

**MPI CORPORATION and Subsidiaries**  
**Consolidated Financial Statements for the**  
**Years Ended September 30, 2016 and 2015, and**  
**Independent Auditors' Report**

# MPI CORPORATION and Subsidiaries

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# NEXIA SUN RISE CPAs & COMPANY

日正聯合會計師事務所

Certified Public Accountants



## REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Stockholders of MPI Corporation

We have reviewed the accompanying consolidated balance sheets of MPI Corporation and its subsidiaries as of September 30, 2016 and 2015, and the related consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2016 and 2015, and the consolidated statements of changes in equity and of cash flows for the six-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Except as discussed in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36, "Review of Financial Statements" in the Republic of China. A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical procedures to financial data, and making inquiries of Company personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in Note VI(VI), the financial statements of certain non-significant subsidiaries and investments accounted for under the equity method were consolidated and measured based on their unreviewed financial statements as of and for the nine-month periods ended September 30, 2016 and 2015. Total assets of these subsidiaries and investments amounted to NT\$434,010 thousand and NT\$574,949 thousand, representing 6% and 9% of the related consolidated totals, and total liabilities amounted to NT\$106,015 thousand and NT\$102,306 thousand, representing 3% and 3% of the related consolidated totals, as of September 30, 2016 and 2015, respectively. Total comprehensive income of these subsidiaries including share of profit of associates NT (\$8,479) thousand and NT \$19,728 thousand, constituting (2%) and 7% of the consolidated totals for the nine-month periods then ended respectively. As described in Note VI (VI), it related to the investments accounted for under the equity method balances of NT \$97,232 thousand and NT \$115,983 thousand as of September 30, 2016 and 2015, respectively,

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the related shares of investment income from the associates amounted to NT \$3,861 thousand and NT \$6,674 thousand. And the related share of other comprehensive income of subsidiaries amounted to NT \$0 thousand.

Based on our reviews, except for the effect of such adjustments, if any, that might have been determined to be necessary had the financial statements of certain non-significant subsidiaries and investee companies been reviewed by independent auditors as described in the preceding paragraph, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above in order for them to be in conformity with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission of the Republic of China.

*Sun Rise CPAs & Company*

Sun Rise CPAs & Company

Taipei, Taiwan, Republic of China

Nov 14, 2016

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

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NEXIA SUN RISE CPAS & CO IS A MEMBER OF NEXIA INTERNATIONAL, A WORLDWIDE NETWORK OF INDEPENDENT ACCOUNTING FIRMS.

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (ASSETS)**  
September 30, 2016, December 31, 2015 AND September 30, 2015  
(All amounts are expressed in New Taiwan Dollars unless otherwise stated)  
(UNAUDITED)

ASSETS	Note	September 30, 2016		December 31, 2015		September 30, 2015	
		Amounts	%	Amounts	%	Amounts	%
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	VI(I)	\$ 766,525	8	\$ 473,793	7	\$ 549,486	8
Current financial assets at fair value through profit or loss	VI(XII)	180	-	-	-	-	-
Notes receivable, net	VI(II)	11,775	-	26,568	-	20,708	1
Accounts receivable, net	VI(III)	946,168	13	769,566	12	763,222	11
Accounts receivable -related parties, net	VI(III), VII	51,596	1	81,938	1	68,839	1
Other receivables		8,670	1	19,725	-	17,201	-
Other receivables -related parties, net	VII	-	-	-	-	77	-
Income tax receivable		784	-	1,603	-	2	-
Inventories, net	VI(IV)	1,900,538	27	1,636,177	25	1,686,368	25
Prepayments		133,393	2	125,854	2	148,486	2
Other current assets	VIII	17,846	-	10,587	-	20,817	1
<b>Total Current Assets</b>		<b>3,837,475</b>	<b>52</b>	<b>3,145,811</b>	<b>47</b>	<b>3,275,206</b>	<b>49</b>
<b>NONCURRENT ASSETS</b>							
Investments accounted for using equity method	VI(VI)	97,232	2	112,301	2	115,983	2
Property, plant and equipment	VI(VIII), VII, VIII	2,924,945	40	2,962,969	45	2,846,770	43
Intangible assets	VI(XVIII)	77,178	1	81,467	1	71,972	1
Deferred income tax assets		61,344	1	59,193	1	59,616	1
Other noncurrent assets		324,477	4	289,730	4	290,278	4
<b>Total Noncurrent Assets</b>		<b>3,485,176</b>	<b>48</b>	<b>3,505,660</b>	<b>53</b>	<b>3,384,619</b>	<b>51</b>
<b>TOTAL ASSETS</b>		<b>\$ 7,322,651</b>	<b>100</b>	<b>\$ 6,651,471</b>	<b>100</b>	<b>\$ 6,659,825</b>	<b>100</b>

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



**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (LIABILITIES AND EQUITY)**  
September 30, 2016, December 31, 2015 AND September 30, 2015  
(All amounts are expressed in New Taiwan Dollars unless otherwise stated)  
(UNAUDITED)

LIABILITIES AND EQUITY	Note	September 30, 2016		December 31, 2015		September 30, 2015	
		Amounts	%	Amounts	%	Amounts	%
<b>CURRENT LIABILITIES</b>							
Short-term loans	VI(IX)	\$ 704,301	10	\$ 554,217	9	\$ 554,194	8
Current financial liabilities at fair value through profit or loss	VI(XIII)	-	-	1,682	-	-	-
Notes payable		-	-	56	-	-	-
Accounts payable		440,722	6	394,182	6	392,082	6
Accounts payable-related parties	VII	1,043	-	2,992	-	39,255	-
Payables on equipment		40,405	1	127,068	2	78,475	1
Other payables	VI(X)	436,936	6	479,110	7	377,329	6
Other payables-related parties	VII	899	-	6,667	-	12,475	-
Income tax payable		31,482	-	42,783	1	40,366	1
Provisions	VI(XI)	2,846	-	1,240	-	2,426	-
Sales revenue received in advance	VII	861,434	12	492,069	8	574,115	9
Corporate bonds payable – current portion	VI(XII)	587,823	8	579,433	9	-	-
Current portion of long-term liabilities	VI(XIII)	9,328	-	9,328	-	9,329	-
Lease obligations payable—current	VI(VII)	16,969	-	-	-	-	-
Other current liabilities		32,024	-	23,199	-	25,777	-
<b>Total Current Liabilities</b>		<b>3,166,212</b>	<b>43</b>	<b>2,714,026</b>	<b>42</b>	<b>2,105,823</b>	<b>31</b>
<b>NONCURRENT LIABILITIES</b>							
Non-current Financial liabilities at Fair Value through Profit or Loss	VI(XIII)	-	-	-	-	2,823	-
Payable bonds	VI(XIII)	-	-	-	-	576,664	9
Long-term loans	VI(XI1)	242,972	3	250,068	4	252,399	4
Deferred income tax liabilities		12,659	-	11,679	-	21,442	-
Lease obligations payable—noncurrent	VI(VII)	55,149	1	-	-	-	-
Accrued pension cost	VI(XIV)	27,033	1	26,014	-	18,443	-
Other noncurrent liabilities		1,256	-	1,256	-	1,256	-
<b>Total Other Liabilities</b>		<b>339,069</b>	<b>5</b>	<b>289,017</b>	<b>4</b>	<b>873,027</b>	<b>13</b>
<b>TOTAL LIABILITIES</b>		<b>3,505,281</b>	<b>48</b>	<b>3,003,043</b>	<b>46</b>	<b>2,978,850</b>	<b>44</b>
<b>EQUITY</b>							
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b>							
Capital common stock	VI(XV)	796,054	11	796,054	12	796,054	12
Capital surplus		885,735	12	871,572	13	871,572	13
Retained earnings							
Appropriated as legal capital reserve		492,188	7	462,706	7	462,706	7
Unappropriated earnings		1,650,588	22	1,509,840	23	1,499,173	23
<b>Total Retained Earnings</b>		<b>2,142,776</b>	<b>29</b>	<b>1,972,546</b>	<b>30</b>	<b>1,961,879</b>	<b>30</b>
Other							
Foreign currency translation adjustments		(19,799)	-	26,872	-	51,105	1
<b>Total others</b>		<b>(19,799)</b>	<b>-</b>	<b>26,872</b>	<b>-</b>	<b>51,105</b>	<b>1</b>
Treasury stock		-	-	(34,454)	(1)	(16,109)	-
Equity attributable to shareholders of the parent		3,804,766	52	3,632,590	54	3,664,501	56
<b>NONCONTROLLING INTERESTS</b>		<b>12,604</b>	<b>-</b>	<b>15,838</b>	<b>-</b>	<b>16,474</b>	<b>-</b>
<b>TOTAL EQUITY</b>		<b>3,817,370</b>	<b>52</b>	<b>3,648,428</b>	<b>54</b>	<b>3,680,975</b>	<b>56</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 7,322,651</b>	<b>100</b>	<b>\$ 6,651,471</b>	<b>100</b>	<b>\$ 6,659,825</b>	<b>100</b>

