-				
Extraordinary gain or loss		-				
Cumulative effect of accounting principle changes		-				
Net income		9,196				
Earnings per share		0.17				

Note: Financial information for the year 2012 is audited by a CPA.

6.1.3 CPA opinions from 2012 to 2015

Year	CPA	Accounting Firm	Auditor's Opinion
2012	Janice Wang , Peter Fan	Deloitte & Touche	Unqualified opinion
2013	Janice Wang , Peter Fan	Deloitte & Touche	Unqualified opinion
2014	Janice Wang, S.C. Huang	Deloitte & Touche	Unqualified opinion
2015	Janice Wang, S.C. Huang	Deloitte & Touche	Unqualified opinion
2016	Jamie Lee, S.C. Huang	Deloitte & Touche	Unqualified opinion

6.2 Financial Analysis

A. Consolidated financial analysis from 2012 to 2016 –IFRS

Item		Year	Financial Analysis for the Last Five Years(Note1)				
			2012	2013	2014	2015	2016
Financial structure (%)	Debt Ratio		13.63	13.06	16.29	27.79	22.23
	Ratio of long-term capital to property, plant and equipment		613.49	505.28	775.69	635.82	1,178.73
Liquidity (%)	Current ratio		571.12	540.39	497.43	237.32	310.01
	Quick ratio		467.69	476.67	412.39	198.84	273.68
	Interest earned ratio (times)		8,675.25	-	-	30.45	(57.83)
Operating performance	Accounts receivable turnover (times)		6.61	5.87	8.30	5.06	4.00
	Days sales outstanding		55	62	44	72	91
	Inventory turnover (times)		9.29	10.83	20.74	11.11	12.20
	Accounts payable turnover (times)		10.95	14.46	35.35	25.48	16.40
	Average inventory turnover days		39	34	18	33	30
	Property, plant and equipment turnover (times)		8.71	9.02	13.68	9.43	11.16
	Total assets turnover (times)		1.47	1.42	1.8	1.05	1.02
Profitability	Return on total assets (%)		1.20	6.20	8.08	3.70	(5.79)
	Return on equity attributable to shareholders (%)		1.43	7.16	9.52	4.60	(7.85)
	Pre-tax income to paid-in capital (%)		6.44	28.21	47.18	27.33	(33.16)
	Net margin(%)		0.82	4.38	4.5	3.41	(5.73)
	Basic earnings per share (NT\$)		0.41	2.10	3.77	2.07	(3.45)
Cash flow	Cash flow ratio (%)		182.24	187.25	145.69	56.75	73.22
	Cash flow adequacy ratio (%)		56.70	69.06	87.62	97.75	99.43
	Cash reinvestment ratio (%)		20.79	20.77	19.92	15.13	12.57
Leverage	Operating leverage		15.98	5.93	5.68	14.86	(6.87)
	Financial leverage		1.00	1.00	1.00	1.04	0.98

Analysis of deviation of 2016 vs. 2015 over 20%

- (1)Debt-Asset Ratio: Decreased by 20% in 2016 , mainly due to the decrease in short-term financing loan.
- (2)Ratio of long-term capital to property, plant and equipment: Increased by 85.39%, mainly due to the decrease in purchase of machinery and equipment.
- (3)Current Ratio, Quick Ratio: increased by 30.63% and 37.64%, respectively in 2016 , mainly due to the decrease in short-term financing loan.
- (4)Interest Coverage Ratio: Decreased by 289.9%,due to net loss in 2016.
- (5)Receivables Turnover Rate, Days Sales Outstanding: Receivables Turnover Rate decreased by 20.95% is mainly due to increase in revenue of the high-end smartphone imaging chip production and the chip production of game machine in the 4th quarter of 2016 as well as increase in average accounts receivable. Moreover, under China's foreign exchange control, the customer took a longer time for U.S. Dollars remittance application, resulting in a decrease in Accounts Receivable Turnover Rate and an increase in Days Sales Outstanding.

- (6) Accounts Payable Turnover Rate: Decreased by 35.63%, mainly due to the increase in demand for chip production in 2016, resulting in a increase in purchase of material, as well as increase in average accounts payable.
- (7) Return on Assets, Return on Equity, Pre-tax income to paid-in capital, Net margin: Decreased by 256.4%、270.6%、221.3% and 268.03% ,respectively in 2016, mainly due to net loss in 2016.
- (8) Basic earnings Per Share: Mainly due to net loss in 2016.
- (9) Cash Flow Ratio: Increased by 29.02% is due to the decrease in short-term financing loan in 2016.
- (10) Operating Leverage: Decreased by 146.2%, due to net loss in 2016.

Note 1: Financial information for the year 2012~2016 is audited by CPAs.

Note 2: Financial analysis equations:

1. Financial structure
 - (1) Ratio of liabilities to assets= Total liabilities/Total assets
 - (2) Ratio of long-term assets to Property, plant and equipment=(total equity+non-current liabilities)/ property, plant and equipment, net
2. Solvency
 - (1) Current ratio=Current assets/Current liabilities
 - (2) Quick ratio=(Current assets-inventory-prepaid expense)/Current liabilities
 - (3) Multiple of interest protection=income tax and interest expenses net income before income tax/interest expenses in the current period
3. Operating ability
 - (1) Account receivable turnover(times)=Net sales/Average accounts receivable and notes receivable(net)
 - (2) Days sales in account receivable=365/Account receivable turnover(times)
 - (3) Inventory turnover= Cost of goods sold/Average inventory
 - (4) Payables (including accounts payable and notes payable resulting from operation) turnover = net sales / balance (gross) of average accounts payable (including accounts payable and notes payable resulting from operation)
 - (5) Average days in sales=365/Inventory turnover
 - (6) Property, plant and equipment turnover(times)=Net sales/ net sales/average property, plant and equipment, net
 - (7) Total assets turnover=Net sales/Average assets
4. Profitability
 - (1) Ratio of return on total assets=[net income+interest expense(1-tax rate)/Average assets]
 - (2) Ratio of equity= Net income/Average total Equity
 - (3) Profit ratio=New income/Net sales
 - (4) Earnings per share=(Net income- preferred stock dividend)/Weighted average stock issued (Note 4)
5. Cash flow
 - (1) Cash flow ratio=Net cash flow from operating activity/Current liabilities
 - (2) Cash flow adequacy ratio=Net cash flow from operating activities in five years/(Capital expenditure+inventory increase+cash dividend) in five years
 - (3) Cash reinvestment ratio=(Net cash flow from operating activity –cash dividend)/ gross of property, plant and equipment+long-term investment+other non-current assets+working capital)(Note 5)
6. Leverage
 - (1) Operation leverage=(Net operating income-operating cost and expense)/Operating income (Note 6)
 - (2) Financial ratio= Operating income/(Operating income-Interest expense)

Note 4: When the above formula for calculation of earnings per share is used during measurement, give special attention to the following matters:

1. Measurement should be based on the weighted average number of common shares, not the number of issued shares at year end.
2. In any case where there is a cash capital increase or treasury stock transaction, the period of time in circulation shall be considered in calculating the weighted average number of shares.
3. In the case of capital increase out of earnings or capital surplus, the calculation of earnings per share for the past year and the half-year shall be retrospectively adjusted based on the capital increase ratio, without the need to consider the issuance period for the capital increase.
4. If the preferred shares are non-convertible cumulative preferred shares, the dividend of the current year (whether issued or not) shall be subtracted from the net profit after tax, or added to the net loss after tax. In the case of non-cumulative preferred shares, if there is net profit after tax, dividend on preferred shares shall be subtracted from the net profit after tax; if there is loss, then no adjustment need be made.

Note 5: Give special attention to the following matters when carrying out cash flow analysis:

1. Net cash flow from operating activities means net cash in-flows from operating activities listed in the statement of cash flows.

2. Capital expenditures means the amounts of cash out-flows for annual capital investment.
3. Inventory increase will only be entered when the ending balance is larger than the beginning balance. An inventory decrease at year end will be deemed zero for calculation.
4. Cash dividend includes cash dividends from both common shares and preferred shares.
5. Gross fixed assets value means the total value of fixed assets prior to the subtraction of accumulated depreciation.

Note 6: Issuers shall separate operating costs and operating expenses by their nature into fixed and variable categories. When estimations or subjective judgments are involved, give special attention to their reasonableness and to maintaining consistency.

Note 7: In the case of a company whose shares have no par value or have a par value other than NT\$10, for the calculation of the above-mentioned paid-in capital ratio, the ratio of equity attributable to owners of the parent as stated in the balance sheet shall be substituted.

B. Consolidated financial analysis –ROC GAAP

Item	Year	Financial Analysis for the Past Five Years(Note1)					
		2012	2013	2014	2015	2016	
Financial structure (%)	Debt Ratio	13.78					
	Ratio of long-term capital to fixed assets	605.98					
Liquidity (%)	Current ratio	573.13					
	Quick ratio	470.74					
	Interest earned ratio (times)	5,396.25					
Operating performance	Accounts receivable turnover (times)	7.88					
	Days sales outstanding	46					
	Inventory turnover (times)	9.09					
	Accounts payable turnover (times)	10.78					
	Average inventory turnover days	40					
	Fixed assets turnover (times)	10.52					
	Total assets turnover (times)	1.50					
Profitability	Return on total assets (%)	0.5					
	Return on equity attributable to shareholders (%)	0.6					
	Ratio to issued capital (%)	Operating income	8.76				
		Pre-tax income	4.01				
	Net margin (%)	0.35					
	Basic earnings per share (NT\$)	0.17					
Cash flow	Cash flow ratio (%)	163.59					
	Cash flow adequacy ratio (%)	52.01					
	Cash reinvestment ratio (%)	17.55					
Leverage	Operating leverage	21.3					
	Financial leverage	1.00					

Not applicable

Note 1: Financial information for the year 2012 is audited by CPAs.

Note 2: Financial analysis equations:

1. Financial structure
 - (1) Ratio of liabilities to assets= Total liabilities/Total assets
 - (2) Ratio of long-term funds to fixed assets=(total Shareholders' equity+Long-term liabilities)/Net fixed assets
2. Solvency
 - (1) Current ratio=Current assets/Current liabilities
 - (2) Quick ratio=(Current assets-inventory-prepaid expense)/Current liabilities
 - (3) Multiple of interest protection=income tax and interest expenses net income before income tax/interest expenses in the current period
3. Operating ability
 - (1) Account receivable turnover=Net sales/Average accounts receivable and notes receivable(net)
 - (2) Days sales in account receivable=365/Account receivable turnover(times)
 - (3) Inventory turnover= Cost of goods sold/Average inventory
 - (4) Accounts payable turnover=Purchase/Average accounts payable
 - (5) Average days in sales=365/Inventory turnover
 - (6) Total fixed assets turnover rate=Net sales/Net total fixed assets
 - (7) Total assets turnover rate=Net sales/Total assets

4. Profitability
 - (1) Ratio of return on total assets= $[\text{net income} + \text{interest expense}(1 - \text{tax rate}) / \text{Average total assets}]$
 - (2) Ratio of return on Shareholders' Equity= $\text{Net income} / \text{Average Shareholders' Equity}(\text{net})$
 - (3) Profit ratio= $\text{New income} / \text{Net sales}$
 - (4) Earnings per share= $(\text{Net profit after tax} - \text{preferred stock dividend}) / \text{Weighted average stock issued}$
5. Cash flow
 - (1) Cash flow ratio= $\text{Net cash flow from operating activity} / \text{Current liabilities}$
 - (2) Cash flow adequacy ratio= $\text{Net cash flow from operating activities in five years} / (\text{Capital expenditure} + \text{inventory increase} + \text{cash dividend})$ in five years
 - (3) Cash reinvestment ratio= $(\text{Net cash flow from operating activity} - \text{cash dividend}) / (\text{Gross fixed assets} + \text{Long-term investment} + \text{Other assets} + \text{Operating fund})$
6. Leverage
 - (1) Operation leverage= $(\text{Net operating income} - \text{operating cost and expense}) / \text{Operating income}$
 - (2) Financial ratio= $\text{Operating income} / (\text{Operating income} - \text{Interest expense})$

6.3 Audit Committee's Report for the Most Recent Year

Alchip Technologies, Limited AUDIT COMMITTEE'S REVIEW REPORT

To: Shareholders' Annual General Meeting for Year 2017, Alchip Technologies, Limited

The Board of Directors has prepared and submitted to the undersigned, Audit Committee of Alchip Technologies, Limited 2016 Business Report, Consolidated Financial Statements and Dividend Distribution proposal. The Consolidated Financial Statements have been duly audited by Certified Public Accountants Jamie Lee and S.C. Huang of Deloitte Touche Tohmatsu. The above Business Report, Consolidated Financial Statements and Dividend Distribution proposal have been examined and determined to be correct and accurate by the undersigned. This Report is duly submitted in accordance with Article 14-4 of Securities and Exchange Law and Article 219 of the Company Law.

The Audit Committee, Chairman:

Mr. Mao-Wei Hung

6.4 Consolidated Financial Statement for the most recent year, including an auditor's report prepared by a CPA, and 2-year comparative balance sheet, statement of comprehensive income, statement of changes in equity, cash flow chart, and any related footnotes or attached appendices

Please refer to page 134 to 193.

6.5 A Parent Company Only Financial Statement for the Most Recent Year, Certified by a CPA, but not Including the Statements of Major Accounting Items

Not applicable.

6.6 Financial Difficulties Encountered By the Company and the Related Party in the Most Recent Year and Up to the Date of the Annual Report

None.

VII. Review of Financial Status, Financial Performance, and Risk Management

7.1 Analysis of Financial Status

A. Comparability and analysis on financial status

Unit: NT\$ thousand; %

Item \ Year	2015	2016	Difference	
			Amount	Amount
Current Assets	2,581,575	2,266,456	(315,119)	(12.21)
Property, plant and equipment	444,654	216,976	(227,678)	(51.20)
Intangible Assets	143,811	117,058	(26,753)	(18.60)
Other Non-Current Assets	744,971	688,160	(56,811)	(7.63)
Total Assets	3,915,011	3,288,650	(626,361)	(16.00)
Current Liabilities	1,087,814	731,082	(356,732)	(32.79)
Long-term Liabilities	-	-	-	-
Other Liabilities	-	-	-	-
Total Liabilities	1,087,814	731,082	(356,732)	(32.79)
Capital stock	615,678	607,028	(8,650)	(1.40)
Capital surplus	1,392,250	1,388,223	(4,027)	(0.29)
Retained Earnings	662,507	421,432	(241,075)	(36.39)
Other equity	156,762	140,885	(15,877)	(10.13)
Total Equity	2,827,197	2,557,568	(269,629)	(9.54)

1. Analysis of Deviation over 20% and the amount of change reaches 1% of total assets for the current year

(1) Current Assets: Due to the decrease in time deposit in 2016.

(2) Property, plant and equipment: Due to the decrease in purchase of machinery and equipment in 2016.

(3) Total assets: Due to decrease in time deposit and purchase of machinery and equipment in 2016.

(4) Current liabilities, total liabilities: Due to the decrease in short-term financing loan in 2016.

(5) Retained Earnings: Due to net loss in 2016.

2. The above deviations had no major impact on Alchip's financial position.

7.2 Analysis of Financial Performance

A. Comparability and analysis on business performance

Unit: NT\$ thousand; %

Item	Year	2015	2016	Increase/Decrease	
				Amount	Percentage of Change %
Operating revenue, net		3,785,741	3,690,977	(94,764)	(2.50)
Operating costs		2,963,244	3,203,144	239,900	8.10
Gross profit		822,497	487,833	(334,664)	(40.69)
Operating expenses		681,670	697,578	15,908	2.33
Operating income		140,827	(209,745)	(350,572)	(248.93)
Non-operating revenue and expenses		27,409	8,432	(18,977)	(69.24)
Net income before tax		168,236	(201,313)	(369,549)	(219.66)
Income tax expense		39,300	10,083	(29,217)	(74.34)
Net income or loss for current period		128,936	(211,396)	(340,322)	(263.95)
Other comprehensive income		46,851	(15,877)	(62,728)	(133.88)
Total comprehensive income		175,787	(227,273)	(403,060)	(229.28)

1. Analysis of Deviation over 20% and the amount of change reaches 1% of total assets for the current year.)

(1) Gross profit, Operating income: Mainly due to the increase in the revenue of chip production resulting in a increase in operating costs in 2016. The decline in the revenue of high margin NRE service in 2016 resulting in decrease in gross profit and operating income.

(2) Net income before tax: Due to the decrease in gross profit and recognized investment loss.

(3) Other comprehensive income: Due to currency exchange differences arising from translation of foreign operations.

(4) Total comprehensive income: Due to net loss in 2016.

2. The above deviations had no major impact on Alchip's financial position.

B. Forecast of sales volume and the basis therefore: The Company establishes its annual shipment target not only referring to the market analysis of the research institutions, but also according to customer's estimated demand and considering the capacity planning and past operating performance.

C. Possible effect on the company's future finance and business operations as well as Future countermeasures: The industry to which the company belongs is still at the stage of growth, and impacts of the financial crisis are gradually eliminated. The Company will pay attention to changes in the market demand at all times, expand the market share, and improve the Company's profit ability. The Company's future businesses should have a sustainable growth and sound financial status.

7.3 Analysis of Cash Flow

7.3.1 Cash flow analysis for the most recent year

Unit: NT\$ thousand;%

Item \ Year	2015	2016	Increase (Decrease) in Amount	Percentage of Increase (Decrease) (%)
Operating activities	617,297	535,265	(82,032)	(13.29)
Investing activities	(1,440,454)	(38,698)	(1,401,756)	(97.31)
Financing activities	402,367	(459,320)	(861,687)	(214.15)

Analysis of changes:

- (1) Operating activities: A decrease of NT\$82,032 thousand in cash provided by operating activities is due to net loss in 2016.
- (2) Investing activities: A decrease of NT\$1,401,756 thousand in cash used in investing activities is due to the decrease in time deposit and purchase of machinery and equipment in 2016.
- (3) Financing activities: A decrease of NT\$861,687 thousand in cash provided by financing activities is due to the decrease in short-term financing loan in 2016.

7.3.2 Cash flow analysis for the coming year (2017) and remedy for cash deficit and liquidity analysis

The Company has adequate own funds and it shows that cash is provided by operating activities, which should be able to response to cash used in investing activities and financing activities. It is unlikely that insufficient liquidity will be a problem.

7.4 Major Capital Expenditure for the Most Recent Year and its Effect on Finance and Business operations of the Company

None.

7.5 Investment Policy for the Most Recent Year, Main Reasons for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year

7.5.1 Investment policy of the Company

The company's current policy is to invest in targets associated with its basic businesses mainly and not invest in other industries. It is conducted by the relevant operating department in compliance with the "Investment Cycle" internal control system and "Guideline for Acquisition and Disposal of Assets". The above regulations or procedures have been discussed and resolved by the Board of Directors or shareholders' meeting.

7.5.2 Main reasons for profits or losses generated from investment for the most recent year

Unit:NT\$thousand

Item	Profit (Loss) in 2016	Investment Policy	Reasons for the Profits/Losses	Improvement Plan
Alchip (HK)	11,314	Invest in subsidiaries in China	Recognized investment income/loss under equity method.	Not applicable
Alchip (US)	(693)	A sales office for the U.S. market	Recognized personnel cost.	Not applicable
Alchip (JP)	2,512	An office to develop Japan market, and provide support for sales and R&D	Maintained a stable operating status with stable profit level.	Not applicable
Alchip (TW)	(5,017)	Provide R&D support	Recognized income tax for unappropriated earnings of prior year, resulting in net loss after tax.	Not applicable
Alchip BVI	33,240	General investment	Recognized investment income associated with bond investment.	Not applicable
Alchip (Shanghai)	6,297	An office to develop the China market, and provide support for sales and R&D.	Maintained a stable operating status with stable profit level.	Not applicable
Alchip (Wuxi)	5,783	Provide R&D support	Maintained a stable operating status with stable profit level.	Not applicable
Alchip (Hefei)	(338)	Provide R&D support	In a start up stage, recognized personnel cost	Not applicable

7.6 Analysis of Risk Management

Analyze and assess the following circumstances for the most recent year and up to the date of publication of the annual report:

7.6.1 Effects of changes in interest rates, foreign exchange rates and inflation on the Company's finance, and future countermeasures

A. Interest rate

The Company's interest expenses was NT\$3,365 thousand in 2016, accounted for 0.09% of annual operating income. Therefore, changes in future interest rates have no material impact on the Company's operation and profit.