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

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015**  
 (All amounts are expressed in New Taiwan Dollars unless otherwise stated)  
 (UNAUDITED)

Items	Note	FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30,			FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30,				
		2016		2015		2016		2015	
		Amounts	%	Amounts	%	Amounts	%	Amounts	%
<b>OPERATING REVENUE, NET</b>	VII	\$ 1,325,358	92	\$ 970,788	92	\$ 3,302,029	91	\$ 2,803,865	93
Sales revenue		(505)	-	(560)	-	(614)	-	(2,826)	-
Less: sales returns		(34)	-	(1,327)	-	(34)	-	(2,043)	-
sales discounts and allowances		25,894	2	19,465	2	74,491	2	47,430	2
Commission revenue		85,816	6	70,554	6	281,309	7	163,087	5
Processing Fees revenue		1,436,829	100	1,058,920	100	3,637,181	100	3,009,613	100
Operating Revenue, net	V I(17), VII	(804,536)	(56)	(578,472)	(55)	(1,958,477)	(55)	(1,823,715)	(54)
<b>OPERATING COSTS</b>		632,093	44	480,448	45	1,638,704	45	1,385,898	46
<b>GROSS PROFIT</b>		10	-	470	-	1,671	-	2,943	1
Realized (Unrealized) Gross profit on sales to subsidiaries and associates		632,103	44	480,918	45	1,638,871	45	1,388,841	47
<b>GROSS PROFIT, NET</b>									
<b>OPERATING EXPENSES</b>	VII	(121,566)	(9)	(101,116)	(9)	(308,706)	(8)	(292,239)	(10)
Selling expenses		(78,819)	(5)	(64,081)	(6)	(226,412)	(6)	(195,990)	(7)
General & administrative expenses		(197,480)	(14)	(220,887)	(21)	(624,891)	(18)	(539,186)	(20)
Research and development expenses		(392,365)	(28)	(386,084)	(36)	(1,160,009)	(32)	(1,087,415)	(37)
Operating expense, net		239,238	16	94,834	9	478,862	13	301,426	10
<b>OPERATING INCOME</b>									
<b>NON-OPERATING INCOME AND EXPENSES</b>									
Other gains and losses		(17,806)	(1)	19,828	2	(19,170)	(1)	20,532	1
Finance costs		(5,536)	-	(3,460)	-	(16,846)	-	(9,598)	-
Share of profits of subsidiaries and associates		1,285	-	1,976	-	3,861	-	6,674	-
Interest income		331	-	410	-	1,293	-	1,610	-
Rent income		1,993	-	2,071	-	6,076	-	6,823	-
Allowance (reversal) for doubtful accounts		14,703	1	2,086	-	21,282	1	11,182	-
Other non-operating revenue-other items		(5,029)	-	22,682	2	(3,524)	-	37,223	1
Total Non-operating Income		234,209	16	117,516	11	475,388	13	338,649	11
<b>INCOME BEFORE INCOME TAX</b>		(29,534)	(2)	(17,891)	(2)	(69,807)	(2)	(62,845)	(2)
<b>INCOME TAX BENEFIT(EXPENSE)</b>		204,675	14	99,625	9	405,531	11	275,804	9
<b>NET INCOME</b>									
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>									
Components of other comprehensive income that will be reclassified to profit or loss		(21,634)	(1)	28,438	3	(46,390)	(1)	9,589	-
Exchange differences arising on translation of foreign operations		(21,634)	(1)	28,438	3	(46,390)	(1)	9,589	-
Other comprehensive income for the year, net of income tax		183,041	13	128,063	12	359,141	10	285,393	9
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>									
<b>NET INCOME(LOSS) ATTRIBUTABLE TO:</b>									
Shareholders of the parent		208,014	14	99,426	9	409,046	11	275,745	9
Noncontrolling interests		(1,339)	-	199	-	(3,515)	-	59	-
		\$ 204,675	14	\$ 99,625	9	\$ 405,531	11	\$ 275,804	9
<b>TOTAL COMPREHENSIVE INCOME(LOSS)</b>									
Shareholders of the parent		184,136	13	127,810	12	362,375	10	286,078	9
Noncontrolling interests		(1,095)	-	253	-	(3,294)	-	(685)	-
		\$ 183,041	13	\$ 128,063	12	\$ 359,141	10	\$ 285,393	9
<b>EARNINGS PER COMMON SHARE(NTD)</b>									
Basic earnings per share		2.59		1.25		5.15		3.47	
Diluted earnings per share		2.38		1.16		4.73		3.20	

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

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

From January 1 to September 30, 2016 and 2015

(All amounts are expressed in New Taiwan Dollars unless otherwise stated)

(UNAUDITED)

Items	Retained Earnings				Others		Treasury Stock	Total	Non-controlling Interests	Total Equity
	Capital Surplus	Legal Capital Reserve	Unappropriated Earnings	Legal Capital Reserve	Foreign Currency Translation Reserve	Total				
BALANCE, JANUARY 1, 2015	\$ 795,364	\$ 885,012	\$ 1,593,614	\$ 410,942	\$ 40,772	\$ -	\$ 3,725,704	\$ 17,159	\$ 3,742,863	
Legal capital reserve			(51,764)							
Cash Dividends of Common Stock			(318,422)				(318,422)		(318,422)	
Capital Reserve From Stock Warrants		(325)					(325)		(325)	
Disposal of investments accounted for under the equity method		(19,306)					(19,306)		(19,306)	
Net Income for the nine-month period ended September 30, 2015			275,745				275,745	59	275,804	
Other comprehensive income for the three-month period ended September 30, 2015					10,333		10,333	(744)	9,589	
Total comprehensive income					10,333		10,333	(885)	285,393	
Decrease (increase) in treasury stock						(16,109)	(16,109)		(16,109)	
Convertible Bonds Transferred To Common Stock	680	6,191					6,871		6,881	
BALANCE, SEPTEMBER 30, 2015	\$ 796,054	\$ 871,572	\$ 1,499,173	\$ 462,706	\$ 51,105	\$ (16,109)	\$ 3,664,501	\$ 16,474	\$ 3,680,975	
BALANCE, JANUARY 1, 2016	\$ 796,054	\$ 871,572	\$ 1,509,840	\$ 462,706	\$ 26,872	\$ (34,454)	\$ 3,632,590	\$ 15,838	\$ 3,648,428	
Legal capital reserve			(29,482)							
Cash Dividends of Common Stock			(238,816)				(238,816)		(238,816)	
Net Income for the nine-month period ended September 30, 2016			409,046				409,046	(3,515)	405,531	
Other comprehensive income for the nine-month period ended September 30, 2016					(46,671)		(46,671)	281	(46,390)	
Total comprehensive income					(46,671)		(46,671)	(3,234)	(49,905)	
Issuance of stock from exercise of employee stock options		14,163				34,454	48,617		48,617	
BALANCE, SEPTEMBER 30, 2016	\$ 796,054	\$ 885,735	\$ 1,650,588	\$ 492,188	\$ (19,799)	\$ -	\$ 3,804,766	\$ 12,604	\$ 3,817,370	

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



**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
From January 1 to September 30, 2016 and 2015  
(All amounts are expressed in New Taiwan Dollars unless otherwise stated)  
(UNAUDITED)

Items	Jan 1 ~ Sep 30,2016	Jan 1 ~ Sep 30,2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 475,338	\$ 338,649
Adjustments to reconcile net income to net		
Depreciation	268,782	154,925
Amortization	42,040	35,353
(Reversal) allowance for doubtful receivables	5,177	2,374
Gains on Financial Assets (Liabilities) at Fair Value through Profit or Loss	(1,862)	3,426
Interest expense	16,846	9,598
Interest revenue	(1,293)	(1,610)
Compensation cost of employee stock options	14,268	-
Loss (gain) on equity-method investments	(3,861)	(6,674)
(Gain) loss on disposal of property, plant and equipment	173	268
(Gain) loss on disposal of financial assets measured at cost	-	(5,706)
(Realized) Unrealized gross profit on sales to subsidiaries and associates	(167)	(2,943)
Adjustments-exchange (Gain) loss on prepayments for equipment	(158)	2,324
Decrease (Increase) in notes receivable	14,793	24,140
Decrease (Increase) in accounts receivable	(180,273)	(177,603)
Decrease (Increase) in accounts receivable-related parties	29,201	34,925
Decrease (Increase) in other receivables	11,105	5,099
Decrease (Increase) in other receivables-related parties	-	(77)
Decrease (Increase) in inventories	(264,361)	25,224
Decrease (Increase) in prepayments	(7,539)	(8,583)
Decrease (Increase) in other current assets	(6,923)	(9,057)
(Decrease) Increase in notes payable	(56)	(2,260)
(Decrease) Increase in accounts payable	46,540	(108,723)
(Decrease) Increase in accounts payable-related parties	(1,949)	31,231
(Decrease) Increase in other accounts payable	(42,022)	(162,505)
(Decrease) Increase in other accounts payable-related parties	(5,768)	(1,381)
(Decrease) Increase in provision of liabilities	1,606	(2,430)
(Decrease) Increase in sales revenue received in advance	369,365	(89,171)
(Decrease) Increase in other current liabilities	8,825	6,730
Decrease(Increase) in accrued pension cost	1,018	(2,490)
Cash generated from operations	788,845	93,053
Interest received	1,243	1,693
Cash dividends received	13,192	-
Interest (excluding capitalization of interest)	(8,608)	(1,128)
Cash dividends paid	(238,816)	(318,422)
Income taxes paid	(81,461)	(100,355)
Net cash Provided By Operating Activities	474,395	(325,159)

(Continue)

**MPI CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
From January 1 to SEPTEMBER 30, 2016 and 2015  
(All amounts are expressed in New Taiwan Dollars unless otherwise stated)  
(UNAUDITED)

Items	Jan 1 ~ Sep 30, 2016	Jan 1 ~ Sep 30, 2015
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of financial assets measured at cost	-	25,938
Additions to property, plant and equipment	(275,693)	(985,409)
Proceeds from sale of property, plant and equipment	481	25
Intangible assets	(12,252)	(12,916)
Increase in other financial assets	(336)	(28)
Increase in other non-current assets	(62,886)	-
Decrease in other non-current assets	-	51,059
Others	(123)	-
Net cash Provided Used In Investing Activities	<u>(350,809)</u>	<u>(921,331)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term loans	150,084	549,810
Increase in long-term loans	-	194,103
Repayments of long-term loans	(7,096)	-
Decrease in nocurrent liabilities	-	(127)
Decrease (increase) in treasury stock	-	(16,109)
Employees to repurchase of treasury stock	34,349	-
Increase (decrease) in noncontrolling interests	281	(744)
Net cash (Used In) Financing Activities	<u>177,618</u>	<u>726,933</u>
Effects of exchange rate change on cash	<u>(8,472)</u>	<u>93,431</u>
Net increase in cash and cash equivalents	292,732	(426,126)
Cash and cash equivalents at beginning of year	473,793	975,612
Cash and cash equivalents at end of year	<u>\$ 766,525</u>	<u>\$ 549,486</u>

(The accompanying notes are an integral part of the parent company only financial statements)

**MPI CORPORATION and its Subsidiaries**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2016 AND 2015  
(Expressed in NT\$1,000, Unless Otherwise Noted)  
(UNAUDITED)

**I. Company profile**

- (I) MPI Corporation (hereinafter referred to as the "Company") was founded according to the Company Law and other related laws on July 25, 1995. Upon capital increase for several times, the Company's paid-in capital has been NT\$796,054 thousand and outstanding stock has been 79,005,392 shares until September 30, 2015. Upon resolution of the special shareholders' meeting on December 28, 2006, the Company raised the authorized capital as NT\$1,000,000,000, divided into 100,000,000 shares at par value of NT\$10 per share. The board of directors is authorized to issue the stock in lots. NT\$50,000 thousand is withheld from the gross capital referred to in the preceding paragraph, divided into 5,000,000 shares at par value of NT\$10 per share, available for the subscription by exercise of stock warrants and issued upon resolution of a directors' meeting.
- (II) The Company and its subsidiaries (hereinafter referred to as the "Group" collectively) primarily engage in manufacturing, processing, maintenance, import/export and trading of semi-conductor production process and testing equipments.
- (III) The Company was approved to initiate the IPO in July 2001, and started to trade on Taiwan Stock Exchange as of January 6, 2003.

**II. Date and procedure for ratification of financial report**

The consolidated financial statements have been approved and released by the Board of Directors on November 14, 2016.

**III. Application of new and amended standards and interpretations**

- (I) Effect upon adoption of the new and amended International Financial Reporting Standards ("IFRSs") recognized by Financial Supervisory Commission ("FSC").  
None.
- (II) Effect when the Company has yet to adopt the new and amended IFRSs that have been approved by the Financial Supervisory Commission ("FSC")  
The take effect from January 1, 2017 apply version IFRS, IAS, IFRIC and SIC endorsed by the FSC.

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB
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 27 “Equity Method in Separate Financial Statements”	January 1, 2016
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
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact of amended IFRS applied on 2017 will have on the financial position and financial performance of each period, and will disclose the relevant impact when the assessment is completed.

(III) Effect of IFRSs that have been released by IASB but have not yet approved by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments issued by IASB but not yet included in the 2017 version of IFRSs as endorsed by the FSC:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Applying IFRS “Financial instruments” with IFRS 4 “Insurance contracts”	January 1, 2018

IFRS 9, 'Financial instruments'	January 1, 2018
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Effective date to be determined by IASB
IFRS 15, 'Revenue from contracts with customers'	January 1, 2017
Clarifications to IFRS 15, "Revenue from contract with customers"	January 1, 2018
IFRS 16 Leases	January 1, 2019
Amendment to IAS 7 Disclosure Initiative	January 1, 2017
Amendment to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017

The Group is currently evaluating how the above standards and interpretations would affect its financial position and business performance. Further impacts will be disclosed once the evaluation is completed.

#### **IV. Summary of Significant Accounting Policies**

The important accounting policies applied by the financial statements are summarized as follows: Unless otherwise provided, the following accounting policies have been applied during the presentation period of the consolidated financial statements.

##### **(I) Statement of compliance**

1. The consolidated financial statements were prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" (hereinafter referred to as the "Regulations") and IFRSs recognized by FSC to disclose all of the necessary to be disclosed in the annual consolidated financial statements.

##### **(II) Basis for preparation**

###### **1. Basis for measurement**

Except the following important items in the balance sheet, the consolidated financial statement was prepared based on the historical cost:

- (1) Financial instruments at fair value through profit or loss (including derivative financial instruments);
- (2) Available-for-sale financial assets measured at fair value;
- (3) Defined benefit liability stated based on the net after pension fund assets less the present value of defined benefit obligations.

###### **2. Functional currency and presentation of currency**

The functional currency of each of the Group's entities shall be subject to the currency applicable in the main economic environment in which its business place is situated. The consolidated financial statements should be presented based on the Company's functional currency, NTD. Unless otherwise noted, all of the financial information presented in NTD should be held presented in NTD 1,000 as the

currency unit.