B. Foreign exchange rates

The Group has the U.S. Dollar as its functional currency, as the Group's sales and purchases were mainly settled in U.S. Dollar. It also holds cash in New Taiwan Dollar, Renminbi, and Japanese Yen to meet subsidiaries' working capital requirements. The Company's foreign exchange (losses) gains were NT\$(8,876) thousand and NT\$(16,236) thousand in 2016 and 2015, accounted for 0.24% and 0.43% of annual operating income, respectively, which have little impact on the Company's operations and profits.

The Group currently has no material risk of exchange rate fluctuations. However, it is anticipated that Cayman Holdings Company applying for listing on the Taiwan Stock Exchange may probably pay NTD

dividends to domestic investors, or acquire NTD funding from domestic fundraising that will be required to convert it to USD for use in the future, the risk of changes in USD to NTD exchange rates in which may be incurred. Response measures will be possibly adopted by the financial department of the Company as follows:

- (1) Financial personnel maintain appropriate foreign exchange positions at the right time based on future foreign exchange rate trends required for operations of the Group's subsidiaries, and reduce the impact of exchange rate fluctuation on the listing company's profit ability.
- (2) Keep close contact with main banks and monitor changes in the foreign exchange market to provide relevant heads of divisions and branches with a full grasp of the trend in exchange rate fluctuation to make timely adjustments in response to contingent circumstances of change in the currency of collection and payment.
- (3) Adopt the natural write-off principle (namely, the whole overseas and domestic sales are quoted in Dollars) to external currency risks, and apply methods such as forward exchange agreements and taking foreign currency debts at the right as needed to reduce the impact of exchange rate fluctuation on the company's profit or loss.

C. Inflation/deflation

Prices of raw materials required by the Company remain stable. The Company's future profit or loss is not much affected by the short-term inflation.

7.6.2 Policies, main causes of gain or loss and future countermeasures with respect to high-risk, high-leveraged investments, lending or endorsement guarantees, and derivatives transactions

The Company remains true to its principle of stable operation on the prerequisite of financial soundness for the development, and has not engaged in any high-risk, high-leveraged investments, or derivatives transactions for the most recent year. Any lending or endorsement guarantees will be conducted in accordance with relevant requirements prescribed in the Company's "Guideline for Acquisition and Disposal of Assets", "The Guideline for Lending Funds to Others", and "The Guideline For Endorsement and Guaranty". No loss has occurred by now.

7.6.3 Future research & development projects and corresponding budget

In response to future growth, the Company will continuously invest R&D resources in development of high-end System on Chip (SoC) for advanced processes (28 nm and below) and R&D in design for customized circuit Silicon Intellectual Property (IP). Major R&D items include: Low Power Design Flow), Clocking Optimization technique, Signal Integrity management technology, design and development of customized circuit Silicon Intellectual Property, such as design and development of high-speed Mobile Industry Processor Interface (MIPI) circuit, performance enhancement of high-end E Company's microprocessor and peripheral Silicon Intellectual Property, high-end multi-chip packaging design technology, and so on.

In 2016 and 2015, the Company invested NT\$423,931 thousand and NT\$412,321 thousand in R&D, respectively, both reached hundred million NT dollars. It will continue to invest R&D resources in the future depending on the product development plan. However, where the Company does not continue to invest R&D resources in the future, by which products development and relevant R&D plans will be limited, or that makes the Company be unable to meet customer needs or market trends and then even will have the possibility of loss of orders. As a result, it will have a material adverse effect on the company's operations.

7.6.4 Effect of major foreign and domestic policy and regulatory changes on the company's finance and business operations, and countermeasures

The country of registration place of the Company is Cayman Island whose principal economic activity is financial services with open economy, no foreign exchange controls, and stable political and economic environment. The major places of operation of the Company are Taiwan and China with businesses performed in accordance with relevant laws and regulations of competent authorities at major places of operation. The Company has no material events that have the effect of major foreign and domestic policy and regulatory changes on the company's finance and business operations during the most recent year as well as the current year up to the date of the publication of the annual report.

7.6.5 Effect of technological and industry changes on the Company's finance and business operations, and countermeasures

The Company has always emphasized the improvement of R&D capabilities. Currently the chips designed and produced by it are mostly products in 28nm and below processes. No material adverse effect of technological and industry changes on the company's finance and business operations in medium- and long-term is expected.

7.6.6 The impact of changes in corporate image on corporate risk management, and the Company's countermeasures

None.

7.6.7 Expected benefits and potential risks of mergers and acquisitions, and countermeasures

Not applicable.

7.6.8 Expected benefitsexpected benefits and possible risks associated with plant expansion

Not applicable.

7.6.9 Risks from centralized purchasing or selling, and countermeasures

A. Concentration of purchasing

The Company's main raw material is wafer, and 90% of which are purchased from Taiwan Semiconductor Manufacturing Company Limited (hereinafter referred to as "TSMC"). There has indeed been a concentration phenomenon in purchasing operations. Since the Company does not sign a long-term supply contract with the wafer foundry, once the wafer foundry does not give adequate support capacity, risks of shortage or interruptions may occur in the Company. However, the Company develops relationships of strategic alliance and business bond with suppliers for wafer capacity, and provides timely the latest application trends in products on the market and estimated sales of products in order for wafer foundries to support the capacity requirements. Meanwhile, it obtains TSMC's capacity plan for more than half a year to meet the demand for material preparation of production. In addition, the Company has built the second source of supply to increase the flexibility of source of supply and avoid any circumstance such as shortage or interruptions of supply.

B. Concentration of Selling

The top sales customers of the Company were the customer of digital high-end smartphone imaging chip in Taiwan and customer of game machine chips in Japan, with proportion of 39.03% and 10.77%, respectively. The Company constantly endeavored to develop new customers and diversify customer base in the past year. The benefit thereof will be revealed in 2017.

7.6.10 Impact and risk associated with large share transfers or changes in shareholdings of Directors, or shareholders who hold more than 10% of the Company's shares, and countermeasures

The Company's shareholder who hold more than 10% of the Company's shares(SB Asia Infrastructure L.P.) filed application of transfer of shareholding on the central market on January 26th, 2017 and dismissed insider of the Company on February 16th, 2017. There is no significant impact and risk on share transfers or changes in shareholdings of directors, supervisors, or shareholders who hold more than 10% of the Company's shares up to the date of publication of the annual report.

7.6.11 Impact and risk associated with changes in management rights, and countermeasures

No such case during the most recent year and the current year up to the date of publication of the annual report.

7.6.12 Litigation or non-litigation matters

If the outcome of a concluded or pending litigious, non-litigious or administrative litigation event involving the company, director, general manager, de facto responsible person major shareholders holding more than 10% equity interest, or subsidiary of the company might have material impact on shareholders' equity or the prices of the company's securities, disclose the facts of dispute, amount of claim, lawsuit start date, main parties concerned and current status as of the date of the publication of annual report.

A. For litigious or non-litigious proceedings or administrative disputes involving the company with respect to which a judgment has become final and unappealable in the most recent two years or in the current year up to the date of the publication of the annual report, and for any such matter still pending. If the outcome could materially impact shareholders' equity or the prices of the company's securities, the annual report shall list the facts of the dispute, amount of money at stake in the dispute, the date of commencement of proceedings, the main parties to the dispute, and current status of the dispute's handling: None.

B. For litigious or non-litigious proceedings or administrative disputes involving a company director, the general manager, a de facto responsible person, a 10 percent or greater major shareholder, or a controlled company, if a judgment has become final and unappealable in the most recent two years and the current year up to the date of the publication of the annual report, or if such a matter is still pending, if the outcome could materially impact shareholders' equity or the prices of the company's securities, the annual report shall list the facts of the dispute, amount of money at stake in the dispute, the date of commencement of proceedings, the main parties to the dispute, and current status of the dispute's handling: None.

C. Where any of the situations set out under Article 157 of the Securities and Exchange Act has occurred with respect to a company director, managerial officer, or 10 percent or greater major shareholder within the preceding two years, or in the current year up to the date of publication of the annual report, the prospectus shall indicate that fact and describe the current status of the company's handling of the matter: None.

7.6.13 Other Material Risks

None.

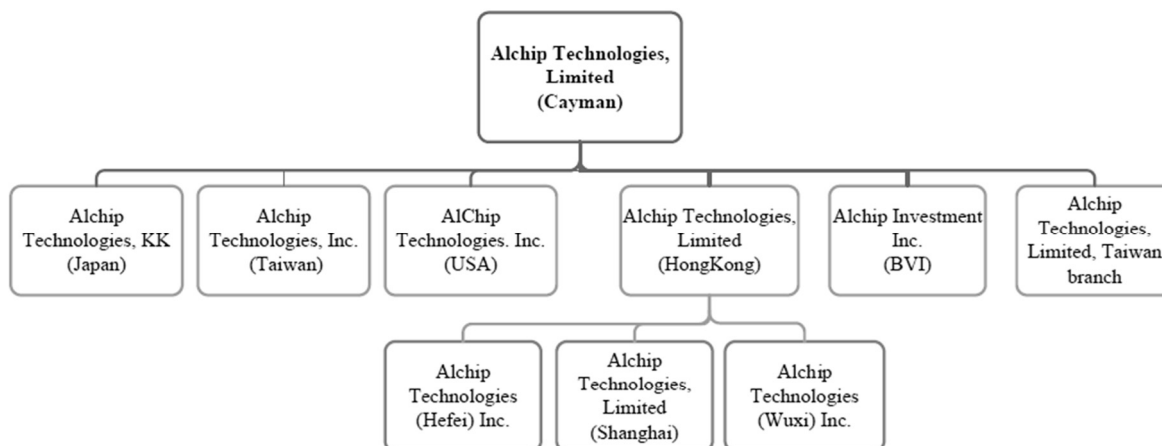
7.7 Other Material Matters

None.

VIII.Special Disclosure

8.1 Information of Subsidiaries

8.1.1 Subsidiaries chart



8.1.2 Profiles of subsidiaries

December 31, 2016; Unit: NT\$thousand

Name	Principal Businesses	Date of Incorporation	Paid-in Capital	Purpose of the Investment	Ratio of Shareholding	Method of Accounting Treatment
Alchip HK	General investment	2002	496,399 (Note1)	Invest in subsidiaries in China	100%	Equity Method
Alchip US	ASIC and SoC sales	2003	114,922	A sales office for the U.S. market	100%	Equity Method
Alchip Japan	Research, develop, and design ASIC and SoC, and provide relevant services and sales	2004	62,587	An office to develop the Japan market, and provide support for sales and R&D	100%	Equity Method
Alchip Taiwan	Research, develop, and design ASIC and SOC, and provide relevant services	2005	250,000	Provide R&D support	100%	Equity Method
Alchip Shanghai	Research, develop, and design ASIC and SoC, and provide relevant services and sales	2002	412,800	An office to develop the China market, and provide support for sales and R&D	100%	Equity Method
Alchip Wuxi	Research, develop, and design ASIC and SoC, and provide relevant services	2012	64,500	Provide R&D support	100%	Equity Method
Alchip BVI	General investment	2015	473,317 (註 2)	General investment	100%	Equity Method
Alchip Hefei	Research, develop, and design ASIC and SoC, and provide relevant services	2016	16,125	Provide R&D support	100%	Equity Method

Note1: The amount of NT\$16,135 thousand (US\$500 thousand) has been remitted. However, the procedure of capital-increase has not been completed.

Note2: The amount of NT\$471,735 thousand (US\$15,050 thousand) has been remitted. However, the procedure of capital-increase has not been completed.

8.1.3 For companies presumed to have a relationship of control and subordination and information on their shareholders in common

None.

8.1.4 Industries covered by the business operated by the subsidiaries overall

The Company's affiliates all engage in professional Application Specific IC (ASIC) and System-on-Chip (SoC) design, manufacturing and production.

8.1.5 Rosters of Directors, Supervisors, and Presidents of Alchip's subsidiaries

December 31, 2016

Name of Affiliated Enterprise	Title	Name or Representative	Shareholding	
			Number of Shares	Shareholding Percentage
Alchip Taiwan	Chairman CEO	Kinying Kwan Johnny Shyang-Lin Shen	Alchip Technologies (Cayman) holds 25,000,000 shares	100%
	Director	Johnny Shyang-Lin Shen		
	Director Supervisor	David Chiang Herbert Chang		
Alchip Japan	Chairman GM	Kozo Fujita Kozo Fujita	Alchip Technologies (Cayman) holds 2,000 shares	100%
	Director	Junichiro Hosaka		
	Director Supervisor	Kinying Kwan Hiroyuki Nagashima		
Alchip US	Director	Kinying Kwan	Alchip Technologies (Cayman) holds 391,000,000 shares	100%
Alchip HK	Chairman	Kinying Kwan	Alchip Technologies (Cayman) holds 11,831,970,100 shares	100%
	Director	Kinying Kwan		
Alchip Shanghai	Executive Director	Kinying Kwan	Alchip Technologies (Cayman) has a capital contribution of US\$12,800 thousand	100%
	GM	Johnny Shyang-Lin Shen		
Alchip Wuxi	Executive Director	Johnny Shyang-Lin Shen	Alchip Technologies (Cayman) has a capital contribution of US\$2,000 thousand	100%
	GM	Leo Cheng		
Alchip BVI	Director	Daniel Wang	Alchip Technologies (Cayman) holds 50,000 shares	100%
	Director	Nancy Chan		
Alchip Hefei	Chairman	Jacky Ni	Alchip Technologies (Cayman) has a capital contribution of US\$500 thousand	100%
	Director	Johnny Shyang-Lin Shen		
	Director Supervisor	Andy Lin Leo Cheng		

8.1.6 Operation highlights of Alchip subsidiaries

December 31, 2016; Unit: NT\$ thousand

Company	Total Assets	Total Liabilities	Net Worth	Revenue	Operating Income	Net Income	EPS (after tax)
Alchip Taiwan	918,998	5,489	913,509	65,471	(3,785)	(5,017)	-
Alchip Japan	240,261	193,821	46,440	531,255	6,496	2,512	-
Alchip US	13,062	4,958	8,104	2,679	(693)	(693)	-
Alchip Shanghai	411,161	24,830	386,331	221,380	9,757	6,297	-
Alchip Wuxi	80,353	17,119	63,234	86,708	15,896	5,783	-
Alchip HK	468,797	168	468,629	-	(428)	11,314	-
Alchip BVI	663,405	134,729	528,676	-	(423)	33,240	-
Alchip Hefei	19,768	3,981	15,787	-	(336)	(338)	-

8.1.7 Consolidated financial statements of subsidiaries

Not applicable.

8.2 Private Placement Securities During the Current Year up to the Date of Publication of the Annual Report

None.

8.3 Holding or Disposal of Shares in the Company by Alchip's Subsidiaries During the Current Year up to the Date of Publication of the Annual Report

None.

8.4 Other Necessary Supplements

None.

8.5 Major Difference Between The Company's Articles of Association and the Regulations on the Protection of Shareholders' Equity of Taiwan