(III) Basis for consolidation

1. Principles for preparation of consolidated financial statements
  - (1) The Group included all of the subsidiaries into the consolidated financial statements. Subsidiaries mean the entities controlled by the Group (including structured entities). When the Group is exposed to the changes of remuneration participated by the entities or is entitled to changes of remuneration, and is able to influence the remuneration by virtue of its power over the entities, the Group is held controlling the entities. The subsidiaries are included into the consolidated financial statements on the date when the Group acquires the controlling power, and the consolidation shall be suspended as of the date when the Group forfeits the controlling power.
  - (2) Unrealized gains on transactions between the Group companies are eliminated to the extent of the Group's interest in the associates. Accounting policies of the subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
  - (3) Elements of the income and other comprehensive income shall be vested in parent company shareholders and non-controlling equity. The total comprehensive income shall be vested in parent company shareholders and non-controlling equity, even if the non-controlling equity suffers loss.
  - (4) Where the changes in shareholdings of subsidiaries don't result in forfeiture of controlling power (transactions with non-controlling equity), they shall be processed as equity transactions, which are identified as the transactions with parent company shareholders. The price difference between the adjustment value of non-controlling equity and fair value of paid or collected consideration shall be stated into equity directly.
  - (5) When the Group forfeits control over its subsidiaries, its residual investment in the subsidiaries shall be re-measured based on fair value, and identified as the fair value of financial asset recognized initially or cost of the investment in affiliates or joint ventures recognized initially. The price difference between the fair value and book value is stated into current income. Where the accounting treatment for the values related to the subsidiaries as stated into other comprehensive income previously is identical with the basis for the Group's direct disposition of related assets or liabilities, namely, if the gain or loss stated into other comprehensive income previously would be reclassified into income when the related assets or liabilities are disposed of, the gain or loss shall be reclassified into income from equity, when the Group forfeits control over the subsidiaries.
2. Subsidiaries included into the consolidated financial statements and status of

change thereof:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)			Description
			Sep 30, 2016	Dec 31, 2015	Sep 30, 2015	
MPI	Chain-Logic International Corp.	professional equipment agent and provides technologic service for the manufacturing of high-tech industry such as LED, LCD, Semiconductor, and etc.	100%	100%	100%	Established in March 1,1994
MPI	MPI TRADING CORP.(Samoa)	Selling Probe Card and Test Equipment	100%	100%	100%	Established in December 22, 2000.
MPI	MMI HOLDING CO., LTD.(Samoa)	Investment activities	100%	100%	100%	Established in August 7, 2002.
MPI	MEGTAS CO., LTD. (Korea)	Test, maintenance, manufacturing and import/export trading of parts of semiconductors	60%	60%	60%	Established in September 1, 2010.
MPI	JIA-SIN INVESTMENT CORP.	Investment activities	-	100%	100%	Established in April 30, 2004. The company set June 27, 2016 as the dissolution date and completed liquidation on July 15, 2016. (note 2)
MPI	YI-SIN INVESTMENT CORP.	Investment activities	-	100%	100%	Established in April 30, 2004. The company set June 27, 2016 as the dissolution date and completed liquidation on July 15, 2016. (note 2)
MPI	WANG-TONG CORP.	Maintenance, purchase, sales, research and development of computers and peripheral equipment;	100%	100%	100%	Established in December 22, 2010.
MPI	ALLSTRON CORP.	Manufacturing of high frequency wafer foundry measuring probing	100%	100%	100%	Established in March 31, 2006.  The Company started on January 1, 2014 as the acquisition date, acquiring 100% of the shares.
Chain-Logic International Corp.	CHAIN-LOGIC TRADING CORP. (Mauritius)	International trading business	100%	100%	100%	Established in November 19, 2001.
Chain-Logic International	JIA-YING INVESTMENT	Investment activities	-	100%	100%	Established in April 30, 2004. The company set June 27,



Corp.	CORP.					2016 as the dissolution date and completed liquidation on July 15, 2016. (note 2)
CHAIN-LOGIC TRADING CORP.	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	International trading	100%	100%	100%	Established in February 8, 2002.
MMI HOLDING CO., LTD.	LEDA-ONE (Shenzhen) CORPORATION	development of computers and peripheral equipment	100%	100%	100%	Established in May 7, 2010.
MMI HOLDING CO., LTD.	Lumitek (ChangZhou) Co.,Ltd.	Selling and manufacturing of high-tech industry such as LED.	100%	100%	100%	Established in January 10, (Note1) 2014.

(Note 1) In order to expand the wafer measurement probe card production, the Group acquired 100% of shares of Allstron Corporation and had control over the company in 2014. The investment cost was NT\$50,000 thousand.

(Note 2) By resolution of the board of directors on May 11, 2016, the Group would sell 17.87% of LUMITED CORPORATION's equity shares owned by its three subsidiaries (JIA-SIN INVESTMENT CORP., YI-SIN INVESTMENT CORP. and JIA-YING INVESTMENT CORP.) to ultimate parent company, MPI CORPORATION, which was in the event of liquidation. According to the legal interpretation of Ministry of Economic Affairs, original shareholders have the right to transfer their shares to others during company liquidation and it does not violate corporate law. The Group has migrated and integrated in MPI CORPORATION, and the Uni-President Enterprises Corporation deal with the proportional distribution of LUMITED CORPORATION of residual property claims request. It is unnecessary to keep the three subsidiaries in operation after their equity shares of LUMITED CORPORATION were all transferred. Therefore, the three subsidiaries were closed down.

The financial statements of the entity as of and for the NINE-month periods ended September 30, 2016 and 2015 were not reviewed by the independent auditors as the entity did not meet the definition of significant subsidiary except MMI HOLDING CO., LTD. and Lumitek (ChangZhou) Co.,Ltd.

3. Subsidiaries not included into the consolidated financial statements: N/A.
4. Different adjustment and treatment by subsidiaries in the accounting period: N/A.
5. Nature and scope of the important restrictions on enterprise's acquisition or use of the group's assets and solvency: N/A.
6. Subsidiaries over which the Group holds important non-controlling equity: N/A.

#### (IV) Foreign currency

1. Foreign currency transactions

The foreign currency exchange shall be stated at the functional currency translated at the exchange rate prevailing on the date of transaction. The monetary items denominated in the foreign currency on the reporting date shall be stated at the functional currency translated at the exchange rate on the same day. The exchange gain or loss refers to the difference between the amounts upon adjustment of the valid interest, payment on the same period based on the amortized cost denominated in the functional currency, the amount translated from the amortized cost denominated in foreign currency at the exchange rate on the reporting date. The non-monetary items at fair value denominated in foreign currency shall be stated at the functional currency re-translated at the exchange rate prevailing on the same date of fair value measurement, while the non-monetary items at historical cost denominated in foreign currency shall be stated at the functional currency translated at the exchange rate on the date of transaction. Other than the foreign currency exchange difference generated from the translation of available-for-sale financial assets, financial liabilities designated as net investment hedge for foreign operations or qualified cash flow hedging, which shall be stated as other comprehensive income, any difference shall be stated as income.

2. Foreign operations

Assets and liabilities of foreign operations, including the goodwill and fair value adjustment generated at the time of acquisition, shall be translated into functional currency at the exchange rate prevailing on the reporting date. Unless in the case of inflation, the income and expense & loss items shall be translated into functional currency at the average exchange rate in the current period, and the exchange different generated therefore shall be stated as other comprehensive income.

When disposition of foreign operations results in loss of control, common control or any material effect, the accumulated exchange difference related to the foreign operations shall be reclassified into income in whole. If the disposition involves any subsidiary of the foreign operations, the relevant accumulated exchange difference shall be reclassified into the non-controlling interests on a pro rata basis. If the disposition involves any affiliate or joint venture of the foreign operations, the relevant accumulated exchange difference shall be reclassified into income on a pro rata basis.

If no repayment program is defined with respect to receivable or payable items of foreign operations denominated in currency and it is impossible to repay the same in the foreseeable future, the foreign currency exchange gain or loss generated therefore shall be held a part of the net investment in the foreign operations and stated as other comprehensive income.

(V) Current and non-current assets and liabilities

Assets which meet one of the following conditions shall be classified into current assets, and any assets other than the current assets shall be classified into noncurrent assets:

1. Assets expected to be realized, or intent to be sold or consumed, in the Company's normal operating cycle.
2. Assets primarily held for the purpose of trading.
3. Assets expected to be realized within 12 months after the date of the balance sheet.
4. Cash or cash equivalent, exclusive of the assets to be used for an exchange or to settle a liability, or otherwise remain restricted at more than 12 months after the date of the balance sheet.

Liabilities which meet one of the following conditions shall be classified into current liabilities, and any liabilities other than the current liabilities shall be classified into noncurrent liabilities:

1. Liabilities expected to be repaid in the Company's normal operating cycle.
2. Assets primarily held for the purpose of trading.
3. Assets expected to be discharged within 12 months after the date of the balance sheet.
4. Liabilities of which the Company does not have an unconditional right to defer settlement for at least 12 months after the date of the balance sheet. Terms of a liability that could, at the option of the counterpart, result in its settlement by the issue of equity instruments do not affect its classification.

(VI) Cash and cash equivalent

Cash or cash equivalent include cash on hand, demand deposits, and short-term, highly liquid time deposits or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The bank time deposits to initially expire within one year are intended to satisfy the short-term cash commitment instead of investment or others, which may be readily convertible to known amounts of cash and subject to an insignificant risk of changes in value and, therefore, are stated as cash or cash equivalent.

(VII) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a part to the financial instrument contract.

1. Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, and loans and accounts receivable.

(1) Financial instruments at fair value through profit or loss

Such assets mean the financial assets held for trading or designated to be

measured at fair value through profit or loss.

The financial assets held for trading are acquired or incurred principally for the purpose of sale in the near term or repurchase. Financial assets other than those held for trading are measured at fair value through profit and loss if they meet any of the following conditions:

The performance of financial assets is evaluated based on fair value.

Financial instrument with embedded derivatives.

Such financial assets are measured at fair value at the time of initial recognition. The relevant transaction costs shall be stated as income when they are incurred. The following measurement shall be based on fair value, and then the gain or loss generated therefore should be measured (including the relevant stock dividend revenue and interest revenue) and recognized as income and stated as non-operating revenue and expenses. The purchase or disposal of financial instruments in customary transactions shall be subject to accounting on the date of transaction.

If the financial assets are the equity investments without public market price and the fair value of which cannot be reliably measured, they should be measured at the cost less the impairment loss and stated as “financial asset measured at cost”.

(2) Account receivables

Accounts receivables refer to financial assets without a public market price available but with fixed or determinable payments, including accounts receivable and other receivables. The loans and accounts receivable shall be initially evaluated based on fair value, plus the directly attributable transaction cost. The subsequent measurement shall be based on the amortized cost using effective interest method less impairment, unless the recognition of the interest on short-term accounts receivable is insignificant.

(3) Impairment on financial assets

The impairment on any financial assets other than financial assets at fair value through profit or loss shall be evaluated on each reporting date. If there is any objective evidence showing that the future cash flow of the financial assets is impaired due to a single or multiple events occurring after the initial recognition of the financial assets, the financial assets should be deemed impaired.

The objective evidence about impairment on financial assets include obvious financial problems confronting the issuer or debtor, breach (e.g. overdue or non-performance of interest or principal payment), the debtor likely to wind up or proceed with other financial reorganizations, and the active market of financial assets extinguishing due to financial difficulty.

For some accounts receivable was held unimpaired upon individual evaluation, the impairment should be evaluated on a combined basis again. The combined objective evidence for accounts receivable might include the Company's past experience in collection, the increase in overdue payment, and observable national or regional economic changes related to the defaulted accounts receivable.

The recognized impairment loss on the financial assets measured at cost is the difference in the book value of financial assets and the present value after the projected cash flow is discounted at the rate of return on the similar asset market. The impairment loss cannot be reversed subsequently.

The impairment loss on financial assets should be deducted from the book value of financial assets, provided that the book value of accounts receivable is adjusted through allowance accounts. If the accounts receivable were held uncollectible, they should have been written off against the allowance accounts. The accounts initially written off but collected afterwards were credited into the allowance evaluation accounts. The changes in book value of allowance evaluation accounts were stated as income.

(4) Derecognition of financial assets

The Group will derecognize financial assets only when the contractual rights toward the cash flow of the assets are terminated or the financial assets are transferred and the risk and return over the ownership of the assets are transferred to another enterprise.

2. Financial liabilities and equity instruments

(1) Classification of liabilities or equity

The obligation and equity instruments issued by the Company are classified into financial liabilities or equities according to definitions of the financial liabilities and equity instruments referred to in an agreement.

The equity instruments mean any contracts signifying the residual equity of the Group's assets less its liabilities. The equity instruments issued by the Group should be recognized based on the payment of acquisition less the direct issuing cost.

The compound financial instruments issued by the Group reflect that the holders own the convertible corporate bonds which may be converted into capital stock. The quantity of issued shares will remain unchanged, irrelevant with the change in fair value, if any.

The amount of elements of the compound financial instrument liability recognized initially excludes the measurement on fair value of similar liability of the equity conversion option. The amount of elements of equity recognized initially is measured based on the price difference between fair value of the

entire compound financial instrument and fair value of elements of liability. Any directly attributable trading cost shall be amortized to the elements of liability and equity on a pro rata basis subject to the book value of initial liability and equity.

Upon the initial recognition, the elements of compound financial instrument liability is measured based on the cost amortized under effective interest method. It is unnecessary to re-measure the elements of equity of compound financial instruments upon the initial recognition.

The interest and loss or gain related to financial liabilities should be recognized as income and stated into non-operating revenue and expenses.

The financial liabilities shall be re-classified into equity at the time of conversion, and no income is generated from the conversion.

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

Such liabilities mean the financial liabilities held for trading or designated to be measured at fair value through profit or loss.

The financial liabilities held for trading are acquired or incurred principally for the purpose of sale or repurchase in the near term or repurchase. Financial liabilities other than those held for trading are measured at fair value through profit and loss if they meet any of the following conditions:

The performance of financial liabilities is evaluated based on fair value.

Financial instrument with embedded derivatives.

Such financial liabilities are measured at fair value at the time of initial recognition. The relevant transaction costs shall be stated as income when they are incurred. The following measurement shall be based on fair value, and then the gain or loss generated therefore should be measured (including the relevant interest expenses) and recognized as income and stated as non-operating revenue and expenses.

(3) Other financial liabilities

When recognizing the financial liabilities other than those held for trading and not designated to be measured at fair value through profit or loss (including short-term and long-term loans, accounts payable and other payables ) initially, such liabilities shall be evaluated based on fair value, plus the directly attributable transaction cost. The following measurement shall be based on the cost after amortization under the effective interest rate method, unless the recognition of interest on short-term loan and accounts payable is of no importance. The interest expenses on asset costs, which are not capitalized, should be stated as "financial cost" under the non-operating revenue and expenses.

(4) Derecognition of financial liabilities

The Group will derecognize financial liabilities upon performance, cancellation or expiration of contractual obligations.

(5) **Offset of financial assets and liabilities**

Financial assets and financial liabilities may be offset against each other and reported in the balance sheet in net amount only when the Group is entitled to the right to offset exercisable under laws and intends to settle in net amount, or assets are realized and liabilities are repaid at the same time.

(VIII) **Inventory**

The inventories shall be stated at the lower of cost and net realizable present value. The cost should include the costs of acquisition, production or processing or others incurred when the inventory is sellable or producible and at the location where the inventory is sellable or producible, and calculated under weighted average method. The costs of inventories for finished goods and work in process include the manufacturing expenses amortized based on the normal productivity on a pro rata basis.

Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs under the normal operation.

(IX) **Investment in affiliates**

An affiliate means an entity in which the Group has major influence over the financial and operating policies but has no control over the same. The Group will be assumed having major influence when it holds 20%~50% of the voting right in the investee.

Under the equity method, the investment is stated at cost at time of acquisition initially. The investment includes trading cost. The book value of investment in affiliates includes the goodwill identified at the time of initial investment less any accumulated impairment loss.

The consolidated financial statements shall include the income from the invested affiliates recognized subject to the shareholdings and other comprehensive income upon adjustment made in line with the Group's accounting policy, from the date when the Group has major influence until the date when the Group loses the major influence.

The unrealized gains from transactions between the Group and affiliates have been derecognized from the Group's equity in the investees. The unrealized loss shall be derecognized in the same manner applicable to unrealized gains; provided that the unrealized loss is limited to that arises under no impairment evidence is available.

When the Group's share of loss from any affiliate to be recognized on a pro rata basis is equivalent to or more than its equity in the affiliate, it shall stop recognizing the loss, but shall recognize the additional loss and relevant liabilities only when legal obligation or constructive obligation is incurred or the Group makes payment on behalf of the investee.

Where the Group forfeits its material influence over an affiliate when the Group disposes



of the affiliate, the capital surplus related to the affiliate will be stated as income, provided that where it still has material influence over the affiliate, the capital surplus shall be stated as income based on the proportion of disposition.

(X) Property, plant and equipment

1. Recognition and measurement

Property, plant and equipment shall be recognized and measured using a cost model, and measured at the cost less accumulated depreciation and accumulated impairment. The costs include the expenses directly attributable to the acquisition of assets. The costs of self-built assets include the costs of raw materials and direct labor, any other costs directly attributable to usable status of investment assets, costs of dismantling and removal of the items and recovery of premises, and loan cost that meets the requisite asset capitalization. Meanwhile, the costs also include the purchase of property, plant and equipment denominated in foreign currency.