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>I. Formation and change of equity capital of a company</p> <p>1. A company shall not cancel its shares, unless a resolution on capital reduction has been adopted by its shareholders' meeting; and capital reduction shall be effected based on the percentage of shareholding of the shareholders pro rata.</p> <p>2. A company reducing its capital may return share prices (or the capital stock) to shareholders by properties other than cash; the returned property and the amount of such substitutive capital contribution shall require a prior approval of the shareholders' meeting and obtain consents from the shareholders who receive such property.</p> <p>3. The Board of Directors shall first have the value of such property and the amount of such substitutive capital contribution set forth in the preceding Paragraph audited and certified by a Certified Public Accountant of the Republic of China before the shareholders' meeting.</p>	<p>Article 168 of the Company Act</p>	<p>1. The Company may, pursuant to Article 14 of the Company Law of Cayman Islands, reduce its capital previously issued only after a Special Resolution adopted by the shareholders' meeting and confirmed by the court of the Cayman Islands.</p> <p>2. Except as required by Article 14 of the Company Law of Cayman Islands, the Company's capital previously issued can be cancelled only when they are purchased, returned, or redeemed by the Company in accordance with Article 37 or Article 37B of the Company Law of Cayman Islands.</p> <p>3. Subject to Article 37 of the Company Law of Cayman Islands, the Company may purchase its own shares on such terms and in such manners as prescribed in the company's Articles of Association or resolved by the shareholders' meeting. Except as required by Article 37 of the Company Law of Cayman Islands, the following are not prescribed in the Company Law of Cayman Islands: (1) repurchase shall be effected based on the percentage of shareholding of the</p>	<p>There's a slight difference in the Article 10.7 of the company's Articles of Association and the matters of material significance on the protection of shareholders' rights and interests as stated left. Under the Company Law of Cayman Islands, the Company may reduce shares previously issued only after a Special Resolution adopted by the shareholders' meeting and confirmed by the court of the Cayman Islands. In view of this, as the procedure prescribed in Article 14.1 and Article 10.7 of the company's Articles of Association, the Company may reduce its capital through the purchase of shares. Reasons for such difference are due to the requirements in the Company Law of Cayman Islands. However, the company's Articles of Association does not set limits on the procedure for capital reduction. Therefore, such differences should not have a material adverse effect on the Company's shareholders' rights and interests.</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>1. Procedures for the Company to enter into a stock option agreement with its employees or issue employee stock options.</p> <p>2. The stock option obtained by any employee of the issuing company shall be non-assignment, except to the heir(s) of the said employee.</p>	<p>Article 167-2 of the Company Act</p>	<p>shareholders pro rata, (2) return share prices (or the capital stock) to shareholders by properties other than cash shall require a prior approval, or (3) shall have the value of property returned assessed; however, it may be prescribed in the company's Articles of Association.</p> <p>There is no particular regulation in the Company Law of Cayman Islands for employee stock option agreement or procedures of employee stock options issuance. Issuance of employee stock options and whether the options can be assigned should be prescribed in the employees' stock option agreement or stock option plan.</p>	<p>Although there have been amendments to Article 11.1 to 11.4 of the company's Articles of Association based on the matters of material significance on the protection of shareholders' rights and interests as stated left, any restriction on assignment of employee stock options should be prescribed in the employees' stock option agreement or stock option plan in accordance with the Company Law of Cayman Islands. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests.</p>
<p>II. Procedure for convening a shareholders' meeting or the method of resolutions</p>			
<p>1. A regular meeting of shareholders shall be held at least once every year and convened within six months after close of each fiscal year. A shareholders meeting shall be convened by the Board of Directors.</p> <p>2. A shareholders' meeting shall be convened within the territory of the Republic of China. Where a</p>	<p>1. Article 170 of the Company Act 2. Article 172-1 of the Company Act 3. Paragraph 1 & 2, Article 173 of the Company Act 4. Article 172 of the Company Act, Article 26-1 & 43-6 of the Securities and Exchange Act</p>	<p>1.(a) Except for an exempted company, the shareholders' meeting shall be held by each company at least once every year as set forth in Article 58 of the Company Law of Cayman Islands. (b) An exempted company is not mandatorily required to convene the regular meeting of shareholders by the Company Law</p>	<p>For a foreign issuer being an exempted company under the Company Law of Cayman Islands, there is no need to hold an annual shareholders' meeting every year in accordance with the Company Law of the Cayman Islands provided that "The Company shall hold a general meeting as its annual general meeting within six months following the end of each fiscal year, and shall</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p> <p>shareholders' meeting is to be convened outside the territory of the Republic of China, the Company shall apply for the approval of TWSE within two days after the Board resolution or obtaining the approval of the competent authority to convene the meeting by the shareholder(s).</p> <p>3. Shareholder(s) holding one percent (1%) or more of the total number of outstanding shares of a company may propose to the company a proposal for discussion at a regular shareholders' meeting, and in case the number of shares of the company in the possession of the shareholder making the said proposal is less than one percent (1%) of the total number of outstanding shares, the subject (the issue) of the said proposal cannot be settled or resolved by a resolution to be adopted at a meeting of shareholders, or a proposal contains more than one matter, such proposal shall not be included in the agenda.</p> <p>4. Any or a plural number of shareholder(s) of a company who has (have) continuously held 3% or more of the total number of outstanding shares for a period of one year or a longer time may, by</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p> <p>of Cayman Islands. The Company may include the number of shareholders' meetings required to be convened by the company every year in its Articles of Association.</p> <p>2. The shareholders' meeting of an exempted company is not restricted to be convened at a specific place by the Company Law of Cayman Islands; however, it may be prescribed in the company's Articles of Association.</p> <p>3. The shareholders' meeting convened by shareholder(s) or shareholders' proposal right is not required by the Company Law of Cayman Islands; however, the relevant procedures may be prescribed in the Articles of Association.</p> <p>4. The contents of the shareholders' meeting notice is not required by the Company Law of Cayman Islands; however, it may be prescribed in the Company's Articles of Association.</p> <p>5. The detail of the convention of shareholders' meetings is not required by the Company Law of Cayman Islands; however, the relevant procedures may be prescribed in the Articles of Association.</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p> <p>specify the meeting as such in the notices calling it. At these meetings, the report of the Directors (if any) shall be presented." as prescribed in Article 16.2 of the Company's Articles of Association.</p> <p>Other matters are prescribed respectively in Article 16.2, 16.3, 16.4, 18.9, 16.5 to 16.8, and 17.5 of the company's Articles of Association.</p> <p>Per Letter Tai-Zheng-Shang-Zi No. 0991701319 filed on April 13, 2010 by the TWSE, "Explanation 2 (3): To the extent that the laws of the place of registration are not contradicted, a foreign issuer may remove the part of "obtaining an approval from the competent authority" from the clause on the right of minority shareholders to call a special shareholders' meeting in the articles of association." Therefore, subject to Article 16.8 of the company's Articles of Association, "If the board of Directors do not within fifteen days from the date of the deposit of the requisition dispatch the notice of an extraordinary general meeting, the requisitionists may themselves convene an extraordinary general meeting in accordance with the Applicable Public Company Rules." Such difference should not have a material adverse</p>
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Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>filing a written proposal setting forth therein the subjects for discussion and the reasons, request the Board of Directors to call a special meeting of shareholders. If the Board of Directors fails to give a notice for convening a special meeting of shareholders within 15 days after the filing of the request, the proposing shareholder(s) may, after obtaining an approval from the competent authority, convene a special meeting of shareholders on his/their own.</p> <p>5. The following matters shall not shall be itemized in the causes or subjects to be described in the notice to convene a meeting of shareholders and explained about the important contents thereof, and shall not be brought up as extraordinary motions:</p> <p>(1) Election or discharge of Directors and supervisors;</p> <p>(2) Alteration of the Articles of Association;</p> <p>(3) Dissolution, merger, conversion of shares, spin-off of the company;</p> <p>(4) Enter into, amend, or terminate any contract for lease of the company's business in whole, or for entrusted business, or for</p>			<p>effect on the Company's shareholders' rights and interests.</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>regular joint operation with others;</p> <p>(5) Transfer the whole or any essential part of its business or assets;</p> <p>(6) Accept the transfer of another's whole business or assets, which has great bearing on the business operation of the company;</p> <p>(7) Private placement of any equity-type securities;</p> <p>(8) Granting waiver to the Director's engaging in any business within the scope of business of the Company;</p> <p>(9) Distributing part or all of its dividends or bonus by way of issuance of new Shares; and</p> <p>(10) Capitalization of the legal reserve and capital reserve arising from the share premium account or endowment income by issuing new shares that should be distributable as dividend shares to the then shareholders.</p>			
<p>1. The voting power at a shareholders' meeting may be exercised in writing or by way of electronic transmission. Where the company meeting the "Range of Companies Subject to Electronic Voting Requirement" promulgated by the securities authority of the Republic of China; however, shall adopt the</p>	<p>1. Article 177-1 of the Company Act</p> <p>2. Article 177-2 of the Company Act</p>	<p>1.A shareholder shall not exercise his/her/its voting power in writing or by way of electronic transmission. Unless otherwise provided by the company's Articles of Association; however, a shareholder may authorize a proxy in writing or by way of electronic transmission to exercise the voting rights of</p>	<p>As prescribed in Article 19.6 of the company's Articles of Association, "A Member exercising voting power by way of a written ballot or by way of an electronic transmission shall be deemed to have appointed the chairman of the general meeting as his proxy to exercise his or her voting right at such general meeting in accordance with the</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p>	<p>electronic transmission as one of the methods for exercising the voting power.</p> <p>2. Where a shareholders' meeting is to be convened outside the territory of the Republic of China, the Company must allow the shareholders to exercise the votes and cast the votes in writing or by way of electronic transmission</p> <p>3. The method for exercising the voting power shall be described in the shareholders' meeting notice to be given to the shareholders if the voting power will be exercised in writing or by way of electronic transmission by the company. A shareholder who exercises his/her/its voting power at a shareholders meeting in writing or by way of electronic transmission shall be deemed to have attended the said shareholders' meeting in person, but shall be deemed to have waived his/her/its voting power in respective of any extemporary motion(s) and/or the amendment(s) to the contents of the original proposal(s) at the said shareholders' meeting.</p> <p>4. In case a shareholder elects to exercise his/her/its voting power in writing or by way of electronic transmission, his/her/its declaration</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>his/her/its shares at the meeting.</p> <p>2. In case a shareholder exercises the voting power in his/her/its behalf through a proxy, he/she/it will not be deemed to have attended the shareholders' meeting in person.</p> <p>3. The Company's Articles of Association may prescribe the delivery of the power of attorney.</p> <p>4. There is no stipulation that a shareholder revokes the power of attorney in the Company Law of Cayman Islands. However, under principles of common law, notwithstanding anything in the Company's Articles of Association to the contrary, shareholders who attend the shareholders' meeting in person to exercise their voting power shall have the preemptive effect, provided that the Company's Articles of Association may prescribe the revocation of the power of attorney when shareholders do not attend the shareholders' meeting in person.</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p>	<p>instructions stipulated in the written or electronic document." Although the Company Law of Cayman Islands considers a shareholder exercising the voting power in such manner not to be deemed to have attended the shareholders' meeting in person, such a shareholder is still entitled to all the rights of a shareholder who has exercised his/her/its voting power in writing or by way of electronic transmission in accordance with the applicable laws and regulations of the Republic of China. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests.</p>
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Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>of intention shall be served to the company two (2) days prior to the scheduled meeting date of the shareholders' meeting, whereas if two (2) or more declarations of the same intention are served to the company, the first declaration of such intention received shall prevail; unless an explicit statement to revoke the previous declaration is made in the declaration which comes later.</p> <p>5. In case a shareholder who has exercised his/her/its voting power in writing or by way of electronic transmission intends to attend the shareholders' meeting in person, he/she/it shall, two days prior to the meeting date of the scheduled shareholders' meeting and in the same manner previously used in exercising his/her/its voting power, serve a separate declaration of intention to rescind his/her/its previous declaration of intention made in exercising the voting power under the preceding paragraph. In the absence of a timely rescission of the previous declaration of intention, the voting power exercised in writing or by way of electronic transmission shall prevail.</p> <p>6. In case a shareholder has exercised</p>			