When property, plant and equipment consist of various components, and the total cost for the item is significant and it is advisable to apply different depreciation ratio or methods, the property, plant and equipment should be treated separately (for major components).

The gain or loss on disposal of property, plant and equipment shall be decided based on the price difference between the book value of property, plant and equipment and proceeds on disposal of the same and recognized as the “other gains and losses” in the income statement on a net basis.

2. After cost

If the future economic effect expected to be generated from the after expenses of property, plant and equipment is very likely to flow into the Group and the amount thereof may be measured, the expenses shall be stated as a part of the book value and the relocated book value should be derecognized. The routine maintenance and repairs of property, plant and equipment shall be stated as income when incurred.

3. Depreciation

The depreciation shall be calculated at the cost of assets less residual value using the straight-line method over the estimated useful years, and evaluated based on the various major components of the assets. If the useful years for any component are different from those of other components, the component shall be depreciated separately. The depreciation shall be stated as income.

No depreciation of land is required.

The estimated useful years in the current period and comparative period are stated as follows:

Item	Useful years
House and building	
Plant and dormitory	50

Clean room	20
Electrical and mechanical facilities	20
Others	10-20
Machine & equipment	5-13
Transportation equipment	4-6
Furniture and fixtures	3-10
Research equipment	2-13
Other equipments	3-9

4. Depreciation, useful years and residual value shall be reviewed at the end of each fiscal year. If the expected value is different from the previous estimate, adjustment should be made if necessary, and the changes shall be treated as changes in accounting estimates.

(XI) Lease

- A. None of the Group's lease terms and conditions has transferred the risk and return attached to the title of assets to the lessee. All of the leases are classified as operating leases. The income from lease shall be stated as income based on the straight line method within the related lease period. The lease payment shall be stated as expenses based on the straight line method within the related lease period. The contingent rent under operating lease shall be stated as expenses when it is incurred.
- B. Based on the terms of a lease contract, a lease is classified as a finance lease if the Group assumes substantially all the risks and rewards incidental to ownership of the leased asset.
- (a) A finance lease is recognized as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.
- (b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.
- (c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Group will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.

(XII) Intangible assets

1. Goodwill

Where the acquisition cost of identifiable net assets acquired upon merger, if any, is

more than the fair value of the assets, the excess shall be stated as goodwill. The goodwill shall be measured at cost less accumulated impairment.

For the investment under equity method, the face value of goodwill is included into that of the investment. Meanwhile, the impairment loss on such investment is not allocated to goodwill or any assets, but a part of the book value of the investment under equity method.

2. Computer software

Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 2 to 5 years.

3. Internally generated intangible assets—research and development expenditures

(1) Research expenditures are recognized as an expense as incurred.

(2) Development expenditures that do not meet the following criteria are recognized as expenses as incurred, but are recognized as intangible assets when the following criteria are met:

- ① It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- ② An entity intends to complete the intangible asset and use or sell it;
- ③ An entity has the ability to use or sell the intangible asset;
- ④ It can be demonstrated how the intangible asset will generate probable future economic benefits;
- ⑤ Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; And
- ⑥ The expenditure attributable to the intangible asset during its development can be reliably measured.

(XIII) Impairment on non-financial assets

1. The Group will estimate the recoverable amount of the assets which show signs of impairment on the balance sheet date, and impairment loss would be recognized if the recoverable amount falls below the asset's face value. The recoverable amount means the higher of fair value of one asset less its disposition cost, or its useful value. Impairment loss recognized in previous years on assets other than goodwill may be reversed if the basis of impairment no longer existed or is reduced. Notwithstanding, the increase in book value of the asset resulting from the reversal must not exceed the face value of the asset less depreciation or amortization without impairment.
2. The recoverable amount of goodwill, intangible assets with indefinite useful years and intangible assets not available for use shall be estimated periodically. Impairment loss would be recognized if the recoverable amount falls below the face

value. The impairment loss on goodwill shall not be reversed in following years.

3. Goodwill shall be amortized to cash generation unit for the purpose of testing impairment. The amortization is identified by operations to amortize goodwill into cash generation unit or cash generation unit group expected to benefit from the merger of businesses generating the goodwill.

(XIV) Reserve for liabilities

The reserve for liabilities shall be recognized when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The Group's reserve for liabilities for warranty shall be recognized when the goods or services are sold. The reserve for liabilities shall be measured under weighted method based on the historical warranty information and potential results subject to the relevant possibility.

(XV) Treasury stock

The issued stock recalled by the Group is stated based on the consideration paid for repurchase (including direct vested cost), recognized as "treasury stock" at the net after tax and presented as a deduction from equity. Where the gain on disposal of treasury stock is higher than the book value, the difference shall be credited under the title "additional paid-in capital-transaction of treasury stock". Where the gain is lower than the book value, the difference is offset against the additional paid-in capital generated from the transactions of treasury stock under the same type. Any deficits thereof shall be debited as retained earnings. The book value thereof is calculated based on the weighted average method according to the type of stock (common stock or special shares) and causes for the withdrawal.

Cancellation of treasury stock shall be credited under the title "treasury stock", and debited as "additional paid-in capital-stock premium" and "capital stock". Where the book value of treasury stock is higher than the total of the book value and stock premium, the balance is offset against the additional paid-in capital generated from the transactions of treasury stock under the same type. Any deficits thereof shall be debited as retained earnings. Where the book value of treasury stock is lower than the total of the book value and stock premium, the difference should be credited as the additional paid-in capital generated from the transactions of treasury stock under the same type.

(XVI) Recognition of revenue

1. Sale of products

The revenue generated from sale of goods in normal activities is stated at the fair value of received or receivable consideration after taking the sale returns, sales discount and quantity discount into consideration. The revenue shall be recognized

when there is persuasive evidence (normally an executed sale agreement), major risk and return over the ownership are transferred to the buyer, it is very likely to collect the payment, the related cost and possible sale return may be estimated reliably, participation in management of products is discontinued and revenue may be measured reliably. If a discount is likely to be incurred and the amount thereof may be measured reliably, it shall be stated as deduction from revenue when the sale is recognized.

The timing of transfer of risk and return shall be subject to the individual provisions in the sale agreement.

2. Labor service

The revenue generated from provision of labor services shall be recognized based on the progress in completion of the transaction on the reporting date.

3. Revenue from commission

When the Group acts as agent instead of principal in a transaction, the revenue are stated based on the net commission as collected.

4. Rent revenue

The income from sublease of the real property shall be stated as "rent revenue" under non-operating revenue and expenditure.

5. Dividend revenue

When the Group is entitled to collect dividends, the related dividend revenue shall be recognized.

(XVII) Cost of borrowing

1. Loans shall be measured based on the fair value less trading cost at the time of initial recognition. The subsequent measurement of any difference between the price (less trading cost) and redemption value shall be stated at the amortized cost under effective interest method within the borrowing period.
2. When it is very likely to withdraw the expenses paid for setting the borrowing limit, in part or in whole, the expenses shall be stated as the trading cost for the loan, deferred and stated as effective interest adjustment when the loan is drawn down. When it is not likely to withdraw the expenses, in part or in whole, the expenses shall be stated as prepayment and amortized within the period related to the limit.

(XVIII) Government subsidies

The government subsidies shall be stated at fair value when it is reasonable to ensure that an enterprise will comply with the conditions incident to the government subsidies and the subsidies may be received affirmatively. If the government subsidies, in nature, are intended to compensate the expenses incurred by the Group, the government subsidies shall be stated as the current income on a systematic basis when the related expenses are incurred.

(XIX) Employee benefits

1. Short-term employee benefits

Short-term employee benefits are measured at non-discounted amount expected to be paid, and stated as expenses when the relevant services are provided.

2. Pension

(1) Defined contribution plan

Under the defined contribution plan, every contribution made to the pension fund is recognized as pension cost in the period occurred using the accrual basis. The prepaid contribution may be stated as assets, insofar as it may be refunded in cash or the future payment is reduced.