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>his/her/its voting power in writing or by way of electronic transmission, and has also authorized a proxy to attend the shareholders' meeting in his/her/its behalf, then the voting power exercised by the authorized proxy for the said shareholder shall prevail.</p> <p>In case the procedure for convening a shareholders' meeting or the method of adopting resolutions thereat is in contrary to any law, ordinance or the company's Articles of Association, a shareholder may enter a petition in the court for annulment of such resolution. The Taiwan Taipei District Court, R.O.C, may be the court of the first instance for this matter.</p>	<p>Article 189 of the Company Act</p>	<p>Since the court of the Cayman Islands cannot ratify and enforce foreign non-monetary judgments before re-examination on the legal basis of the said dispute, such stipulation added in the company's Articles of Association may not be executed under the Company Law of Cayman Islands.</p>	<p>As prescribed in Article 18.7 of the company's Articles of Association, "Nothing in the Articles shall prevent Members from issuing proceedings in a court of competent jurisdiction for an appropriate remedy in connection with the improper convening of any general meeting or the improper passage of any resolution. The Taipei District Court, R.O.C., shall be the court of the first instance for adjudicating any disputes arising out of the foregoing." It is slightly different between such stipulation and the matters of material significance on the protection of shareholders' rights and interests as stated left. The matters of material significance on the protection of shareholders' rights and interests as stated left are actually the provisions of the shareholder's right of revocation with legal effects unable to be achieved by the provisions of the Articles of Association, unless otherwise provided by law such right of revocation given to</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p>
			<p>shareholders. Although it is slightly different between Article 18.7 of the company's Articles of Association and the matters of material significance on the protection of shareholders' rights and interests as stated left, in case the procedure for convening a shareholders' meeting or the method of adopting resolutions thereat is in contrary to any law, ordinance or the company's Articles of Association, the right for a shareholder to institute a lawsuit or seek relief to the court is not limited by the company's Articles of Association. As for whether the court accepts the application or whether the court accepting the litigation revokes the resolution of shareholders' meeting in case the procedure for convening a shareholders' meeting or the method of adopting resolutions thereat is in contrary to any law, ordinance or the company's Articles of Association, the court (regardless of the court of the Republic of China, Cayman Islands, or other court of the country with jurisdiction) shall take the applicable law and whether the right of revocation is given to a shareholder into consideration and make a decision within the scope of its duties. Such difference comes from the nature of shareholder's right of revocation. Besides, the right for a shareholder to</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>Any of the following proposals involving material rights or interests of shareholders shall not be adopted without a resolution adopted by a majority of the shareholders present who represent two-thirds or more of the total number of its outstanding shares. If the total number of shares represented by the shareholders present at shareholders' meeting is not sufficient to meet the criteria specified in the above mentioned, the resolution to be made thereto may be adopted by two-thirds or more of the attending shareholders who represent a majority of the total number of its outstanding shares:</p>	<ol style="list-style-type: none"> 1. Article 185 of the Company Act 2. Article 227 of the Company Act 3. Article 227 of the Company Act 4. Paragraph 1, Article 240 of the Company Act 5. Article 316 of the Company Act 	<p>1. According to Article 60 of the Company Law of Cayman Islands, a special resolution means a resolution that has been passed by a majority of not less than two-thirds (where there is any higher percentage of the total number of the voting rights is required in the Articles of Association, such higher percentage shall prevail) of such members as, being entitled to do so, vote in person or, where a power of attorney is allowed, by a proxy at a shareholders' meeting. As usually prescribed by a general Cayman Company's Articles of Association, a special resolution by which such proposal should be adopted shall be specified in the shareholders' meeting notice. A written resolution signed by all shareholders, provided that it has been authorized by the company's Articles of Association, is also deemed as a special resolution made. When the number of votes is required in the manner for exercising the voting power to calculate whether it belongs to a majority of special</p>	<p>institute a lawsuit or seek relief to the court is not limited by the company's Articles of Association. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests.</p>
<ol style="list-style-type: none"> 1. A company enters into, amend, or terminate any contract for lease of the company's business in whole, or for entrusted business, or for regular joint operation with others, transfer the whole or any essential part of its business or assets, accept the transfer of another's whole business or assets, which has great bearing on the business operation of the company 		<p>1. Article 1.1 of the Company's Articles of Association (a) Provisions of the Company's Articles of Association According to Article 1.1 of the Company's Articles of Association, a special resolution means "a resolution passed by a majority of not less than two-thirds of votes cast by such Members as, being entitled so to do, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. means a resolution passed by a majority of not less than two-thirds of votes cast by such Members as, being entitled so to do, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given."</p>	<p>1. Article 1.1 of the Company's Articles of Association (a) Provisions of the Company's Articles of Association According to Article 1.1 of the Company's Articles of Association, a special resolution means "a resolution passed by a majority of not less than two-thirds of votes cast by such Members as, being entitled so to do, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given."</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>2. Modification or alteration of the Articles of Association</p> <p>3. Any modification or alteration in the Articles of Association prejudicial to the privileges of special shareholders shall be adopted by a meeting of special shareholders additionally</p> <p>4. Have the whole or a part of the surplus profit distributable as dividends and bonuses distributed in the form of new shares to be issued by the company for such purpose</p> <p>5. A resolution for dissolution, consolidation or merger, or split-up of a company</p>		<p>resolution, the company's Articles of Association may specify the total number of votes entitled to each shareholder.</p> <p>2. According to the Company Law of Cayman Islands, matters that require a special resolution include: (i) change the company name (Article 31); (ii) alter or add to articles of association (Article 24); (iii) alter or add to the memorandums of association with respect to any objects, powers or other matters specified therein (Article 10); (iv) reduce share capital and any capital redemption reserve (Article 14 and 37(4)(d)); (v) wind up voluntarily for reasons other than that the company is unable to pay its debts as they fall due (Article 90(b)(i) and 116(c)); and (vi) merger or consolidation with other company.</p> <p>According to the Company Law of Cayman Islands, any resolution adopted by shareholders lower than the majority threshold for a matter that requires a special resolution is deemed invalid</p> <p>3. For matters other than those stated above, the Company Law of Cayman Islands does not require them to be adopted by a certain majority; however, it may be prescribed in the company's Articles of Association.</p>	<p>resolution include but are not limited to: (i) change the company name; (ii) alter or add to Articles of Association; (iii) alter or add to the memorandums of association with respect to any objects, powers or other matters specified therein; (iv) reduce share capital and any capital redemption reserve; (v) wind up voluntarily for reasons other than that the company is unable to pay its debts as they fall due; and (vi) merger or consolidation with other company. Additionally, according to Article 18.1 of the Company's Articles of Association, "No business shall be transacted at a general meeting unless a quorum is present. Unless otherwise provided in the Articles and the Applicable Public Company Rules, Members present in person or by a proxy, representing more than one-half of the total outstanding Shares, shall constitute a quorum for any general meeting." That is, a special resolution may be adopted at a shareholders' meeting attended by shareholders representing the majority of shares issued and outstanding in person or by a proxy, and in which at least two-thirds of the votes cast by the shareholders present (including shareholders</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p>
			<p>present by a proxy) are in favor of the resolution.</p> <p>(b) Reasons for discrepancy</p> <p>According to the Cayman Islands legal opinions, the special resolution is subject to the Company Law of Cayman Islands, and according to which, any resolution adopted by shareholders lower than the majority threshold for a matter that requires a special resolution is deemed invalid.</p> <p>And Article 1.1 of the company's Articles of Association defines separately "Supermajority Resolution" as "a resolution adopted by a majority vote of the Members present and entitled to vote on such resolution at a general meeting attended in person or by proxy by Members who represent two-thirds or more of the total issued, outstanding Shares of the Company or, (ii) if the total number of Shares represented by the Members present at the general meeting is less than two-thirds of the total issued, outstanding Shares of the Company, but more than half of the total issued, outstanding Shares of the Company, a resolution adopted at such general meeting by the Members who represent two-thirds or more of the Shares</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p>
			<p>present and entitled to vote on such resolution.”</p> <p>For any matter of material significance on the protection of shareholders' rights and interests as stated left, if it should be adopted by a special resolution pursuant to the Company Law of Cayman Islands, it will be still listed as one of matters under “Special Resolution” in the company's Articles of Association; otherwise, it will be listed as one of matters under “Supermajority Resolution.”</p> <p>2. Article 4.3 of the company's Articles of Association</p> <p>(a) Provisions of the company's Articles of Association:</p> <p>According to Article 14.3 of the company's Articles of Association, “Subject to the provisions of the Statute, the Articles, and the Applicable Public Company Rules, with regard to the dissolution procedures of the Company, the Company shall pass</p> <p>(a) a Supermajority Resolution, if the Company resolves that it be wound up voluntarily because it is unable to pay its debts as they fall due; or</p> <p>(b) a Special Resolution, if the Company resolves that it be wound up voluntarily for reasons other</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p>
			<p>than the reason stated in Article 14.3(a) above." The slight difference between it and the matters of material significance on the protection of shareholders' rights and interests as stated left lies in: based on the reasons for resolution to dissolve, the company's Articles of Association lists the resolution for dissolution as one of matters under "Supermajority Resolution" or "Special Resolution," respectively. In comparison, the matters of material significance on the protection of shareholders' rights and interests always require to be adopted by "Supermajority Resolution."</p> <p>(b) Reasons for discrepancy: According to the Cayman Islands legal opinions, the Company Law of Cayman Islands provides that a company shall resolve that it be wound up voluntarily for reasons other than being unable to pay its debts as they fall due by a special resolution. Thus the difference arises out of the laws of Cayman Islands. From the above, we can know that such difference comes from what is limited by law of Cayman Islands. Therefore, "if the Company resolves that it be wound</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p>
<p></p>	<p></p>	<p></p>	<p>up voluntarily because it is unable to pay its debts as they fall due," a Supermajority Resolution shall be adopted at the shareholders' meeting as prescribed in the company's Articles of Association, while a company is being wound up voluntarily for reasons other than the reason stated in Article 14.3(a), it will be listed as one of matters under "Special Resolution" as required by the Company Law of Cayman Islands. Such difference comes from what is limited by law of Cayman Islands, which should not have a material adverse effect on the Company's shareholders' rights and interests.</p>
<p>III. Authorities and responsibilities of directors and supervisors</p>			
<p>1. In case a director or supervisor of a company that has transferred, during the term of office as a director or supervisor, more than one half of the company's shares being held by him/her at the time he/she is elected, he/she shall, ipso facto, be discharged from the office of director. 2. If any director or supervisor of a company, after having been elected and before his/her inauguration of the office of director, has transferred more than one half of the total number of shares of the</p>	<p>Article 197 & 227 of the Company Act</p>	<p>The shares of the Cayman Islands company being held by a director (before or after having been elected) is not clearly specified in the Company Law of Cayman Islands. Therefore, the provisions of restrictions on shareholdings of directors, invalid being elected, or effect of discharge should be clearly specified in the company's Articles of Association. In addition, it is recommended that the above provisions should be included in the mandate contract between the company and each director (with all provisions included or by instructions</p>	<p>The matters of material significance on the protection of shareholders' rights and interests as stated left are added by the Taiwan Stock Exchange on November 10, 2014. The Company resolved the amendments to Articles of Associations at the regular meeting of shareholders in 2015, and the matters of material significance on the protection of shareholders' rights and interests as stated left were added in Article 28.2 of Articles of Associations.</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>company he/she holds at the time of his/her election as such; or had transferred more than one half of the total number of shares he/she held within the share transfer prohibition period fixed prior to the convention of a shareholders' meeting, then his/her election as a director shall become invalid.</p>		<p>specified that it shall be subject to the company's Articles of Association to ensure that the director will not claim that the company is acting against the mandate contract when the company discharges a director from the office or finds his/her election invalid in the future in accordance with the company's Articles of Association.</p> <p>The Company Law of Cayman Islands does not require that the company shall appoint a supervisor. Therefore, the provisions of restrictions on shareholdings of supervisors, invalid being elected, or effect of discharge should be clearly specified in the mandate contract between the company and the supervisor. Such provision may be also specified in the company's Articles of Associations; however, whether it can be enforced under the law of Cayman Islands is not clear, unless otherwise provided by the mandate contract such provision.</p>	
<p>The remuneration of directors, if not prescribed in the Articles of Association, shall be determined by a meeting of shareholders and cannot be ratified by a meeting of shareholders.</p>	<p>Paragraph 1, Article 196 of the Company Act</p>	<p>The Company Law of Cayman Islands does not clearly specify how to determine remuneration of directors; however, it may be prescribed in the company's Articles of Association.</p>	<p>Although neither the remuneration of directors is clearly specified nor it shall be determined by a meeting of shareholders is specified in the company's Articles of Association, referring to per Explanation Shang-Zi No. 09302030870 filed on March 8, 1994 by the Ministry of Economic Affairs and the "Regulations Governing</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>In case a director has, in the course of performing his/her duties, committed any act resulting in material damages to the company or in serious violation of applicable laws and/or regulations, but not discharged by a resolution of the shareholders' meeting, the shareholder(s) holding 3% or more of the total number of outstanding shares of the company may, within 30 days after that shareholders' meeting, institute a lawsuit in the court for a judgment in respect of such matter. The Taiwan Taipei District Court, R.O.C, may be the court of the first instance for this matter.</p>	<p>Article 200 of the Company Act</p>	<p>1.The Company Law of Cayman Islands does not clearly specify that the minority shareholders may institute a lawsuit in the court of Cayman Islands for discharge of directors.</p> <p>2.In general, the procedure for discharge of directors is prescribed in the company's Articles of Association, and that an ordinary resolution should be adopted at the shareholders' meeting is typically prescribed.</p> <p>3. According to shareholders' remedies required by the common law, in a lawsuit accusing a director of bringing about infringement to the company, the proper plaintiff in form should be the company per se and not an individual shareholder or minority shareholders. There are only a few of exceptions for the above principle, including that when the conduct of a</p>	<p>the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter," the Company's Board of Director has established a remuneration committee. Therefore, the provisions as stated left should not have a material adverse effect on the Company's shareholders' rights and interests.</p> <p>(1)Provisions of the company's Articles of Association: According to Article 28.2 (i) (moved to subparagraph (j)) after adoption of the new version at the regular shareholders' meeting in 2015) of the company's Articles of Association, "Subject to the provisions of the Statute, and the Articles or the Applicable Public Company Rules, in the event that he has, in the course of performing his duties, committed any act resulting in material damage to the Company or in serious violation of applicable laws and/or regulations or the Memorandum and the Articles, but has not been removed by the Company pursuant to a Supermajority Resolution vote, then any Member(s) holding 3% or more of the total number of issued, outstanding Shares shall have the right, within thirty days after that</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p> <p>director constitutes a fraud against the minority shareholders and the person who commits such fraud is a company's controller, the minority shareholders who have suffered the fraud may institute a lawsuit in the court.</p> <p>4. Since the court of the Cayman Islands cannot ratify and enforce foreign non-monetary judgments before re-examination on the legal basis of the said dispute, such stipulation added in the company's Articles of Association may not be executed under the Company Law of Cayman Islands. Directors may be discharged according to the procedure prescribed in the Company's Articles of Association.</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p> <p>general meeting, to petition any competent court for the removal of such Director, at the Company's expense and such Director shall be removed upon the final judgment by such court. For clarification, if a relevant court has competent jurisdiction to adjudicate all of the foregoing matters in a single or a series of proceedings, then, for the purpose of this paragraph (j), final judgment shall be given by such competent court." It is slightly different from the matters of material significance on the protection of shareholders' rights and interests as stated left.</p> <p>(2)Reasons for discrepancy: The Company Law of Cayman Islands does not clearly specify that the minority shareholders are allowed to enter a petition in the court of Cayman Islands for discharge of directors. Under the common law, the subrogation litigation of shareholders will be claimed only under rare circumstances. Thus the company's Articles of Association prescribes that a shareholder shall institute a lawsuit in a competent court. Since shareholders may discharge a directors according to the company's Articles of Association, it should not</p>
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Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>1. Supervisors of a company shall be elected by the meeting of shareholders, among them at least one supervisor shall have a domicile within the territory of the Republic of China.</p> <p>2. The term of office of a supervisor shall not exceed three years, but he may be eligible for re-election.</p> <p>3. In case all supervisors of a company are discharged, the Board of Directors shall, within sixty (60) days, convene a special meeting of shareholders to elect new supervisors.</p> <p>4. Supervisors shall supervise the execution of business operations of the company, and may at any time or from time to time investigate the business and financial conditions of the company, examine the accounting books and documents, and request the Board of Directors or managerial personnel to make reports thereon.</p> <p>5. Supervisors shall audit the various statements and records prepared for submission to the shareholders' meeting by the Board of Directors, and shall make a report of their findings and opinions at the</p>	<p>Article 216 to 222 of the Company Act</p>	<p>The Company Law of Cayman Islands has no corresponding concept of "Supervisor." The effect that supervisors are installed in accordance with the company's Articles of Association is not clear.</p>	<p>have a material adverse effect on the Company's shareholders' rights and interests.</p> <p>Article 32.6 of the company's Articles of Association</p> <p>As described in the former section of Paragraph 2, Article 28-4 of Taiwan Stock Exchange Corporation Rules Governing Review of Securities Listings "A foreign issuer shall install either an audit committee or supervisors". The Company has installed an audit committee by all independent directors (Article 32.6 of Articles of Association); therefore, supervisors are not required to be installed additionally. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests.</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>meeting of shareholders.</p> <p>6. In performing their functional duties of auditing, the supervisors may appoint a certified public accountant to conduct the auditing in their behalf.</p> <p>7. Supervisors of a company may attend the meeting of the Board of Directors to give their opinions. In case the Board of Directors or any director commits any act, in carrying out the business operations of the company, in a manner in violation of the laws, regulations, the Articles of Incorporation or the resolutions of the shareholders' meeting, the supervisors shall forthwith advise, by a notice, to the Board of Directors or the Director, as the case may be, to cease such act.</p> <p>8. The supervisors may each exercise the supervision power individually.</p> <p>9. A supervisor shall not be concurrently a director, a managerial officer or other staff/employee of the company.</p> <p>1. Shareholder(s) who has/have been continuously holding 3% or more of the total number of the outstanding shares of the company over one year may request in writing the supervisors of the company to institute, for the</p>	<p>Article 214, 227 of the Company Act</p>		
<p>1. Shareholder(s) who has/have been continuously holding 3% or more of the total number of the outstanding shares of the company over one year may request in writing the supervisors of the company to institute, for the</p>	<p>Article 214, 227 of the Company Act</p>	<p>1. The Company Law of Cayman Islands has no corresponding concept of "Supervisor." The effect that supervisors are installed in accordance with the company's Articles of Association is not clear.</p> <p>2. According to shareholders' remedies</p>	<p>Article 25.6 of the company's Articles of Association</p> <p>As described in the former section of Paragraph 2, Article 28-4 of Taiwan Stock Exchange Corporation Rules Governing Review of Securities</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p> <p>company, an action against a director of the company. The Taiwan Taipei District Court, R.O.C, may be the court of the first instance for this matter.</p> <p>2. In case the supervisors fail to institute an action within 30 days after having received the request made by shareholder(s), then the shareholders filing such request may institute the action for the company. The Taiwan Taipei District Court, R.O.C, may be the court of the first instance for this matter.</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p> <p>required by the common law, in a lawsuit accusing a director of bringing about infringement to the company, the proper plaintiff in form should be the company per se and not an individual shareholder or minority shareholders. There are only a few of exceptions for the above principle, including that when the conduct of a director constitutes a fraud against the minority shareholders and the person who commits such fraud is a company's controller, the minority shareholders who have suffered the fraud may institute a lawsuit in the court.</p> <p>3. Since the court of the Cayman Islands cannot ratify and enforce foreign non-monetary judgments before re-examination on the legal basis of the said dispute, such stipulation added in the company's Articles of Association may not be executed under the Company Law of Cayman Islands. Directors may be discharged according to the procedure prescribed in the company's Articles of Association.</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p> <p>Listings "A foreign issuer shall install either an audit committee or supervisors." The Company has installed an audit committee by all independent directors; therefore, supervisors are not required to be installed additionally. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests.</p>
<p>In case a director or supervisor (applicable to companies who install supervisors) of a company whose shares are issued to the public has created a pledge on the company's shares more than half of the company's</p>	<p>Article 197-1 of the Company Act</p>	<p>The fact that shares held by directors shall have no voting power (under which circumstances) is not required by the Company Law of Cayman Islands; however, the relevant procedures may be prescribed in the Articles of</p>	<p>Article 24.3 of the company's Articles of Association</p> <p>In addition, as described in the former section of Paragraph 2, Article 28-4 of Taiwan Stock Exchange Corporation</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>shares being held by him/her/it at the time he/she/it is elected, the voting power of the excessive portion of shares shall not be exercised and the excessive portion of shares shall not be counted in the number of votes of shareholders present at the meeting.</p>		<p>Association.</p>	<p>Rules Governing Review of Securities Listings "A foreign issuer shall install either an audit committee or supervisors".The Company has installed an audit committee by all independent directors; therefore, supervisors are not required to be installed additionally. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests. Thus supervisors are not included in the above mentioned Articles of Association. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests.</p>
<ol style="list-style-type: none"> The director of a company shall have the loyalty and shall exercise the due care of a good administrator in conducting the business operation of the company; and if he/she has acted contrary to this provision, shall be liable for the damages to be sustained by the company there-from. In case the director of a company does anything for himself/herself or on behalf of another person, the meeting of shareholders may, by a resolution, consider the earnings in such an act as earnings of the company. If the director of a company has, in the course of conducting the 	<p>Paragraph 2, Article 8, Paragraph 3, Article 23 of the Company Act</p>	<ol style="list-style-type: none"> The Company Law of Cayman Islands includes specifically obligations of directors as clear directions. According to the common law of Cayman Islands, each shareholder being liable to (1) fiduciary duties, and (2) exercise the due care of a good administrator for the company (duty of care). The company may claim compensation against the directors who have violated the above duties. In addition, directors who have violated their duties acquire interests shall be bound to return the same to the company. Based on principles of common law, in the course of operation for 	<p>Article 26.5 of the company's Articles of Association</p> <p>However, if the director of a company has, in the course of conducting the business operations, violated any provision of the applicable laws and/or regulations and thus caused damage to any other person, such other person may not be able to claim compensation directly from such director under the law of Cayman Islands. Even the company's Articles of Association requires that the director shall be jointly liable for compensation with the company to the other person, the base of such claim will be unable to be created.</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p> <p>business operations, violated any provision of the applicable laws and/or regulations and thus caused damage to any other person, he/she shall be liable, jointly and severally, for the damage to such other person.</p> <p>3. The managerial officer or supervisor of a company, acting within the scope of their duties, shall assume the liabilities for the damage in the same manner as directors of a company do.</p>		<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>management of the company's businesses, the acts of a director representing the company will be deemed as the acts of the company per se. If the conduct thereof causes damage of any third party, the company, not the director, shall be bound to be liable the third party for the acts. The third party caused by the damage cannot demand from the company the compensation and impose obligations on the directors according to the company's Articles of Association. Any third party who is not a shareholder cannot execute it according to the company's Articles of Association. The company who is liable for the damage to be sustained by the third party because the directors who have violated the duties may claim reimbursement against the directors caused the damage.</p> <p>3. The managerial officer generally has no fiduciary duties for the company. Since managerial officers are not the parties pursuant to the Articles of Association, no execution effect is present even it is prescribed in the Articles of Association. The above duties shall be entered into the contracts with managerial officer.</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p>
<p>Where a juristic person acts as a shareholder of a company, its authorized representative may be</p>	<p>Paragraph 2, Article 27 of the Company Act</p>		<p>1. The fact that an authorized representative of a juristic person acting as a shareholder being elected</p>		<p>Article 27.4 of the Company's Articles of Association</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p>	<p>elected as a director or supervisor of the company. If there is a plural number of such authorized representatives, each of them may be so elected, but such authorized representatives may not concurrently be selected or serve as the director or supervisor of the company.</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>		<p>Regulations relating to the laws of the foreign issuer's country of registration place</p>	<p>as a director is not regulated by the Company Law of Cayman Islands; however, it may be prescribed in the Articles of Association. 2.The Company Law of Cayman Islands has no corresponding concept of "Supervisor." The effect that supervisors are installed in accordance with the company's Articles of Association is not clear.</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p>	<p>As described in the former section of Paragraph 2, Article 28-4 of Taiwan Stock Exchange Corporation Rules Governing Review of Securities Listings "A foreign issuer shall install either an audit committee or supervisors." The Company has installed an audit committee by all independent directors; therefore, supervisors are not required to be installed additionally. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests. Thus supervisors are not included in the above mentioned Articles of Association. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests.</p>
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8.6 Any Events in 2015 and as of the Date of Publication of the Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Article 36-3-2 of the Securities and Exchange Law of Taiwan

None.



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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Alchip Technologies, Limited

Opinion

We have audited the accompanying consolidated financial statements of Alchip Technologies, Limited and its subsidiaries (collectively referred to as the Group), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

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

Valuation of Available-for-sale Financial Assets

As of December 31, 2016, the carrying amount of available-for-sale financial assets was NT\$649,367 thousand (US\$20,135 thousand), representing 20% of the Group's total assets material to the consolidated financial statements as a whole. Refer to Note 7 of the consolidated financial statement for the details of the information. The available-for-sale financial assets comprised of foreign corporate bond investment, which are measured at fair value. The determination of fair values was performed by the management of the Group using the quoted price obtained from the engaged financial institutions on the reporting date. The fair value was measured through the integration of quoted prices or settlement prices from stock exchange market participants obtained from the engaged financial institutions, instead of using unadjusted quoted prices in active markets. If the integration of or adjustment to quoted price is performed inappropriately, the result will have a material impact on the Group's consolidated financial statements. Consequently, the valuation of available-for-sale financial assets is deemed to be a key audit matter.

Our key audit procedures performed in respect of the valuation thereof included the followings:

1. Obtained fair values from an independent resources and calculate the fair value of each corporate bond.
2. Compared the result of above procedure with the valuation carried out by the management, and performed further investigation on material discrepancies to evaluate the reasonableness of fair values adopted by the management.

Impairment Assessment of Equipment

As described in Note 5, the Group evaluates impairment loss based on the recoverable amount (which is higher of fair value less costs to sell or value-in-use) of equipment if there is any indication that the equipment and in relation to the production of chips may be impaired. Recoverable amount, which is estimated based on the anticipation of the product life cycle of chips, projected production volume, and market price, is subject to a risk of changes in related to the assumptions that could result in additional impairment losses or reversal of impairment losses. Consequently, the impairment assessment of equipment is deemed to be a key audit matter.

Our key audit procedures performed in respect of the assessment thereof included the followings:

1. Assess the underlying information the management used when assessing for the indication of impairment.
2. Review the methodologies applied for the determination of recoverable amount and projected sale forecast the management prepared to evaluate the appropriateness of impairment assessment the management performed.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Cheng-Ming Lee and Shu-Chieh Huang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 10, 2017

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2016 AND 2015 (In Thousands of US Dollars)

ASSETS	2016		2015	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 30,203	30	\$ 29,200	24
Accounts receivable, net (Notes 4 and 8)	30,422	30	24,936	21
Other receivables (Notes 4 and 8)	805	1	803	1
Inventories (Notes 4 and 9)	5,078	5	7,123	6
Prepayments (Note 13)	3,160	3	5,629	5
Pledged time deposits - current (Note 26)	-	-	10,000	8
Other current assets	610	-	955	1
Total current assets	<u>70,278</u>	<u>69</u>	<u>78,646</u>	<u>66</u>
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Notes 4 and 7)	20,135	20	20,598	17
Financial assets measured at cost - non-current (Notes 4 and 19)	-	-	1,032	1
Property, plant and equipment (Notes 4 and 11)	6,728	7	13,546	11
Intangible assets (Notes 4 and 12)	3,630	3	4,381	4
Deferred tax assets (Notes 4 and 20)	625	1	471	-
Refundable deposits	568	-	586	1
Pledged time deposits - non-current (Note 26)	9	-	9	-
Total non-current assets	<u>31,695</u>	<u>31</u>	<u>40,623</u>	<u>34</u>
TOTAL	<u>\$ 101,973</u>	<u>100</u>	<u>\$ 119,269</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 14)	\$ 4,171	4	\$ 16,815	14
Accounts payable	8,864	9	3,189	3
Other payables (Note 15)	9,193	9	9,770	8
Current tax liabilities (Notes 4 and 20)	155	-	487	1
Advance sales receipts	254	-	2,850	2
Other current liabilities	31	-	29	-
Total current liabilities	<u>22,668</u>	<u>22</u>	<u>33,140</u>	<u>28</u>
Total liabilities	<u>22,668</u>	<u>22</u>	<u>33,140</u>	<u>28</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4, 17 and 18)				
Share capital	19,030	19	19,301	16
Capital surplus	44,460	44	44,596	37
Retained earnings				
Special reserve	2,799	3	2,799	2
Unappropriated earnings	13,876	13	21,350	18
Total retained earnings	16,675	16	24,149	20
Other equity	(860)	(1)	(1,917)	(1)
Total equity	<u>79,305</u>	<u>78</u>	<u>86,129</u>	<u>72</u>
TOTAL	<u>\$ 101,973</u>	<u>100</u>	<u>\$ 119,269</u>	<u>100</u>

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

ASSETS	2016		2015	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 974,050	30	\$ 958,495	24
Accounts receivable, net (Notes 4 and 8)	981,094	30	818,536	21
Other receivables (Notes 4 and 8)	25,971	1	26,337	1
Inventories (Notes 4 and 9)	163,760	5	233,822	6
Prepayments (Note 13)	101,901	3	184,774	5
Pledged time deposits - current (Note 26)	-	-	328,249	8
Other current assets	19,680	-	31,362	1
Total current assets	<u>2,266,456</u>	<u>69</u>	<u>2,581,575</u>	<u>66</u>
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Notes 4 and 7)	649,367	20	676,116	17
Financial assets measured at cost - non-current (Notes 4 and 19)	-	-	33,875	1
Property, plant and equipment (Notes 4 and 11)	216,976	7	444,654	11
Intangible assets (Notes 4 and 12)	117,058	3	143,811	4
Deferred tax assets (Notes 4 and 20)	20,172	1	15,450	-
Refundable deposits	18,319	-	19,230	1
Pledged time deposits - non-current (Note 26)	302	-	300	-
Total non-current assets	<u>1,022,194</u>	<u>31</u>	<u>1,333,436</u>	<u>34</u>
TOTAL	<u>\$ 3,288,650</u>	<u>100</u>	<u>\$ 3,915,011</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 14)	\$ 134,499	4	\$ 551,961	14
Accounts payable	285,876	9	104,668	3
Other payables (Note 15)	296,488	9	320,687	8
Current tax liabilities (Notes 4 and 20)	5,012	-	15,980	1
Advance sales receipts	8,192	-	93,567	2
Other current liabilities	1,015	-	951	-
Total current liabilities	<u>731,082</u>	<u>22</u>	<u>1,087,814</u>	<u>28</u>
Total liabilities	<u>731,082</u>	<u>22</u>	<u>1,087,814</u>	<u>28</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4, 17 and 18)				
Share capital	607,028	19	615,678	16
Capital surplus	1,388,223	42	1,392,250	35
Retained earnings				
Special reserve	67,693	2	67,693	2
Unappropriated earnings	353,739	11	594,814	15
Total retained earnings	421,432	13	662,507	17
Other equity	140,885	4	156,762	4
Total equity	<u>2,557,568</u>	<u>78</u>	<u>2,827,197</u>	<u>72</u>
TOTAL	<u>\$ 3,288,650</u>	<u>100</u>	<u>\$ 3,915,011</u>	<u>100</u>

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of US Dollars and New Taiwan Dollars, Except (Loss) Earnings Per Share)

	2016			2015		
	US\$	NT\$	%	US\$	NT\$	%
OPERATING REVENUES (Notes 4 and 19)	\$ 114,403	\$ 3,690,977	100	\$ 119,277	\$ 3,785,741	100
OPERATING COSTS (Notes 9 and 19)	<u>99,282</u>	<u>3,203,144</u>	<u>87</u>	<u>93,363</u>	<u>2,963,244</u>	<u>78</u>
GROSS PROFIT	<u>15,121</u>	<u>487,833</u>	<u>13</u>	<u>25,914</u>	<u>822,497</u>	<u>22</u>
OPERATING EXPENSES (Note 19)						
Selling and marketing expenses	2,703	87,204	2	3,047	96,673	2
General and administrative expenses	5,779	186,443	5	5,440	172,676	5
Research and development expenses	<u>13,139</u>	<u>423,931</u>	<u>12</u>	<u>12,991</u>	<u>412,321</u>	<u>11</u>
Total operating expenses	<u>21,621</u>	<u>697,578</u>	<u>19</u>	<u>21,478</u>	<u>681,670</u>	<u>18</u>
(LOSS) PROFIT FROM OPERATIONS	<u>(6,500)</u>	<u>(209,745)</u>	<u>(6)</u>	<u>4,436</u>	<u>140,827</u>	<u>4</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4 and 19)						
Other income	1,695	54,693	1	1,466	46,520	1
Other gains and losses	(1,330)	(42,896)	(1)	(416)	(13,198)	-
Finance costs	<u>(104)</u>	<u>(3,365)</u>	<u>-</u>	<u>(186)</u>	<u>(5,913)</u>	<u>-</u>
Total non-operating income and expenses	<u>261</u>	<u>8,432</u>	<u>-</u>	<u>864</u>	<u>27,409</u>	<u>1</u>
PROFIT (LOSS) BEFORE INCOME TAX	(6,239)	(201,313)	(6)	5,300	168,236	5
INCOME TAX EXPENSE (Notes 4 and 20)	<u>313</u>	<u>10,083</u>	<u>-</u>	<u>1,238</u>	<u>39,300</u>	<u>1</u>
NET PROFIT (LOSS)	<u>(6,552)</u>	<u>(211,396)</u>	<u>(6)</u>	<u>4,062</u>	<u>128,936</u>	<u>4</u>
OTHER COMPREHENSIVE INCOME						
Items may not be reclassified subsequently to profit or loss:						
Exchange differences arising on translation to the presentation currency	-	(49,971)	(1)	-	98,286	2
Items may be reclassified subsequently to profit or loss:						
Exchange differences on translating foreign operations (Note 4)	32	1,026	-	(5)	(176)	-
Unrealized loss on available-for-sale financial assets	<u>1,025</u>	<u>33,068</u>	<u>1</u>	<u>(1,562)</u>	<u>(51,259)</u>	<u>(1)</u>
Other comprehensive (loss) income for the period, net of income tax	<u>1,057</u>	<u>(15,877)</u>	<u>-</u>	<u>(1,567)</u>	<u>46,851</u>	<u>1</u>
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	<u>\$ (5,495)</u>	<u>\$ (227,273)</u>	<u>(6)</u>	<u>\$ 2,495</u>	<u>\$ 175,787</u>	<u>5</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO: Owner of the Company	<u>\$ (6,552)</u>	<u>\$ (211,396)</u>	<u>(6)</u>	<u>\$ 4,062</u>	<u>\$ 128,936</u>	<u>3</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: Owner of the Company	<u>\$ (5,495)</u>	<u>\$ (227,273)</u>	<u>(6)</u>	<u>\$ 2,495</u>	<u>\$ 175,787</u>	<u>5</u>
(LOSS) EARNINGS PER SHARE (Note 21)						
Basic	<u>\$ (0.11)</u>	<u>\$ (3.45)</u>		<u>\$ 0.07</u>	<u>\$ 2.07</u>	
Diluted	<u>\$ (0.11)</u>	<u>\$ (3.45)</u>		<u>\$ 0.06</u>	<u>\$ 2.05</u>	

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of US Dollars, Except Dividends Per Share)**

	Common Stock		Share Premium		Stock Options		Capital Surplus		Retained Earnings		Other Equity			Treasury Shares	Total Equity
BALANCE, JANUARY 1, 2015	\$ 19,901	\$ 44,621	\$ 817	\$ -	\$ 45,438	\$ 2,799	\$ 20,001	\$ 22,800	\$ -	\$ -	\$ (350)	\$ -	\$ -	\$ -	\$ 87,789
Buy-back of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,688)	(3,688)
Cancellation of treasury shares	(690)	(1,560)	-	-	(1,560)	-	(1,438)	(1,438)	-	-	-	-	-	3,688	-
Appropriation of 2014 earnings	-	-	-	-	-	-	(1,275)	(1,275)	-	-	-	-	-	-	(1,275)
Cash dividends - US\$0.02 per share	-	-	133	-	133	-	-	-	-	-	-	-	-	-	133
Stock-based compensation	-	-	(58)	-	585	-	-	-	-	-	-	-	-	-	675
Issue of ordinary shares under the employees share options	90	643	-	-	-	-	4,062	4,062	-	-	-	-	-	-	4,062
Net profit for the year ended December 31, 2015	-	-	-	-	-	-	-	-	-	-	(5)	(1,562)	-	-	(1,567)
Other comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	-	-	4,062	4,062	-	(5)	-	(1,562)	-	-	2,495
BALANCE, DECEMBER 31, 2015	19,301	43,704	892	-	44,596	2,799	21,350	24,149	(355)	(1,562)	-	(1,562)	-	-	86,129
Appropriation of 2015 earnings	-	-	-	-	-	-	(922)	(922)	-	-	-	-	-	-	(922)
Cash dividends - US\$0.015 per share	-	-	279	-	279	-	-	-	-	-	-	-	-	-	279
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	(686)	(686)
Buy-back of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	686	-
Cancellation of treasury shares	(271)	(614)	-	199	(415)	-	-	-	-	-	-	-	-	-	(6,552)
Net loss for the year ended December 31, 2016	-	-	-	-	-	-	(6,552)	(6,552)	-	-	-	-	-	-	(6,552)
Other comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	-	-	-	32	1,025	-	-	-	-	1,057
Total comprehensive loss for the year ended December 31, 2016	-	-	-	-	-	-	(6,552)	(6,552)	32	1,025	-	-	-	-	(5,495)
BALANCE, DECEMBER 31, 2016	\$ 19,030	\$ 43,090	\$ 1,171	\$ 199	\$ 44,460	\$ 2,799	\$ 13,876	\$ 16,675	\$ (323)	\$ (537)	\$ -	\$ -	\$ -	\$ -	\$ 79,305

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)**

	Common Stock	Capital Surplus			Treasury Stock	Retained Earnings		Other Equity			Treasury Shares	Total Equity
		Share Premium	Stock Options	Treasury Stock		Unappropriated Earnings	Special Reserve	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets			
BALANCE, JANUARY 1, 2015	\$ 634,818	\$ 1,391,668	\$ 26,473	\$ -	\$ -	\$ 1,418,141	\$ 615,653	\$ 109,911	\$ -	\$ -	\$ -	\$ 2,778,523
Buy-back of treasury shares	-	-	-	-	-	-	-	-	-	-	(113,335)	(113,335)
Cancellation of treasury shares	(21,990)	(48,696)	-	-	-	(48,696)	(42,649)	-	-	-	113,335	-
Appropriation of 2014 earnings	-	-	-	-	-	-	(39,433)	-	-	-	-	(39,433)
Cash dividends - NT\$0.64 per share	-	-	4,219	-	-	4,219	-	-	-	-	-	4,219
Stock-based compensation	-	-	(1,850)	-	-	18,586	-	-	-	-	-	21,436
Issue of ordinary shares under the employees share options	2,850	20,436	-	-	-	-	128,936	-	-	-	-	128,936
Net profit for the year ended December 31, 2015	-	-	-	-	-	-	128,936	-	-	-	-	128,936
Other comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	-	-	-	98,110	(51,259)	-	-	46,851
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	-	-	128,936	98,110	(51,259)	-	-	175,787
BALANCE, DECEMBER 31, 2015	615,678	1,363,408	28,842	-	1,392,250	67,693	662,507	208,021	(51,259)	-	-	2,827,197
Appropriation of 2015 earnings	-	-	-	-	-	-	(29,679)	-	-	-	-	(29,679)
Cash dividends - NT\$0.48 per share	-	-	9,007	-	-	9,007	-	-	-	-	-	9,007
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	(21,684)	(21,684)
Buy-back of treasury shares	-	-	-	-	-	-	-	-	-	-	21,684	-
Cancellation of treasury shares	(8,650)	(19,155)	-	6,121	(13,034)	-	-	-	-	-	-	-
Net loss for the year ended December 31, 2016	-	-	-	-	-	-	(211,396)	-	-	-	-	(211,396)
Other comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	-	-	(48,945)	33,068	-	-	(15,877)
Total comprehensive loss for the year ended December 31, 2016	-	-	-	-	-	-	(211,396)	(48,945)	33,068	-	-	(227,273)
BALANCE, DECEMBER 31, 2016	\$ 607,028	\$ 1,344,253	\$ 37,849	\$ 6,121	\$ 1,388,223	\$ 67,693	\$ 421,432	\$ 159,076	\$ (18,191)	\$ -	\$ -	\$ 2,557,568

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of US Dollars and New Taiwan Dollars)

	2016		2015	
	US\$	NT\$	US\$	NT\$
CASH FLOWS FROM OPERATING ACTIVITIES				
(Loss) income before income tax	\$ (6,239)	\$ (201,313)	\$ 5,300	\$ 168,236
Adjustments for:				
Depreciation and amortization	18,856	608,336	21,965	697,139
Provision for allowance of doubtful accounts	1,283	41,401	696	22,072
Interest expenses	104	3,365	186	5,913
Interest income	(1,289)	(41,613)	(1,280)	(40,627)
Stock-based compensation	279	9,007	133	4,219
Loss (gain) on disposal of property, plant and equipment	5	172	(148)	(4,712)
Net loss on disposal of available-for-sale financial assets	16	506	51	1,606
Impairment loss recognized on assets	1,032	33,295	-	-
Write-down of inventories	986	31,819	613	19,449
Net loss on foreign currency exchange	166	5,322	345	10,926
Amortization of prepayments	2,585	83,387	2,803	88,969
Net changes in operating assets and liabilities				
Accounts receivable	(6,769)	(218,368)	(5,314)	(168,636)
Other receivables	(59)	(1,910)	233	7,385
Inventories	1,059	34,173	(651)	(20,676)
Prepayments	110	3,585	788	25,002
Other current assets	345	11,136	(2)	(82)
Accounts payables	5,675	183,115	(851)	(27,035)
Other payables	2,028	65,458	(1,716)	(54,527)
Advance sales receipts	(2,596)	(83,782)	(917)	(29,086)
Other current liabilities	<u>2</u>	<u>93</u>	<u>(6)</u>	<u>(185)</u>
Cash generated from operations	17,579	567,184	22,228	705,350
Interest paid	(118)	(3,807)	(167)	(5,308)
Income tax paid	<u>(871)</u>	<u>(28,112)</u>	<u>(2,607)</u>	<u>(82,745)</u>
Net cash generated from operating activities	<u>16,590</u>	<u>535,265</u>	<u>19,454</u>	<u>617,297</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in pledged deposit	10,000	322,629	(8,000)	(253,871)
Payments for property, plant and equipment	(9,143)	(294,975)	(15,826)	(502,295)
Proceeds from disposal of available-for-sale financial assets	2,434	78,528	4,100	130,130
Payments for intangible assets	(4,972)	(160,412)	(2,866)	(90,949)
Interest received	1,466	47,294	1,255	39,880
				(Continued)

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of US Dollars and New Taiwan Dollars)

	2016		2015	
	US\$	NT\$	US\$	NT\$
Purchase of available-for-sale financial assets	\$ (1,010)	\$ (32,578)	\$ (26,707)	\$ (847,646)
Decrease (increase) in refundable deposits	18	574	(125)	(3,952)
Proceeds from disposal of property, plant and equipment	7	242	150	4,761
Decrease in debt investments with no activate market	-	-	3,662	116,243
Purchase of financial assets measured at cost	-	-	(1,032)	(32,755)
Net cash used in investing activities	<u>(1,200)</u>	<u>(38,698)</u>	<u>(45,389)</u>	<u>(1,440,454)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of short-term borrowings	(12,644)	(407,957)	-	-
Proceeds from short-term borrowings	-	-	16,815	533,699
Cash dividends	(922)	(29,679)	(1,275)	(39,433)
Payments for buy-back of ordinary	(686)	(21,684)	(3,688)	(113,335)
Proceeds from exercise of employee share options	-	-	675	21,436
Net cash (used in) generated from financing activities	<u>(14,252)</u>	<u>(459,320)</u>	<u>12,527</u>	<u>402,367</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES				
	<u>(135)</u>	<u>(21,692)</u>	<u>(258)</u>	<u>22,561</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,003	15,555	(13,666)	(398,229)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>29,200</u>	<u>958,495</u>	<u>42,866</u>	<u>1,356,724</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 30,203</u>	<u>\$ 974,050</u>	<u>\$ 29,200</u>	<u>\$ 958,495</u>

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

(Concluded)

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of US Dollars and New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Alchip Technologies, Limited (the Company) was incorporated in the Cayman Islands on February 27, 2003. The Company is mainly engaged in research and development, design and manufacturing of fabless application specific integrated circuit (ASIC) and System on chip (SoC) and rendering of related services.

The Company's shares have been listed on the Taiwan Stock Exchange (TWSE) on October 28, 2014.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors and authorized for issue on March 10, 2017.

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

- a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC, and SIC endorsed by the FSC for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Group should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the IFRSs) issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations (the New IFRSs)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

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

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

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

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Group's accounting policies, except for the following:

1) Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

The amendment clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Group is required to disclose the fair value hierarchy. If the fair value measurements are categorized within (Level 2/Level 3), the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. The amendment will be applied retrospectively.

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

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

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of investment property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

(Concluded)

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

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

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

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
- b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

Transition

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Statement of Compliance

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

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

The functional currency of the Company is U.S. dollars. For greater comparability and consistency of financial reporting, the consolidated financial statements are presented in New Taiwan dollars since the Company's stocks are listed on the Taiwan Stock Exchange. The assets and liabilities items are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period, the equity items are translated at the historical exchange rates, and the income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in exchange differences on translating foreign operations.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries).

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

For subsidiaries' details, percentage of ownership, and main businesses and products, see Note 10, Table 5 and Table 6 to the consolidated financial statements.

Classification of Current and Non-current Assets and Liabilities

Current assets include:

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

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within twelve months after the reporting period; and
- c. Liabilities of which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

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

Foreign Currencies

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income. The exchange differences accumulated in equity which resulted from the translation of the assets and liabilities of the Group entities into the presentation currency are not subsequently reclassified to profit or loss.

Inventories

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Group expects to dispose of the intangible asset before the end of its economic life.

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

Impairment of Tangible and Intangible Assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

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

a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

1) Measurement category

Financial assets are classified into the following categories: Available-for-sale financial assets, and loans and receivables.

a) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the

carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

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

b) Loans and receivables

Loans and receivables, including cash and cash equivalent, accounts receivables, other receivables, debt investments with no active market and pledged deposits, are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits and short-term investments with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2) Impairment of financial assets

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

For financial assets carried at amortized cost, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is 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.

For financial assets measured at amortized cost, 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 was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectable trade receivables that are written off against the allowance account.

3) Derecognition of financial assets

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

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

b. Equity instruments

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

c. Financial liabilities

All the financial liabilities are measured at amortized cost using the effective interest method.

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Revenue Recognition

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

a. Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- 1) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- 2) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 3) The amount of revenue can be measured reliably;

- 4) It is probable that the economic benefits associated with the transaction will flow to the Group; and
 - 5) The costs incurred or to be incurred in respect of the transaction can be measured reliably.
- b. Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

- c. Interest income

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

Leasing

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

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Employee Benefits

- a. Short-term employee benefits

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

- b. Retirement benefits

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

Share-based Payment Arrangements

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vesting immediately.

At the end of each reporting period, the Group revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

Taxation

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

- a. Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

c. Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

b. Impairment of equipment and intangible assets

The impairment of equipment and intangible asset in relation to the design and production of chips was based on the recoverable amount of those assets, which is the higher of fair value less costs to sell or value-in-use of those assets. Any changes in the market price or future cash flows will affect the recoverable amount of those assets and may lead to recognition of additional or reversal of impairment losses.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
<u>NT\$</u>		
Demand deposits	\$ 960,372	\$ 579,143
Checking accounts	13,480	12,537
Cash on hand	198	451
Time deposits with original maturities within three months from the date of acquisition	-	366,364
	<u>\$ 974,050</u>	<u>\$ 958,495</u>
<u>US\$</u>		
Demand deposits	\$ 29,779	\$ 17,643
Checking accounts	418	382
Cash on hand	6	14
Time deposits with original maturities within three months from the date of acquisition	-	11,161
	<u>\$ 30,203</u>	<u>\$ 29,200</u>

The market rate intervals of cash in bank at the end of the reporting period were as follows:

	December 31	
	2016	2015
Bank balance	0.01%-0.35%	0.01%-2.60%

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NON-CURRENT

	December 31	
	2016	2015
<u>NT\$</u>		
Foreign bonds investments	<u>\$ 649,367</u>	<u>\$ 676,116</u>
<u>US\$</u>		
Foreign bonds investments	<u>\$ 20,135</u>	<u>\$ 20,598</u>

By the end of reporting date, information on foreign corporate bonds held by the Group was as follows:

Company Name	Coupon Rate	Effective Rate	Period
T-Mobile USA Inc.	6.63%	5.36%	10
Centurylink Inc.	5.80%	5.02%	10
UBS AG VRN Eclear	4.75%	3.99%/4.09%	10
BPCE SA	5.15%	4.23%	10
Geely Automobile Holding Ltd.	5.25%	4.30%	5
Sprint Corp.	7.13%	7.51%	10
Huarong Finance II Co., Ltd.	5.50%	4.38%/4.69%	10
Norddeutsche Landesbank	6.25%	5.83%/6.13%	10
China Cinda Finance 2015 I Ltd.	4.25%	4.20%	10
Banco BTG Pactual SA	4.00%	5.34%	7
Banco Do Brasil	3.88%	4.39%	10
Dawn Victor Ltd.	5.50%	5.04%	3
		5.14%/5.50%	
Yancoal International Resources Development Co., Ltd.	4.46%	5.38%	5
China Energy Reserve and Chemicals Group Overseas Co., Ltd.	5.25%/6.25%	4.71%/6.08%	3
Hsin Chong Construction Group Ltd.	8.75%	7.86%	3
Country Garden Holdings Co., Ltd.	7.50%	6.77%	5
Softbank Group Corp.	4.50%	3.73%	7

8. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>NT\$</u>		
<u>Accounts receivable</u>		
Accounts receivable	\$ 996,499	\$ 847,721
Less: Allowance for impairment loss	<u>(15,405)</u>	<u>(29,185)</u>
	<u>\$ 981,094</u>	<u>\$ 818,536</u>
<u>Other receivable</u>		
Tax refund receivable	\$ 15,274	\$ 12,259
Interest receivable	9,443	13,843
Others	<u>1,254</u>	<u>235</u>
	<u>\$ 25,971</u>	<u>\$ 26,337</u>
<u>US\$</u>		
<u>Accounts receivable</u>		
Accounts receivable	\$ 30,899	\$ 25,825
Less: Allowance for impairment loss	<u>(477)</u>	<u>(889)</u>
	<u>\$ 30,422</u>	<u>\$ 24,936</u>

(Continued)

	December 31	
	2016	2015
<u>Other receivable</u>		
Tax refund receivable	\$ 474	\$ 373
Interest receivable	293	422
Others	<u>38</u>	<u>8</u>
	<u>\$ 805</u>	<u>\$ 803</u>
		(Concluded)

Accounts Receivable

The average credit period on sales of goods was 30 to 120 days. No interest was charged on accounts receivable. In determining the recoverability of accounts receivable, the Group considered the aging of receivables, past default experience of the counterparties and an analysis of their current financial position to determine the irrecoverable amounts.