(2) Defined benefit plan

- A. The net obligation under the defined benefit pension plan is converted to the present value based on the future benefit earned from the services provided by the employees under various benefit plans in the current period or in the past, and the present value of defined benefit obligations on the balance sheet date less the fair value of the planned assets. An actuary using the Projected Unit Credit Method estimates defined benefit obligations each year. The discount rate shall be based on the market yield rate of corporate bonds of high credit standing that have the same currency exposure and maturity date as the obligations on the balance sheet date, but the market yield rate of government bonds (on the balance sheet date) shall apply in the country where no market of corporate bonds of high credit standing is available.
- B. The re-measurement generated from the defined benefit plan is stated as other comprehensive income in the period when it is incurred, and presented in the retained earnings.
- C. The expenses related to the service cost in the previous period shall be recognized as income immediately.
- D. The interim pension cost applied the pension cost ratio decided upon actuation at the end of the previous fiscal year, and was calculated from the beginning of year until the end of the current period. In the case of material changes in market and material reduction, repayment or other important event at the end, it shall be adjusted and related information shall be disclosed pursuant to said policies.

3. Resignation benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination

of employment. The Group will not state the benefits as expenses until the offer of benefits cannot be withdrawn or the related reorganization cost is stated, whichever earlier. It is not expected that benefits falling due more than 12 months after balance sheet date are discounted to their present value.

4. Remuneration to employee and directors/supervisors

The remuneration to employees and directors/supervisors shall be recognized as expenses and liabilities only when legal or constructive obligation is constituted and the value thereof may be estimated reasonably. Subsequently, if the actual distributed amount resolved is different from the estimate, the difference shall be treated as a change in accounting estimate.

(XX) Employees' share-based payment

The transaction is share-based payment for settlement of equity. The share-based payment agreement shall measure the labor services provided by employees based on the fair value of the equity instruments granted on the date of granting, which shall be recognized as the remuneration cost during the vested period, and the equity shall be adjusted relatively.

The fair value of equity instruments shall reflect the effect produced by the vested conditions and non-vested conditions of market value. The recognized remuneration cost is adjusted based on the quantity of remuneration expected to meet service conditions and non-market value vested conditions, until the amount recognized ultimately is measured based on the vested quantity on the vested date.

(XXI) Income tax

1. The income tax expenses consist of current income tax and deferred income tax. The income tax shall be stated as income other than the income tax related to the titles stated into other comprehensive incomes or into equity directly, which shall be stated into other comprehensive income or into equities directly.
2. The Group calculates the income tax related to the current period based on the statutory tax rate or tax rate substantially enacted in the countries where the Company is operating and generating taxable income on the balance sheet date. The management shall evaluate the status of income tax return within the statutory period defined by the related income tax laws, and shall be responsible for the income tax expected to be paid to the tax collection authority. Undistributed earnings, if any, shall be levied 10% income tax. 10% income tax expenses for undistributed earnings will be stated in the year next to the year when the earnings are generated, upon approval of the motion for allocation of earnings at a shareholders' meeting.
3. Deferred tax is stated based on the temporary differences between taxation basis for assets and liabilities and the face value thereof on the consolidated balance sheet



using the balance sheet method. The deferred income tax liabilities resulting from the initial recognition of goodwill shall not be recognized. The deferred income tax resulting from the initial recognition of assets or liabilities in a transaction (exclusive of business merger) shall not be recognized; insofar as the accounting profit or taxable income (taxable loss) is not affected by the transaction. Taxable temporary difference generated from investment in subsidiaries and affiliates, of which the time of reverse is controllable by the Group and which is not likely to be reversed in the foreseeable future, shall not be recognized. The deferred income tax assets and liabilities are measured at the tax rate in the current period of which the assets are expected to be realized or liabilities to be repaid. The tax rate shall be based on the tax rate and tax laws already legislated or substantially legislated at the end of the reporting period.

4. Deferred income tax assets shall be recognized, insofar as temporary difference is very likely to credit against future taxable income, and deferred income tax assets which are recognized and unrecognized shall be re-evaluated on each balance sheet date.
5. Current income tax assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
6. Unused tax credits derived from purchase of equipment or technology, R&D expenditure and equity investment can be added to deductible temporary differences and recognized as deferred tax assets, to the extent that the Company is likely to earn taxable income to offset against.
7. The average effective tax rate used to estimate the interim income tax expenses shall apply to the interim income before tax, and the relevant information shall be disclosed pursuant to said policies.

**(XXII) Business combination**

1. The Group adopts the acquisition method to proceed with business combination. The consideration for combination is calculated at the fair value of the assets to be transferred or liabilities to be derived or borne and the equity instruments to be issued. The consideration for the transfer includes the fair value of any assets and liabilities generated from the contingent consideration agreement. The cost related to acquisition is stated as expense when it is incurred. The identifiable assets and liabilities acquired from the business combination shall be measured at the fair

value on the day of acquisition. Based on individual acquisition transaction, the elements of non-controlling equity which refer to the current ownership, of which the holder is entitled to the business's net assets on a pro rata basis at the time of liquidation may choose to measure the fair value based on the fair value on the date of acquisition or subject to proportion of non-controlling equity in the acquired identifiable net assets. The other elements of non-controlling equity shall be measured at the fair value on the date of acquisition.

2. Goodwill arises when the transfer consideration, non-controlling equity of the acquiree, and the total fair value of the acquiree's equity already held exceeds the fair value of identifiable assets and liabilities. The price difference shall be stated as income on the date of acquisition if the fair value of identifiable assets and liabilities as acquired exceeds the transfer consideration, non-controlling equity of the acquiree, and the total fair value of the acquiree's equity already held.

**(XXIII) EPS**

The Group will enumerate the basic and diluted EPS vested in the Company's common stock holders. The Group's EPS is calculated based on the income vested in the Company's common stock holders dividing by the number of shares of the weighted average outstanding common stock. The diluted EPS is calculated upon adjustment of the effect of all potential diluted common stocks based on the income vested in the common stock holders and the number of shares of the weighted average outstanding common stock. The Group's potential diluted common stock includes the stock options granted to employees.

**(XXIV) Information by department**

The Group consists of various members including the operations engaged in operating activities likely to earn revenue and incur expense (including the revenue and expense from the transactions with the other members within the Group). The operating results of all operations are rechecked by the Group's operating decision maker periodically for making of the decision to allocate resources to each operation and evaluation of each operation's performance. Each operation's financial information is independent from that of the others.

**V. Significant accounting judgments, estimations, and major sources of hypotheses of uncertainty**

The accounting estimations made by the Group were based on the reasonable expectation toward future events subject to current circumstances on the balance sheet date; nevertheless, the actual results might be different from the estimations. The estimations and hypotheses about the risk over material adjustment of book value of assets and liabilities in next fiscal year. Please see the following notes:

1. Allowance for bad debt of receivable accounts

The Group evaluates and estimates the collectible receivable accounts and allowance for bad debt according to the loan quality and collection of debt from customers and based on the past experience in collecting bad debt. If some event or change resulting in failure to collect the debt shows, it is necessary to estimate the allowance for bad debt. If the projected collected cash is different from the estimation, the difference will affect the book value of receivable accounts and bad debt expenses in the year in which the estimation is changed. Until September 30, 2016, the book value of receivable accounts has been NT\$1,009,539 thousand (exclusive of the allowance for bad debt, NT\$16,806 thousand).

2. Evaluation of inventory

The inventories shall be stated at the lower of cost and net realizable present value. Therefore, the Group has to decide the net realizable present value of the inventory on the balance sheet date based on judgment and estimation. Due to the rapid transformation of technology, the Group evaluates the value of inventories after excluding the torn and worn, out-of-fashion or unmarketable ones on the balance sheet date, and offset the cost of inventories against net realizable value. Until September 30, 2016, the book value of the Group's inventories has been NT\$1,900,538 thousand (exclusive of the allowance for inventory devaluation and obsolescence loss, NT\$236,613 thousand).

3. Realizability of deferred income tax assets

Deferred income tax assets shall be recognized only when it is very likely that there will be sufficient taxable income afford to deduct temporary difference. To evaluate the realizability of deferred income tax assets, the management has to exert judgment and estimation, including the hypotheses about expectation toward growth and profit rate of future sale revenue, applicable income tax credit and taxation planning. The transformation of global economic environments and industrial environments and changes in laws and regulations, if any, might result in material adjustment on deferred income tax assets. Until September 30, 2016, the deferred income tax assets recognized by the Group have been NT\$61,344 thousand.