For the accounts receivable balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss, because there was not a significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral over these balances.

The aging of receivables was as follows:

	December 31	
	2016	2015
<u>NT\$</u>		
Less than 60 days	\$ 856,468	\$ 767,042
61-120 days	112,891	22,223
More than 121 days	<u>27,140</u>	<u>58,456</u>
	<u>\$ 996,499</u>	<u>\$ 847,721</u>
<u>US\$</u>		
Less than 60 days	\$ 26,556	\$ 23,367
61-120 days	3,501	677
More than 121 days	<u>842</u>	<u>1,781</u>
	<u>\$ 30,899</u>	<u>\$ 25,825</u>

The aging of receivables that were past due but not impaired was as follows:

	December 31	
	2016	2015
<u>NT\$</u>		
Less than 60 days	\$ -	\$ 75,826
More than 121 days	<u>22,224</u>	<u>-</u>
	<u>\$ 22,224</u>	<u>\$ 75,826</u>
		(Continued)

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>US\$</u>		
Less than 60 days	\$ -	\$ 2,310
More than 121 days	<u>689</u>	<u>-</u>
	<u>\$ 689</u>	<u>\$ 2,310</u>
		(Concluded)

The above aging schedule was based on the past due date.

The movements of the allowance for doubtful accounts receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
<u>NT\$</u>			
Balance at January 1, 2015	\$ 2,470	\$ 3,660	\$ 6,130
Add: Impairment losses recognized on receivables	-	22,072	22,072
Foreign exchange translation gains and losses	<u>92</u>	<u>891</u>	<u>983</u>
Balance at December 31, 2015	2,562	26,623	29,185
Add: Impairment losses recognized on receivables	52,156	-	52,156
Less: Impairment losses reversed	-	(10,755)	(10,755)
Less: Amounts written off during the year as uncollectable	(54,674)	-	(54,674)
Foreign exchange translation gains and losses	<u>(44)</u>	<u>(463)</u>	<u>(507)</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 15,405</u>	<u>\$ 15,405</u>
<u>US\$</u>			
Balance at January 1, 2015	\$ 78	\$ 115	\$ 193
Add: Impairment losses recognized on receivables	<u>-</u>	<u>696</u>	<u>696</u>
Balance at December 31, 2015	78	811	889
Add: Impairment losses recognized on receivables	1,617	-	1,617
Less: Impairment losses reversed	-	(334)	(334)
Less: Amounts written off during the year as uncollectable	<u>(1,695)</u>	<u>-</u>	<u>(1,695)</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 477</u>	<u>\$ 477</u>

The Group recognized impairment loss on accounts receivables amounting to NT\$2,562 thousand (US\$78 thousand) as of December 31, 2015. These amounts mainly related to customers that were in severe financial difficulties. The Group did not hold any collateral over these balances.

9. INVENTORIES

	December 31	
	2016	2015
<u>NT\$</u>		
Finished goods	\$ 2,066	\$ 11,947
Work in progress	160,242	187,674
Raw materials	<u>1,452</u>	<u>34,201</u>
	<u>\$ 163,760</u>	<u>\$ 233,822</u>
<u>US\$</u>		
Finished goods	\$ 64	\$ 364
Work in progress	4,969	5,717
Raw materials	<u>45</u>	<u>1,042</u>
	<u>\$ 5,078</u>	<u>\$ 7,123</u>

The cost of chips inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was NT\$2,743,181 thousand (US\$85,026 thousand) and NT\$2,318,791 thousand (US\$73,058 thousand) thousand, respectively.

The cost of goods sold included inventory write-downs of NT\$31,819 thousand (US\$986 thousand) and NT\$19,449 thousand (US\$613 thousand) for the years ended December 31, 2016 and 2015, respectively.

10. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

Investor	Subsidiary	Nature of Business	<u>Percentage of Ownership</u>		Description
			<u>2016</u>	<u>2015</u>	
The Company	Alchip Technologies, Limited (registered in Hong Kong) (Alchip HK)	Investments	100	100	-
	AlChip Technologies, Inc. (registered in U.S.A.) (Alchip USA)	Sales of ASIC and SOC	100	100	-
	Alchip Technologies, KK (registered in Japan) (Alchip KK)	Research and development, design and sales of ASIC and SOC and rendering related services	100	100	-
	Alchip Technologies, Inc. (registered in Taiwan) (Alchip TW)	Research and development, design and sales of ASIC and SOC and rendering related services	100	100	-
	Alchip Investment, Inc. (registered in BVI) (Alchip BVI)	Investments	100	100	-
Alchip HK	Alchip Technologies (Shanghai) (registered in China) (Alchip SH)	Research and development, design and sales of ASIC and SOC and rendering related services	100	100	-
	Alchip Technologies (Wuxi) (registered in China) (Alchip Wuxi)	Research and development, design of ASIC and SOC and rendering related services	100	100	-
	Alchip Technologies (Hefei) (registered in China) (Alchip Hefei)	Research and development, design of ASIC and SOC and rendering related services	100	-	Established in November 2016. As of December 31, 2016, Alchip Hefei was still in the development stage.

b. Subsidiaries excluded from the consolidated financial statements: None.

11. PROPERTY, PLANT AND EQUIPMENT

	Machinery Equipment	Computer Equipment	Office Equipment	Leasehold Improvement	Transportation Equipment	Total
<u>NT\$</u>						
<u>Cost</u>						
Balance at January 1, 2015	\$ 1,537,387	\$ 85,891	\$ 8,063	\$ 31,274	\$ 2,835	\$ 1,665,450
Additions	590,829	11,810	593	740	-	603,972
Disposals	(774,785)	(444)	-	-	-	(775,229)
Effect of foreign currency exchange differences	50,780	3,519	312	1,186	106	55,903
Balance at December 31, 2015	<u>\$ 1,404,211</u>	<u>\$ 100,776</u>	<u>\$ 8,968</u>	<u>\$ 33,200</u>	<u>\$ 2,941</u>	<u>\$ 1,550,096</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2015	\$ (1,230,345)	\$ (49,993)	\$ (2,778)	\$ (22,807)	\$ (1,325)	\$ (1,307,248)
Depreciation expense	(511,420)	(13,717)	(1,354)	(6,421)	(264)	(533,176)
Disposals	774,781	399	-	-	-	775,180
Effect of foreign currency exchange differences	(36,665)	(2,261)	(148)	(1,066)	(58)	(40,198)
Balance at December 31, 2015	<u>\$ (1,003,649)</u>	<u>\$ (65,572)</u>	<u>\$ (4,280)</u>	<u>\$ (30,294)</u>	<u>\$ (1,647)</u>	<u>\$ (1,105,442)</u>
Carrying amounts at December 31, 2015	<u>\$ 400,562</u>	<u>\$ 35,204</u>	<u>\$ 4,688</u>	<u>\$ 2,906</u>	<u>\$ 1,294</u>	<u>\$ 444,654</u>
<u>Cost</u>						
Balance at January 1, 2016	\$ 1,404,211	\$ 100,776	\$ 8,968	\$ 33,200	\$ 2,941	\$ 1,550,096
Additions	243,824	12,994	241	-	1,524	258,583
Disposals	(60)	(2,676)	-	-	(1,401)	(4,137)
Effect of foreign currency exchange differences	(22,368)	(1,436)	(114)	(478)	(52)	(24,448)
Balance at December 31, 2016	<u>\$ 1,625,607</u>	<u>\$ 109,658</u>	<u>\$ 9,095</u>	<u>\$ 32,722</u>	<u>\$ 3,012</u>	<u>\$ 1,780,094</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2016	\$ (1,003,649)	\$ (65,572)	\$ (4,280)	\$ (30,294)	\$ (1,647)	\$ (1,105,442)
Depreciation expense	(462,245)	(11,882)	(1,215)	(2,404)	(451)	(478,197)
Disposals	54	2,408	-	-	1,261	3,723
Effect of foreign currency exchange differences	15,440	841	60	428	29	16,798
Balance at December 31, 2016	<u>\$ (1,450,400)</u>	<u>\$ (74,205)</u>	<u>\$ (5,435)</u>	<u>\$ (32,270)</u>	<u>\$ (808)</u>	<u>\$ (1,563,118)</u>
Carrying amounts at December 31, 2016	<u>\$ 175,207</u>	<u>\$ 35,453</u>	<u>\$ 3,660</u>	<u>\$ 452</u>	<u>\$ 2,204</u>	<u>\$ 216,976</u>
<u>US\$</u>						
<u>Cost</u>						
Balance at January 1, 2015	\$ 48,575	\$ 2,809	\$ 258	\$ 988	\$ 90	\$ 52,720
Additions	18,615	372	19	23	-	19,029
Disposals	(24,411)	(15)	-	-	-	(24,426)
Effect of foreign currency exchange differences	-	(2)	-	-	-	(2)
Balance at December 31, 2015	<u>\$ 42,779</u>	<u>\$ 3,164</u>	<u>\$ 277</u>	<u>\$ 1,011</u>	<u>\$ 90</u>	<u>\$ 47,321</u>

(Continued)

	Machinery Equipment	Computer Equipment	Office Equipment	Leasehold Improvement	Transportation Equipment	Total
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2015	\$ (38,874)	\$ (1,674)	\$ (90)	\$ (720)	\$ (44)	\$ (41,402)
Depreciation expense	(16,113)	(433)	(43)	(202)	(8)	(16,799)
Disposals	24,411	13	-	-	-	24,424
Effect of foreign currency exchange differences	-	2	-	-	-	2
Balance at December 31, 2015	<u>\$ (30,576)</u>	<u>\$ (2,092)</u>	<u>\$ (133)</u>	<u>\$ (922)</u>	<u>\$ (52)</u>	<u>\$ (33,775)</u>
Carrying amounts at December 31, 2015	<u>\$ 12,203</u>	<u>\$ 1,072</u>	<u>\$ 144</u>	<u>\$ 89</u>	<u>\$ 38</u>	<u>\$ 13,546</u>
<u>Cost</u>						
Balance at January 1, 2016	\$ 42,779	\$ 3,164	\$ 277	\$ 1,011	\$ 90	\$ 47,321
Additions	7,557	404	7	-	47	8,015
Disposals	(2)	(83)	-	-	(43)	(128)
Effect of foreign currency exchange differences	-	8	-	-	-	8
Balance at December 31, 2016	<u>\$ 50,334</u>	<u>\$ 3,493</u>	<u>\$ 284</u>	<u>\$ 1,011</u>	<u>\$ 94</u>	<u>\$ 55,216</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2016	\$ (30,576)	\$ (2,092)	\$ (133)	\$ (922)	\$ (52)	\$ (33,775)
Depreciation expense	(14,327)	(368)	(38)	(75)	(14)	(14,822)
Disposals	2	75	-	-	39	116
Effect of foreign currency exchange differences	-	(7)	-	-	-	(7)
Balance at December 31, 2016	<u>\$ (44,901)</u>	<u>\$ (2,392)</u>	<u>\$ (171)</u>	<u>\$ (997)</u>	<u>\$ (27)</u>	<u>\$ (48,488)</u>
Carrying amounts at December 31, 2016	<u>\$ 5,433</u>	<u>\$ 1,101</u>	<u>\$ 113</u>	<u>\$ 14</u>	<u>\$ 67</u>	<u>\$ 6,728</u>

(Concluded)

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

Machinery equipment	1-5 years
Computer equipment	3-5 years
Office equipment	3-5 years
Leasehold improvement	3-5 years
Transportation equipment	5 years

12. INTANGIBLE ASSETS

	Silicon Intellectual Property (SIP)	Software Cost	Total
<u>NT\$</u>			
<u>Cost</u>			
Balance at January 1, 2015	\$ 526,379	\$ 12,862	\$ 539,241
Additions	122,712	538	123,250
Derecognition	(55,037)	-	(55,037)
Effect of foreign currency exchange differences	<u>21,857</u>	<u>496</u>	<u>22,353</u>
Balance at December 31, 2015	<u>\$ 615,911</u>	<u>\$ 13,896</u>	<u>\$ 629,807</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2015	\$ (349,535)	\$ (10,444)	\$ (359,979)
Amortization expense	(161,787)	(2,176)	(163,963)
Derecognition	55,037	-	55,037
Effect of foreign currency exchange differences	<u>(16,629)</u>	<u>(462)</u>	<u>(17,091)</u>
Balance at December 31, 2015	<u>\$ (472,914)</u>	<u>\$ (13,082)</u>	<u>\$ (485,996)</u>
Carrying amounts at December 31, 2015	<u>\$ 142,997</u>	<u>\$ 814</u>	<u>\$ 143,811</u>
<u>Cost</u>			
Balance at January 1, 2016	\$ 615,911	\$ 13,896	\$ 629,807
Additions	105,797	98	105,895
Effect of foreign currency exchange differences	<u>(9,481)</u>	<u>(243)</u>	<u>(9,724)</u>
Balance at December 31, 2016	<u>\$ 712,227</u>	<u>\$ 13,751</u>	<u>\$ 725,978</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2016	\$ (472,914)	\$ (13,082)	\$ (485,996)
Amortization expense	(129,707)	(432)	(130,139)
Effect of foreign currency exchange differences	<u>6,986</u>	<u>229</u>	<u>7,215</u>
Balance at December 31, 2016	<u>\$ (595,635)</u>	<u>\$ (13,285)</u>	<u>\$ (608,920)</u>
Carrying amounts at December 31, 2016	<u>\$ 116,592</u>	<u>\$ 466</u>	<u>\$ 117,058</u>

(Continued)

	Silicon Intellectual Property (SIP)	Software Cost	Total
<u>US\$</u>			
<u>Cost</u>			
Balance at January 1, 2015	\$ 16,632	\$ 405	\$ 17,037
Additions	3,866	17	3,883
Derecognition	<u>(1,734)</u>	<u>-</u>	<u>(1,734)</u>
Balance at December 31, 2015	<u>\$ 18,764</u>	<u>\$ 422</u>	<u>\$ 19,186</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2015	\$ (11,043)	\$ (330)	\$ (11,373)
Amortization expense	(5,097)	(69)	(5,166)
Derecognition	<u>1,734</u>	<u>-</u>	<u>1,734</u>
Balance at December 31, 2015	<u>\$ (14,406)</u>	<u>\$ (399)</u>	<u>\$ (14,805)</u>
Carrying amounts at December 31, 2015	<u>\$ 4,358</u>	<u>\$ 23</u>	<u>\$ 4,381</u>
<u>Cost</u>			
Balance at January 1, 2016	\$ 18,764	\$ 422	\$ 19,186
Additions	<u>3,280</u>	<u>3</u>	<u>3,283</u>
Balance at December 31, 2016	<u>\$ 22,044</u>	<u>\$ 425</u>	<u>\$ 22,469</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2016	\$ (14,406)	\$ (399)	\$ (14,805)
Amortization expense	<u>(4,021)</u>	<u>(13)</u>	<u>(4,034)</u>
Balance at December 31, 2016	<u>\$ (18,427)</u>	<u>\$ (412)</u>	<u>\$ (18,839)</u>
Carrying amounts at December 31, 2016	<u>\$ 3,617</u>	<u>\$ 13</u>	<u>\$ 3,630</u> (Concluded)

The above items of intangible assets were depreciated on a straight-line basis over the estimated useful lives as follows:

SIP	1-3 years
Software cost	3-5 years

13. PREPAYMENT

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>NT\$</u>		
Prepayment for SIP	\$ 64,608	\$ 58,330
Prepayment for electronic design automation (EDA) tools	23,832	50,104
Prepayment for raw materials	4,906	70,043
Others	<u>8,555</u>	<u>6,297</u>
	<u>\$ 101,901</u>	<u>\$ 184,774</u>
 <u>US\$</u>		
Prepayment for SIP	\$ 2,003	\$ 1,777
Prepayment for electronic design automation (EDA) tools	739	1,526
Prepayment for raw materials	152	2,134
Others	<u>266</u>	<u>192</u>
	<u>\$ 3,160</u>	<u>\$ 5,629</u>

14. SHORT-TERM BORROWINGS

Loans were financed from Morgan Stanley Asia International Limited, Singapore Branch with Open Fed Fund+110bps borrowing rate (for the years 2016 and 2015, the interest rate range was between 1.02% to 2.77% and 0.52% to 2.53%). The Group's net assets in the account (including bonds minus the loan amount) must be higher than the margin requirement calculated by Morgan Stanley. The Group repaid the short-term bank borrowings amounting to NT\$335,347 thousand (US\$10,229 thousand) during the three months ended March 31, 2016, while terminating the pledged time deposits of NT\$327,839 thousand (US\$10,000 thousand). As of December 31, 2016, the amount of the Group's net assets in the account was higher than the minimum margin requirement amounting to NT\$212,276 thousand (US\$6,582 thousand).

15. OTHER PAYABLES

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>NT\$</u>		
Payable for purchase of equipment	\$ 147,986	\$ 47,016
Payable for SIP	57,887	156,192
Payable for salaries and bonus	56,877	83,189
Payable for professional services	7,609	9,612
Others	<u>26,129</u>	<u>24,678</u>
	<u>\$ 296,488</u>	<u>\$ 320,687</u>

(Continued)

	December 31	
	2016	2015
<u>US\$</u>		
Payable for purchase of equipment	\$ 4,589	\$ 1,432
Payable for SIP	1,795	4,758
Payable for salaries and bonus	1,764	2,534
Payable for professional services	236	293
Others	<u>809</u>	<u>753</u>
	<u>\$ 9,193</u>	<u>\$ 9,770</u>
		(Concluded)

16. RETIREMENT BENEFIT PLANS

Defined Contribution Plans

Alchip TW and Alchip Taiwan Branch adopted a pension plan under the Labor Pension Act (the LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

Subsidiaries in the People's Republic of China and Japan take part in the defined contribution pension plans operated by the local governments, to which the subsidiaries make monthly contributions.

17. EQUITY

a. Share capital

Common shares

	December 31	
	2016	2015
Number of shares authorized (in thousands)	<u>100,000</u>	<u>100,000</u>
Shares authorized (NT\$)	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>60,703</u>	<u>61,568</u>
Shares issued		
NT\$	<u>\$ 607,028</u>	<u>\$ 615,678</u>
US\$	<u>\$ 19,030</u>	<u>\$ 19,301</u>

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right to dividends.

b. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 24, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the Articles), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, the Company's annual net income after tax shall offset its losses in previous years, then set aside a statutory capital reserve in accordance with the Applicable Public Company Rules, and set aside a special capital reserve, if one is required, in accordance with the Applicable Public Company Rules or as requested by the authorities in charge, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors before and after amendment, please refer to e. employee benefits expense in Note 19.

The Company's Articles of Incorporation also stipulate a dividend policy that distribution of retained earnings may proceed by way of cash or stock dividends, but the cash dividend to be distributed shall be no lower than 10% of the aggregate dividend distributed to shareholders and no more than 100% of the aggregate dividend distributed to shareholders.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve.

The appropriations of earnings for 2015 and 2014 were as follows:

	Appropriation of Earnings (In Thousands)		Dividends Per Share (In Dollars)	
	For the Year Ended December 31, 2015		For the Year Ended December 31, 2015	
	US\$	NT\$	US\$	NT\$
Cash dividends	\$ 922	\$ 29,679	\$0.015	\$0.48

	Appropriation of Earnings (In Thousands)		Dividends Per Share (In Dollars)	
	For the Year Ended December 31, 2014		For the Year Ended December 31, 2014	
	US\$	NT\$	US\$	NT\$
Cash dividends	\$ 1,275	\$ 39,433	\$0.02	\$0.64

Resolved by the Company's board of directors on March 10, 2017, that the deficit for the year ended December 31, 2016 is offset and the residual of the retained earnings are not proposed to be appropriated. The above resolution is subject to the resolution of the shareholders' meeting to be held in June 2017.

c. Special reserves appropriated following first-time adoption of IFRSs

The increase in retained earnings that resulted from all IFRSs adjustments was NT\$63,380 thousand (US\$3,221 thousand). Special reserve from cumulative translation adjustments at the first-time adoption of IFRSs was NT\$67,693 thousand (around US\$2,799 thousand). As of December 31, 2016, the amounts remained unchanged.

d. Treasury shares

To maintain company's credit and shareholders' rights, on March 5, May 14 and July 29, 2016, the board of directors resolved to buy back shares from stock exchange.

As of December 31, 2016 and 2015, the Company bought back 865 and 2,199 thousand treasury shares for NT\$21,684 thousand (US\$686 thousand) and NT\$113,335 thousand (US\$3,688 thousand), respectively. All treasury shares were completely retired.

18. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company and Subsidiaries

Qualified employees of the Company and its subsidiaries were granted 1,200 options, 1,136 options and 864 options on November 11, 2016, March 4, 2016 and April 24, 2015, respectively. Each option entitles the holder to subscribe for one thousand common shares of the Company. The options granted are valid for 10 years and exercisable at 50 percent after the second anniversary from the grant date. The options were granted at an exercise price equal to the closing price of the Company's common shares listed on the Taiwan Stock Exchange on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

Information on employee share options was as follows:

	For the Year Ended December 31			
	2016		2015	
Employee Share Option	Number of Options	Weighted-average Exercise Price (US\$)	Number of Options	Weighted-average Exercise Price (US\$)
Balance at January 1	1,981,277	\$ 2.29	1,768,027	\$ 2.45
Options granted	2,336,000	0.98	864,000	1.90
Options exercised	-	-	(285,000)	2.37
Options expired	<u>(431,166)</u>	2.23	<u>(365,750)</u>	2.05
Balance at December 31	<u>3,886,111</u>	1.51	<u>1,981,277</u>	2.29
Options exercisable, end of year	<u>804,111</u>	2.60	<u>1,117,277</u>	2.60
Weighted-average fair value of options granted (US\$)	<u>\$ 0.43</u>		<u>\$ 0.79</u>	

	For the Year Ended December 31			
	2016		2015	
Exercise Price (US\$)	Weighted-average Remaining Contractual Life (Years)	Exercise Price (US\$)	Weighted-average Remaining Contractual Life (Years)	
\$0.80	9.87	\$1.90	9.32	
1.19	9.18	2.60	2.35	
1.81	8.32			
2.60	1.90			

Options granted on November 11, 2016, March 4, 2016 and April 24, 2015, were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	November 11, 2016	March 4, 2016	April 24, 2015
Grant-date share price	\$25.40	\$38.55	\$59.5
Exercise price	\$25.40	\$38.55	\$59.5
Expected volatility	50.02%	39.38%	42.60%
Expected life (years)	6-7 years	6-7 years	6-7 years
Expected dividend yield	-	-	-
Risk-free interest rate	0.89%-0.98%	0.70%-0.73%	1.27%-1.38%

Compensation cost recognized was NT\$9,007 thousand (US\$279 thousand) and NT\$4,219 thousand (US\$133 thousand) for the years ended December 31, 2016 and 2015, respectively.

19. NET PROFIT (LOSS)

Net profit (loss) from continuing operations included the following items.

a. Net profit from continuing operations

The Group's revenues are mainly generated from ASIC and chip production, Non-Recurring Engineering (NRE) and others. NRE are service revenues generated by providing customers with the database and SIP for ASIC chip design and related masks for the design with the entire cell library needed and SIP, which belong to service revenue. Revenues from others are generated from wafer back-end manufacturing, packaging and testing services. Revenues from ASIC and chip production include both business described above.

	For the Year Ended December 31	
	2016	2015
<u>NT\$</u>		
ASIC and chip production	\$ 3,562,647	\$ 3,469,030
NRE	124,291	313,830
Others	<u>4,039</u>	<u>2,881</u>
	<u>\$ 3,690,977</u>	<u>\$ 3,785,741</u>
<u>US\$</u>		
ASIC and chip production	\$ 110,425	\$ 109,299
NRE	3,853	9,888
Others	<u>125</u>	<u>90</u>
	<u>\$ 114,403</u>	<u>\$ 119,277</u>

b. Other income

	For the Year Ended December 31	
	2016	2015
<u>NT\$</u>		
Interest income	\$ 41,613	\$ 40,627
Rental income	2,654	3,497
Others	<u>10,426</u>	<u>2,396</u>
	<u>\$ 54,693</u>	<u>\$ 46,520</u>
<u>US\$</u>		
Interest income	\$ 1,289	\$ 1,280
Rental income	82	110
Others	<u>324</u>	<u>76</u>
	<u>\$ 1,695</u>	<u>\$ 1,466</u>

c. Other gains and losses

	For the Year Ended December 31	
	2016	2015
<u>NT\$</u>		
Impairment loss of financial assets measured at cost	\$ (33,295)	\$ -
Net foreign exchange losses	(8,876)	(16,236)
Net loss on disposal of available-for-sale financial assets	(506)	(1,606)
Gain (loss) on disposal of equipment	(172)	4,712
Others	<u>(47)</u>	<u>(68)</u>
	<u>\$ (42,896)</u>	<u>\$ (13,198)</u>
<u>US\$</u>		
Impairment loss of financial assets measured at cost	\$ (1,032)	\$ -
Net foreign exchange losses	(275)	(512)
Net loss on disposal of available-for-sale financial assets	(16)	(51)
Gain (loss) on disposal of equipment	(5)	148
Others	<u>(2)</u>	<u>(1)</u>
	<u>\$ (1,330)</u>	<u>\$ (416)</u>

The management of the Company carried out an impairment review on the equity investment in KnC Group AB, and determined the recoverable amount of such investment as nil. As a result, an impairment loss of US\$1,032 thousand (approximately NT\$33,295 thousand) was recognized in other gains and losses in the consolidated statements of comprehensive income of 2016.

d. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
<u>NT\$</u>		
Property, plant and equipment	\$ 478,197	\$ 533,176
Intangible assets	<u>130,139</u>	<u>163,963</u>
	<u>\$ 608,336</u>	<u>\$ 697,139</u>
An analysis of depreciation by function		
Operating costs	\$ 460,488	\$ 508,052
Operating expenses	<u>17,709</u>	<u>25,124</u>
	<u>\$ 478,197</u>	<u>\$ 533,176</u>
An analysis of amortization by function		
Operating costs	\$ 129,725	\$ 160,605
Operating expenses	<u>414</u>	<u>3,358</u>
	<u>\$ 130,139</u>	<u>\$ 163,963</u>
<u>US\$</u>		
Property, plant and equipment	\$ 14,822	\$ 16,799
Intangible assets	<u>4,034</u>	<u>5,166</u>
	<u>\$ 18,856</u>	<u>\$ 21,965</u>
An analysis of depreciation by function		
Operating costs	\$ 14,273	\$ 16,007
Operating expenses	<u>549</u>	<u>792</u>
	<u>\$ 14,822</u>	<u>\$ 16,799</u>
An analysis of amortization by function		
Operating costs	\$ 4,021	\$ 5,060
Operating expenses	<u>13</u>	<u>106</u>
	<u>\$ 4,034</u>	<u>\$ 5,166</u>

e. Employee benefits expense

	For the Year Ended December 31	
	2016	2015
Post-employment benefits (Note 16)		
Defined contribution plans	\$ 27,049	\$ 27,542
Share-based payments (Note 18)	9,007	4,219
Other employee benefits	<u>384,408</u>	<u>420,738</u>
Total employee benefits expense	<u>\$ 420,464</u>	<u>\$ 452,499</u>

(Continued)

For the Year Ended December 31

	2016	2015
An analysis of employee benefits expense by function		
Operating costs	\$ 13,699	\$ 23,085
Operating expenses	<u>406,765</u>	<u>429,414</u>
	<u>\$ 420,464</u>	<u>\$ 452,499</u>
 <u>US\$</u>		
Post-employment benefits (Note 16)		
Defined contribution plans	\$ 838	\$ 868
Share-based payments (Note 18)	279	133
Other employee benefits	<u>11,915</u>	<u>13,256</u>
Total employee benefits expense	<u>\$ 13,032</u>	<u>\$ 14,257</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 425	\$ 727
Operating expenses	<u>12,607</u>	<u>13,530</u>
	<u>\$ 13,032</u>	<u>\$ 14,257</u>

(Concluded)

1) Employees' compensation and remuneration of directors and supervisors for 2016 and 2015

In compliance with the Company Act as amended in May 2015, and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting in June, 2016, the Company accrued employees' compensation and remuneration of directors at the rates no less than 1% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors.

The employees' compensation and remuneration of directors for 2015 were as follows:

		For the Year Ended December 31, 2015	
	Accrual Rate	Cash (US\$)	Cash (NT\$)
Employees' compensation	6.14%	\$ 354	\$ 11,242
Remuneration of directors	2%	<u>116</u>	<u>3,663</u>
		<u>\$ 470</u>	<u>\$ 14,905</u>
Amounts recognized in the consolidated financial statements		<u>\$ 470</u>	<u>\$ 14,905</u>

Employees' compensation and remuneration of directors were not accrued for the year ended December, 2016 due to the loss before income tax presented.

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

Information on the employees' compensation and remuneration of directors resolved by the Company's board of directors in 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

2) Bonus to employees and remuneration of directors for 2014

Articles of Incorporation of the Company, before amendment, stipulate the bonus to employees shall not be less than 1% of net of profit after tax and the remuneration of directors shall not be more than 2% thereof. The bonus to employees and remuneration of directors for 2014 were as follows:

	For the Year Ended December 31, 2014	
	Cash (US\$)	Cash (NT\$)
Bonus to employees	\$ 419	\$ 12,683
Remuneration of directors	<u>139</u>	<u>4,228</u>
	<u>\$ 558</u>	<u>\$ 16,911</u>
Amounts recognized in the consolidated financial statements	<u>\$ 558</u>	<u>\$ 16,911</u>

20. INCOME TAXES

a. Major components of tax expense recognized in profit or loss were as follows:

	For the Year Ended December 31			
	2016		2015	
	US\$	NT\$	US\$	NT\$
Current tax				
In respect of the current year	\$ 213	\$ 6,821	\$ 494	\$ 16,098
Income tax on unappropriated earnings	121	3,958	723	22,536
Adjustments for prior years	<u>133</u>	<u>4,298</u>	<u>(150)</u>	<u>(4,762)</u>
	<u>467</u>	<u>15,077</u>	<u>1,067</u>	<u>33,872</u>
Deferred tax				
In respect of the current year	<u>(154)</u>	<u>(4,994)</u>	<u>171</u>	<u>5,428</u>
Income tax expense recognized in profit or loss	<u>\$ 313</u>	<u>\$ 10,083</u>	<u>\$ 1,238</u>	<u>\$ 39,300</u>

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year Ended December 31			
	2016		2015	
	US\$	NT\$	US\$	NT\$
Loss (profit) before tax	\$ (6,239)	\$ (201,335)	\$ 5,300	\$ 168,236
Income tax expense calculated at each subsidiaries' jurisdiction rate	(1,008)	(32,537)	913	28,993
Adjustment items in determining taxable income	375	12,044	176	5,597
Tax preference	(29)	(938)	(377)	(11,975)
Income tax on unappropriated earnings	121	3,958	723	22,941
Effect of deferred tax	721	23,258	(47)	(1,494)
Adjustments for prior years' tax	<u>133</u>	<u>4,298</u>	<u>(150)</u>	<u>(4,762)</u>
Income tax expense recognized in profit or loss	<u>\$ 313</u>	<u>\$ 10,083</u>	<u>\$ 1,238</u>	<u>\$ 39,300</u>

The applicable tax rate used by the entities located in ROC is 17%, whereas the applicable tax rate used by subsidiaries in China is 25%. Alchip SH is approved for the preferential tax treatment from May 2015, a treatment that allows Alchip SH to be exempted from corporate income tax for 2014 and 2015 and to be entitled to a preferential tax rate of 12.5% from 2016 to 2018. The applicable tax rate, used by the subsidiary located in Japan, ranged from 38% to 40%.

b. Deferred tax assets

The movements of deferred tax assets were as follows:

For the year ended December 31, 2016

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Exchange Differences	Closing Balance
<u>NT\$</u>				
Temporary differences				
Impairment loss of assets	\$ 216	\$ (213)	\$ (3)	\$ -
Unrealized loss on inventory	8,201	5,409	(145)	13,465
Unrealized exchange gain or loss	<u>1,216</u>	<u>(889)</u>	<u>(21)</u>	<u>306</u>
	9,633	4,307	(169)	13,771
Tax losses	<u>5,817</u>	<u>687</u>	<u>(103)</u>	<u>6,401</u>
	<u>\$ 15,450</u>	<u>\$ 4,994</u>	<u>\$ (272)</u>	<u>\$ 20,172</u>

(Continued)

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Exchange Differences	Closing Balance
<u>US\$</u>				
Temporary differences				
Impairment loss of assets	\$ 7	\$ (7)	\$ -	\$ -
Unrealized loss on inventory	250	167	-	417
Unrealized exchange gain or loss	<u>37</u>	<u>(27)</u>	<u>-</u>	<u>10</u>
	294	133	-	427
Tax losses	<u>177</u>	<u>21</u>	<u>-</u>	<u>198</u>
	<u>\$ 471</u>	<u>\$ 154</u>	<u>\$ -</u>	<u>\$ 625</u>
				(Concluded)

For the year ended December 31, 2015

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Exchange Differences	Closing Balance
<u>NT\$</u>				
Temporary differences				
Impairment loss of assets	\$ 11,193	\$ (11,015)	\$ 38	\$ 216
Unrealized loss on inventory	4,611	3,306	284	8,201
Unrealized exchange gain or loss	<u>304</u>	<u>871</u>	<u>41</u>	<u>1,216</u>
	16,108	(6,838)	363	9,633
Tax losses	<u>4,204</u>	<u>1,410</u>	<u>203</u>	<u>5,817</u>
	<u>\$ 20,312</u>	<u>(5,428)</u>	<u>\$ 566</u>	<u>\$ 15,450</u>

US\$

Temporary differences				
Impairment loss of assets	\$ 354	\$ (347)	\$ -	\$ 7
Unrealized loss on inventory	145	105	-	250
Unrealized exchange gain or loss	<u>10</u>	<u>27</u>	<u>-</u>	<u>37</u>
	509	(215)	-	294
Tax losses	<u>133</u>	<u>44</u>	<u>-</u>	<u>177</u>
	<u>\$ 642</u>	<u>\$ (171)</u>	<u>\$ -</u>	<u>\$ 471</u>

c. Integrated income tax of Alchip TW

	December 31	
	2016	2015
<u>NT\$</u>		
Imputation credits accounts	<u>\$ 131,867</u>	<u>\$ 128,232</u>

d. Income tax assessments

Income tax returns of Alchip TW through 2013 had been assessed by the tax authorities, and there is no significant difference between the assessment result and the income tax returns filed.

21. EARNINGS (LOSS) PER SHARE

Unit: US\$/NT\$ Per Share

	For the Year Ended December 31			
	2016		2015	
	US\$	NT\$	US\$	NT\$
Basic (loss) earnings per share	<u>\$ (0.11)</u>	<u>\$ (3.45)</u>	<u>\$ 0.07</u>	<u>\$ 2.07</u>
Diluted (loss) earnings per share	<u>\$ (0.11)</u>	<u>\$ (3.45)</u>	<u>\$ 0.06</u>	<u>\$ 2.05</u>

The information used for the computation of (loss) earnings per share is as follows:

	For the Year Ended December 31			
	2016		2015	
	US\$	NT\$	US\$	NT\$
(Loss) profit for the period attributable to owners of the Company	<u>\$ (6,552)</u>	<u>\$ (211,396)</u>	<u>\$ 4,062</u>	<u>\$ 128,936</u>
(Loss) earnings used in the computation of diluted earnings per share	<u>\$ (6,552)</u>	<u>\$ (211,396)</u>	<u>\$ 4,062</u>	<u>\$ 128,936</u>

Unit: Thousand Shares

	For the Year Ended December 31	
	2016	2015
Weighted average number of ordinary shares in computation of basic earnings per share	61,305	62,357
Effect of potentially dilutive ordinary shares:		
Employee share option	-	15
Employees' compensation or bonus issue to employees	-	473
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>61,305</u>	<u>62,845</u>

Since the Group offered to settle compensation paid to employees in cash or shares, the Group assumed the entire amount of the compensation would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

22. OPERATING LEASE ARRANGEMENTS

Operating leases relate to leases of testing machines, office and parking space with lease terms between 1 and 5 years. The Group does not have a bargain purchase option to acquire the leased items at the expiration of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	December 31	
	2016	2015
<u>NT\$</u>		
Within 1 year	\$ 29,236	\$ 51,105
1 year to 5 years	<u>18,640</u>	<u>41,600</u>
	<u>\$ 47,876</u>	<u>\$ 92,705</u>
<u>US\$</u>		
Within 1 year	\$ 907	\$ 1,557
1 year to 5 years	<u>578</u>	<u>1,267</u>
	<u>\$ 1,485</u>	<u>\$ 2,824</u>

The lease payments recognized in profit or loss were as follows:

	For the Year Ended December 31			
	2016		2015	
	US\$	NT\$	US\$	NT\$
Lease payments	<u>\$ 1,383</u>	<u>\$ 44,608</u>	<u>\$ 1,352</u>	<u>\$ 42,914</u>

23. CAPITAL MANAGEMENT

The Group is a fabless application specific integrated circuit provider and expects significant capital expenditure on the purchase of machinery equipment and SIP now and in the near future. Accordingly, the Group's objective is to maintain necessary operating capital, the availability of funds for research and development, the capacity to pay dividends, etc. Compliance with conservative policy, the Group prudently evaluates the policy of capital management on a continuous basis.

24. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

Except for unlisted securities that do not have observable market prices (recorded as financial assets measured at cost), the Group considers that the book value of financial assets and liabilities that are not measured at fair value is close to fair value. Accordingly, the Group takes the book value of those financial assets and liabilities on the consolidated balance sheet as the basis for evaluating the fair value.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

The Group's financial instruments measured at fair value are mainly available-for-sale financial assets. Based on the extent that fair value can be observed, the fair value measurements are grouped in Level 2.

2) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Foreign bonds investment	Adjusted integration of quoted prices or settlement prices from stock exchange market participants for each corporate bond.

There was no transfer of fair value measurements between Level 1 and Level 2 for the year ended December 31, 2016 and 2015.

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>NT\$</u>		
<u>Financial assets</u>		
Loans and receivables (1)	\$ 1,981,417	\$ 2,131,917
Available-for-sale financial assets (2)	<u>649,367</u>	<u>709,991</u>
	<u>\$ 2,630,784</u>	<u>\$ 894,127</u>
<u>Financial liabilities</u>		
Amortized cost (3)	<u>\$ 659,986</u>	<u>\$ 977,316</u>
<u>US\$</u>		
<u>Financial assets</u>		
Loans and receivables (1)	\$ 61,439	\$ 64,948
Available-for-sale financial assets (2)	<u>20,135</u>	<u>21,630</u>
	<u>\$ 81,574</u>	<u>\$ 86,578</u>
<u>Financial liabilities</u>		
Amortized cost (3)	<u>\$ 20,464</u>	<u>\$ 27,240</u>

1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, accounts and other receivables and pledged deposits.

2) The balances included the carrying amount of available-for-sale financial assets and financial assets measured at cost.

3) The balances included the carrying amount of short-term loans, and accounts and other payables.

d. Financial risk management objectives and policies

The Group's financial risk management objective is to manage market risk (including currency risk and interest rate risk), credit risk and liquidity risk associated with operating activities in accordance with relevant guidelines and internal controls. The Group's finance department reports to the board of directors and audit committee, as necessary.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

a) Foreign currency risk

The functional currency for the Company is U.S. dollars (USD).

Except holding time deposits in Chinese yuan (RMB), the Group also holds a small amount of Japanese yuan (JPY), Chinese yuan (RMB) and New Taiwan dollars (NTD) to pay for subsidiaries' and branch offices' salaries and operating expenses. Accordingly, the Group does not expect any significant currency risk. However, the Company's shares are listed on the Taiwan Stock Exchange and the Company expects to distribute dividends or to acquire domestic financing in New Taiwan dollars and later exchange to U.S. dollars. Consequently, currency risk may arise from the USD/NTD exchange difference and the Company's finance department takes the following countermeasures:

- i. Maintaining an adequate level of foreign currency reserve based on predicted exchange rate to provide for subsidiaries' operating activities and to lessen the impact on adverse exchange fluctuations to the net income;
- ii. Continuously monitoring exchange rate fluctuations and maintaining close relationships with principal correspondent banks to provide management with sufficient information as basis for managing exchange rate fluctuations;
- iii. Reducing the impact of adverse exchange rate fluctuations on the Group's net income by using natural hedge (i.e. Majority sales and purchasing transactions are both denominated in USD) and by using foreign currency loan or forward exchange contracts when needed.

Please refer to Note 27 for the carrying amounts of monetary assets and liabilities not denominated in functional currency at the end of the reporting period.

Sensitivity analysis

The Group was mainly exposed to NTD, JPY and RMB. Under the condition of a 5% increase and decrease in U.S. dollars (the functional currency) against the relevant foreign currencies, 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. If the U.S. dollar changes against the relevant foreign currencies by 5% for the years ended December 31, 2016 and 2015, respectively, net income will decrease/increase by US\$95 thousand and increase/decrease by US\$200 thousand, respectively.

b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at floating interest rates. The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>NT\$</u>		
Fair value interest rate risk		
Financial assets	\$ 649,669	\$ 1,371,029
Cash flow interest rate risk		
Financial assets	960,372	579,143
Financial liabilities	134,499	551,961
<u>US\$</u>		
Fair value interest rate risk		
Financial assets	20,144	41,768
Cash flow interest rate risk		
Financial assets	29,779	17,643
Financial liabilities	4,171	16,815

The Group was also exposed to cash flow interest rate risk in relation to variable-rate financial institutions borrowings. The Group's cash flow interest rate risk was mainly concentrated in the fluctuation of Open Fed Fund rate.

Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2016 and 2015 would increase/decrease by NT\$2,065 thousand (US\$64 thousand) and decrease/increase NT\$68 thousand (US\$2 thousand), respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation and financial guarantees provided by the Group could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Group adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by counterparty limits that are reviewed and approved by the finance department periodically.

In order to minimize credit risk, the Group's management is responsible for determining credit limits, credit approvals and other monitoring activities to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The credit risk on liquid funds was limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk of 32% and 48% in total accounts receivables as of December 31, 2016 and 2015, respectively, was related to the Group's largest customer.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

a) Liquidity and interest risk rate tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The interest recognition is not material.

	December 31, 2016							
	Less Than 1 Month		1 to 3 Months		3 Months to 1 Year		1 to 5 Years	
	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$
Non-interest-bearing liabilities								
Accounts payable	\$ 7,579	\$ 244,426	\$ 1,285	\$ 41,450	\$ -	\$ -	\$ -	\$ -
Other payables	804	25,961	5,170	166,740	1,355	43,685	100	3,225
Variable interest rate assets	-	-	-	-	4,171	134,499	-	-
	<u>\$ 8,383</u>	<u>\$ 270,387</u>	<u>\$ 6,455</u>	<u>\$ 208,190</u>	<u>\$ 5,526</u>	<u>\$ 178,184</u>	<u>\$ 100</u>	<u>\$ 3,225</u>
	December 31, 2015							
	Less Than 1 Month		1 to 3 Months		3 Months to 1 Year		1 to 5 Years	
	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$
Non-interest-bearing liabilities								
Accounts payable	\$ 1,797	\$ 58,968	\$ 1,392	\$ 45,700	\$ -	\$ -	\$ -	\$ -
Other payables	1,994	65,463	1,947	63,900	3,080	101,111	-	-
Variable interest rate assets	-	-	-	-	16,815	551,961	-	-
	<u>\$ 3,791</u>	<u>\$ 124,431</u>	<u>\$ 3,339</u>	<u>\$ 109,600</u>	<u>\$ 19,895</u>	<u>\$ 653,072</u>	<u>\$ -</u>	<u>\$ -</u>

b) Financing Facilities

	December 31	
	2016	2015
<u>NT\$</u>		
Secured bank loan facilities:		
Amount used	\$ 134,499	\$ 551,961
Amount unused	<u>671,751</u>	<u>268,664</u>
	<u>\$ 806,250</u>	<u>\$ 820,625</u>
<u>US\$</u>		
Secured bank loan facilities:		
Amount used	\$ 4,171	\$ 16,815
Amount unused	<u>20,829</u>	<u>8,185</u>
	<u>\$ 25,000</u>	<u>\$ 25,000</u>

The restriction conditions of the borrowing described above please refer to Note 14.

25. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

The total amount of compensation of directors and key management personnel is as follows.

	For the Year Ended December 31	
	2016	2015
<u>NT\$</u>		
Other employee benefits	\$ 50,406	\$ 60,759
Share-based payments	4,424	2,442
Post-employment benefits	<u>753</u>	<u>684</u>
	<u>\$ 55,583</u>	<u>\$ 63,885</u>
<u>US\$</u>		
Other employee benefits	\$ 1,563	\$ 1,914
Share-based payments	137	77
Post-employment benefits	<u>23</u>	<u>22</u>
	<u>\$ 1,723</u>	<u>\$ 2,013</u>

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

26. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for short-term bank borrowings, the tariff of imported raw materials guarantees:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>NT\$</u>		
Pledged time deposits	\$ <u>302</u>	\$ <u>328,549</u>
<u>US\$</u>		
Pledged time deposits	\$ <u>9</u>	\$ <u>10,009</u>

27. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's functional currency is U.S. dollar and the significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount (US\$ in Thousands)
<u>Financial assets</u>			
Monetary items			
RMB	\$ 16,520	0.144155 (RMB:USD)	\$ 2,381
NTD	5,679	0.031008 (NTD:USD)	<u>176</u>
			<u>\$ 2,557</u>
<u>Financial liabilities</u>			
Monetary items			
RMB	1,989	0.144155 (RMB:USD)	\$ 287
NTD	12,075	0.031008 (NTD:USD)	<u>374</u>
			<u>\$ 661</u>

December 31, 2015

	Foreign Currencies	Exchange Rate	Carrying Amount (US\$ in Thousands)
<u>Financial assets</u>			
Monetary items			
RMB	\$ 25,694	0.153998 (RMB:USD)	\$ 3,957
NTD	16,885	0.030465 (NTD:USD)	<u>514</u>
			<u>\$ 4,471</u>
<u>Financial liabilities</u>			
Monetary items			
RMB	1,598	0.153998 (RMB:USD)	\$ 246
NTD	7,186	0.030465 (NTD:USD)	<u>219</u>
			<u>\$ 465</u>

The significant realized and unrealized foreign exchange gains (losses) were as follows:

For the Year Ended December 31				
		2016	2015	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
RMB	0.1506 (RMB:USD)	<u>\$ (204)</u>	0.1606 (RMB:USD)	<u>\$ (277)</u>

28. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others: None
- 2) Endorsements/guarantees provided: None
- 3) Marketable securities held: (Table 1)
- 4) Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital: None
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: (Table 2)

8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: (Table 3)

9) Trading in derivative instruments: None

10) Intercompany relationships and significant intercompany transactions: (Tables 4)

11) Information on investees: (Table 5)

b. Information on investments in mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: (Table 6)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: None

a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.

b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.

c) The amount of property transactions and the amount of the resultant gains or losses.

d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.

e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.

f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

29. SEGMENT INFORMATION

a. Operating segment

The Group is engaged in research and development, design and manufacturing of ASIC and SOC and provides related services. These activities are deemed single industry, accordingly, management considers the Group as having only one reportable segment.

b. Geographical information

The Group operates in three principal geographical areas - Japan, Taiwan and China.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets (excluding deferred income tax assets) by location of assets are detailed below.

	Revenue from External Customers				Non-current Assets			
	Year Ended December 31				December 31			
	2016		2015		2016		2015	
	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$
Taiwan	\$ 49,663	\$ 1,602,290	\$ 30,500	\$ 968,025	\$ 5,746	\$ 185,304	\$ 12,638	\$ 414,839
Japan	28,638	923,943	26,127	829,241	163	5,249	166	5,452
China	27,049	872,681	34,297	1,088,555	1,411	45,509	1,393	45,710
Korea	5,014	161,751	13,894	440,970	-	-	-	-
Europe	2,657	85,724	11,975	380,081	-	-	-	-
Others	1,382	44,588	2,484	78,869	23,750	765,960	25,955	851,985
	<u>\$ 114,403</u>	<u>\$ 3,690,977</u>	<u>\$ 119,277</u>	<u>\$ 3,785,741</u>	<u>\$ 31,070</u>	<u>\$ 1,002,022</u>	<u>\$ 40,152</u>	<u>\$ 1,317,986</u>

c. Information about major customers

Single customers contributed 10% or more to the Group's revenue were as follows:

Customer	For the Year Ended December 31					
	2016			2015		
	US\$	NT\$	% of Net Profit from Operations	US\$	NT\$	% of Net Profit from Operations
Customer A	\$ 44,656	\$ 1,440,748	39	\$ 23,489	\$ 745,505	20
Customer B	12,324	397,625	11	(Note)	(Note)	(Note)
Customer C	(Note)	(Note)	(Note)	23,015	730,478	19
Customer D	(Note)	(Note)	(Note)	15,446	490,237	13
Customer E	(Note)	(Note)	(Note)	12,081	383,427	10

Note: Revenue less than 10% of the Group's revenue.

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2016			Note
				Shares (In Thousands)	Carrying Amount	Percentage of Ownership	
Alchip TW	Preferred stock KnCGroup	-	Financial assets measured at cost	76	\$ -	0.55	-
	Common stock KnCGroup	-	Financial assets measured at cost	60	-	0.44	-
Alchip BVI	Bonds	-	Available-for-sale financial assets	1,000	32,966		\$ 32,966
	T-Mobile USA Inc.	-	Available-for-sale financial assets	1,000	32,914		32,914
	Centurylink Inc.	-	Available-for-sale financial assets	2,000	65,784		65,784
	UBS AG VRN Eclear	-	Available-for-sale financial assets	1,000	32,653		32,653
	Bpcc SA	-	Available-for-sale financial assets	1,000	33,430		33,430
	Geely Automobile Holding Ltd.	-	Available-for-sale financial assets	1,000	32,976		32,976
	Sprint Corp.	-	Available-for-sale financial assets	2,000	67,519		67,519
	Huorong Finance II Co., Ltd.	-	Available-for-sale financial assets	2,000	59,340		59,340
	Norddeutsche Landesbank	-	Available-for-sale financial assets	2,000	65,262		65,262
	Dawn Victor Ltd.	-	Available-for-sale financial assets	1,000	29,689		29,689
	Banco BTG Pactual SA	-	Available-for-sale financial assets	1,000	29,931		29,931
	Banco Do Brasil	-	Available-for-sale financial assets	1,000	31,782		31,782
	China Cinda Finance 2015 I Ltd.	-	Available-for-sale financial assets	297	9,571		9,571
	Yancoal International Resources Development Co., Ltd.	-	Available-for-sale financial assets	1,800	58,154		58,154
	China Energy Reserve and Chemicals Group Overseas Co., Ltd.	-	Available-for-sale financial assets	1,000	26,606		26,606
	Hsin Chong Construction Group Ltd.	-	Available-for-sale financial assets	200	6,549		6,549
	Softbank Group Corp.	-	Available-for-sale financial assets	1,000	34,241		34,241
Country Garden Holdings Co., Ltd.	-	Available-for-sale financial assets					

Note: For the information on investments in subsidiaries, please see Table 5 and Table 6 for details.

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Buyer	Related Party	Relationship	Transaction Details		Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note	
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms		Ending Balance
The Company	Alchip SH	Subsidiary	Purchase	\$ 196,860	6.13	Within 1 year	The same as regular terms	The same as regular terms	\$ (196,813)	(15.28)
Alchip SH	The Company	Subsidiary	Sale	(196,860)	(88.92)	Within 1 year	The same as regular terms	The same as regular terms	196,813	100.00

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 DECEMBER 31, 2016
 (In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Alchip TW	The Company	Subsidiary	\$ 877,450	0.08	\$ -	-	\$ -	-
Alchip SH	The Company	Subsidiary	196,813	0.89	-	-	-	-

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts in Thousands of New Taiwan Dollars)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transaction Details			
				Financial Statement Account	Amount (Note 4)	Payment Terms	% to Total Sales or Assets (Note 3)
0	The Company	Alchip KK	a	Accounts receivable	\$ 38,782	Based on regular items	1
		Alchip KK	a	Operating revenue	50,633	Based on regular items	1
		Alchip KK	a	Other receivables	47,538	Based on regular items	1
1	Alchip TW	The Company	b	Accounts receivable	877,450	Based on regular items	27
		The Company	b	Operating revenue	64,254	Based on regular items	2
2	Alchip SH	The Company	b	Accounts receivable	196,813	Based on regular items	6
		The Company	b	Operating revenue	196,860	Based on regular items	5
3	Alchip Wuxi	The Company	b	Accounts receivable	30,638	Based on regular items	1
		The Company	b	Operating revenue	67,839	Based on regular items	2
4	Alchip KK	The Company	b	Operating revenue	98,873	Based on regular items	3

Note 1: 0. The parent company.

1. Subsidiaries are listed in order.

Note 2: Relationship types are as follows.

- a. Parent to subsidiary.
- b. Subsidiary to parent.
- c. Between subsidiaries.

Note 3: For calculation of transaction amount to total sales or assets, the numerator and denominator are determined by the characteristics of the transaction. If the feature of the transaction belongs to balance sheet items, take the ending balance of the year divided by total assets; if the feature of the transaction belongs to income and expense items, take the accumulated balance of the year divided by total sales.

Note 4: All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts in Thousands of U.S. Dollars)

No.	Investee Company	Counterparty	Relationship	Transaction Details			% to Total Sales or Assets
				Financial Statement Account	Amount (Note 2)	Payment Terms	
0	The Company	Alchip KK Alchip KK Alchip KK	a a a	Accounts receivable Operating revenue Other receivables	\$ 1,203 1,569 1,473	Based on regular items Based on regular items Based on regular items	1 1 1
1	Alchip TW	The Company The Company	b b	Accounts receivable Operating revenue	27,208 1,992	Based on regular items Based on regular items	27 2
2	Alchip SH	The Company The Company	b b	Accounts receivable Operating revenue	6,103 6,102	Based on regular items Based on regular items	6 5
3	Alchip Wuxi	The Company The Company	b b	Accounts receivable Operating revenue	950 2,103	Based on regular items Based on regular items	1 2
4	Alchip KK	The Company	b	Operating revenue	3,065	Based on regular items	3

Note 1: 0. The parent company.

1. Subsidiaries are listed in order.

Note 2: Relationship types are as follows.

- a. Parent to subsidiary.
- b. Subsidiary to parent.
- c. Between subsidiaries.

Note 3: For calculation of transaction amount to total sales or assets, the numerator and denominator are determined by the characteristics of the transaction. If the feature of the transaction belongs to balance sheet items, take the ending balance of the year divided by total assets; if the feature of the transaction belongs to income and expense items, take the accumulated balance of the year divided by total sales.

Note 4: All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount December 31, 2016	Investment Amount December 31, 2015	As of December 31, 2016		Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
						Shares (In Thousands)	Carrying Amount			
The Company	Alchip HK	Hong Kong	Investment	\$ 496,399 (Note 2)	\$ 480,264	11,831,970	100	\$ 468,629 (Note 2)	\$ 11,314	-
	Alchip USA	United States	Sale of ASIC and SOC	114,922	114,922	391,000	100	8,104	(693)	-
	Alchip KK	Japan	Research and development, design and sales of ASIC and SOC and provide related services	62,587	62,587	2	100	46,440	2,512	-
	Alchip TW	Taiwan	Research and development, design and sales of ASIC and SOC and provide related services	250,000	250,000	25,000	100	913,509	(5,017)	-
	Alchip BVI	Tortola British Virgin Islands	Investment	473,317 (Note 1)	473,317	50	100	528,676 (Note 1)	33,240	-

Note 1: The amount of NT\$471,735 thousand (US\$15,050 thousand) has been in warded. However, the procedure of capital-increase has not been completed.

Note 2: The amount of NT\$16,135 thousand (US\$500 thousand) has been in warded. However, the procedure of capital-increase has not been completed.

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2016	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2016	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2016	Accumulated Repatriation of Investment Income as of December 31, 2016
					Outward	Inward						
Alchip SH	Research and development, design and sales of ASIC and SOC and provide related services	\$ 412,800 (RMB 102,392)	Note 1, b	\$ 412,800 (US\$ 12,800)	\$ -	\$ -	\$ 412,800 (US\$ 12,800)	\$ 6,297	100	\$ 6,297 (b, 2)	\$ 386,331	\$ -
Alchip Wuxi	Research and development, design of ASIC and SOC and provide related services	64,500 (RMB 12,482)	Note 1, b	64,500 (US\$ 2,000)	-	-	64,500 (US\$ 2,000)	5,783	100	5,783 (b, 2)	63,234	-
Alchip Hefei	Research and development, design of ASIC and SOC and provide related services	16,125 (RMB 3,469)	Note 1, b	-	16,125 (US\$ 500)	-	16,125 (US\$ 500)	(338)	100	(338) (b, 2)	15,787	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$ -	\$ -	\$ -

Note 1: The investment types are as follows:

- Direct investment in Mainland China.
- Indirect investment in Mainland China through a subsidiary in a third place. (Investor: Alchip H.K.)
- Others.

Note 2: In the column of investment gain or loss:

- It should be noted if the investment was still in preparation without investment gain or loss.
- The recognition basis of investment gain or loss should be noted as follows:
 - The financial statement is audited by international accounting firm cooperated with accounting firms in Taiwan.
 - The financial statement is audited by certified public accountant cooperating with parent company in Taiwan.
 - Others.

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