4. Recognition of revenue

In principle, sale revenue is recognized at the time the earning process. The related reserve for liabilities is provided based on the estimated after-sale warranty cost potentially incurred due to historical experience and other known causes, and stated as the sale cost in the period in which the product is sold. The reasonableness of estimation is also reviewed periodically. Until September 30, 2016, the reserve for liabilities recognized by the Group have been NT\$2,846 thousand.

5. Calculation of net defined benefit liability

In the calculation of the determined welfare obligation, the Group must make use of

judgment and estimate to determine relevant actuarial assumption on the balance sheet date, including the discount rate and growth of future salary. Any changes in the actuarial hypotheses might affect the value of the Group's defined benefit obligation materially. As of September 30, 2016, the book value of accrual pension liabilities of the Group amounted to NT\$27,033 thousand.

6. Goodwill impairment evaluation

The impairment on goodwill is evaluated by the Group to its sole discretion, including identifying the cash-generating units and amortizing assets, liabilities and goodwill into the related cash-generating units, and deciding the recoverable amount of related cash-generating units. For the evaluation on goodwill impairment, please refer to Note VI(VIII). As of September 30, 2016, the book value of the Group's goodwill amounted to NT\$45,533 thousand.

**VI. Notes to Major Accounting Titles**

**(I) Cash and cash equivalents**

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Cash:			
Cash on hand	\$ 2,337	\$ 3,687	\$ 4,200
Bank deposit:			
Checking deposits	10	10	10
Demand deposits	715,657	394,282	473,986
Time deposits	48,521	75,814	71,290
Total	<u>\$ 766,525</u>	<u>\$ 473,793</u>	<u>\$ 549,486</u>

The bank deposits provided by the Group as collateral have been re-stated as other current assets. Please see Note 8.

**(II) Note receivables, net**

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Receivable notes	\$ 11,775	\$ 26,568	\$ 20,708
Less: Allowance for bad debt	—	—	—
Receivable notes, net	<u>\$ 11,775</u>	<u>\$ 26,568</u>	<u>\$ 20,708</u>

The Group's receivable notes were issued for business and never been provided as collateral.

**(III) Accounts receivable, net**

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Accounts receivable	\$ 958,143	\$ 782,647	\$ 779,568
Less: Allowance for bad debt	(11,975)	(13,081)	(16,346)
Accounts receivable, net	<u>\$ 946,168</u>	<u>\$ 769,566</u>	<u>\$ 763,222</u>

	September 30, 2016	December 31, 2015	September 30, 2015
Accounts receivable-related parties	\$ 53,257	\$ 82,458	\$ 68,898
Less: Allowance for bad debt	(1,661)	(520)	(59)
Accounts receivable-related parties, net	<u>\$ 51,596</u>	<u>\$ 81,938</u>	<u>\$ 68,839</u>

	September 30, 2016	December 31, 2015	September 30, 2015
Receivable on demand (stated as other non-current assets)	\$ 3,170	\$ 4,441	\$ 183
Less: Allowance for bad debt	(3,170)	(4,441)	(183)
Receivable on demand, net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

- The Group's receivable accounts were incurred for business and never been provided as collateral.
- For the information about the changes of bad debt provided for the impairment on receivable accounts and account age analysis on loans (for the disclosure of credit risk, please see Note XII(II) :

	Group provision	Individual provision	Total
January 1, 2016	\$ 17,982	\$ 60	\$ 18,042
Impairment loss provided in the current period	5,177	—	5,177
Impairment loss reversed in the current period	—	—	—
Accounts written off and uncollected in the current period	( 6,048)	—	( 6,048)
Foreign exchange rate effect	( 365)	—	( 365)
September 30, 2016	<u>\$ 16,746</u>	<u>\$ 60</u>	<u>\$ 16,806</u>
January 1, 2015	\$ 14,889	\$ 15,947	\$ 30,836
Impairment loss provided in the current period	2,374	—	2,374
Impairment loss reversed in the current period	—	—	—
Accounts written off and uncollected in the current period	( 763)	(15,947)	(16,710)
Foreign exchange rate effect	88	—	88
September 30, 2016	<u>\$ 16,588</u>	<u>\$ —</u>	<u>\$ 16,588</u>

- Account age analysis on loans is stated as follows:

	September 30, 2016		December 31, 2015		September 30, 2015	
	Total	impairment	Total	impairment	Total	impairment
Undue	\$ 879,512	\$ —	\$ 781,223	\$ —	\$ 766,719	\$ —
Overdue for 1~90 days	121,286	8,505	72,742	5,092	65,687	4,598
Overdue for 91~180 days	13,925	2,089	17,780	2,667	16,200	2,430
Overdue for 181~360 days	4,737	1,185	16,490	4,123	12,508	3,127
Overdue for 1~2 years	3,715	1,857	3,438	1,719	3,620	1,810
Overdue for more than 2 years	3,170	3,170	4,441	4,441	4,623	4,623
Total	<u>\$1,026,345</u>	<u>\$16,806</u>	<u>\$ 896,114</u>	<u>\$ 18,042</u>	<u>\$ 869,357</u>	<u>\$16,588</u>

#### **(IV) Inventories**

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Raw materials	\$ 359,350	\$ 346,572	\$ 359,521
Supplies	77,353	67,885	78,800
Work-in-process	340,106	289,278	282,977
Semi-finished goods	252,178	212,380	194,577
Finished goods	1,055,797	858,149	924,001
Commodity	52,363	70,782	68,033
Materials and supplies in transit	4	17,012	—
Less: Allowance for inventory devaluation and obsolescence losses	(236,613)	(225,881)	(221,541)
Inventory, net	<u>\$ 1,900,538</u>	<u>\$ 1,636,177</u>	<u>\$ 1,686,368</u>

##### 1. Expenses and losses related to inventory recognized in the current period:

	<u>Jul 1~Sep 30, 2016</u>	<u>Jul 1~Sep 30, 2015</u>	<u>Jan.1~Sep 30, 2016</u>	<u>Jan.1~Sep 30, 2015</u>
Cost of sold inventory	\$ 777,067	\$ 554,654	\$ 1,959,118	\$ 1,574,860
Allowance for inventory devaluation and obsolescence losses (revaluation gains)	7,438	20,605	7,499	33,317
Inventory retirement loss	7,818	6	7,818	4,021
Other operating cost - employee bonus	10,999	4,756	21,674	12,920
Revenue from sale of scraps	—	—	—	—
Estimated maintenance and warranty cost	1,214	(1,549)	2,368	(1,403)
Sale cost, net	<u>\$ 804,536</u>	<u>\$ 578,472</u>	<u>\$ 1,998,477</u>	<u>\$ 1,623,715</u>

2. Before September 30, 2016, December 31, 2015 and September 30, 2015, the Group's inventories have never been provided as collaterals.

#### **(V) Financial assets measured at cost**

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Non-current items:			
TAISelec Co., Ltd	\$ —	\$ —	\$ —
Less: Impairment loss	—	—	—
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

1. The non-TWSE/GTSM stock investment held by the Group shall be classified into available-for-sale financial assets according to the intent of investment. Notwithstanding, because the objects are not traded in a public market and it is impossible to access sufficient industrial information about similar companies, it is impossible to reliably measure the fair value of such objects and they are classified into "financial assets measured at cost".
2. The Company transferred 18.75% of the equity of TAISelec Co., Ltd. to the non-related party upon approval of the board of directors in February 2015. The proceeds from sale was NT\$25,938 thousand, and the gain from disposition was NT\$5,706 thousand.

3. Before September 30, 2016, December 31, 2015 and September 30, 2015, the Group's financial assets measured at cost had never been provided as collateral.

**(VI) Investments accounted for using equity method**

The Investment under equity method by the Group on the reporting date is stated as follows:

Investee	September 30, 2016	December 31, 2015	September 30, 2015
	Amounts	Amounts	Amounts
<b>Associates :</b>			
MJC Microelectronics Shanghai Co.,Ltd.	\$ 30,484	\$ 45,190	\$ 46,848
MJC Microelectronics Kunshan Co.,Ltd.	63,389	64,012	66,445
Lumitek Corporation	3,359	3,099	2,690
<b>Total</b>	<b>\$ 97,232</b>	<b>\$ 112,301</b>	<b>\$ 115,983</b>

1. Changes in investment under equity method:

	Jan.1~Sep 30, 2016	2015	Jan.1~Sep 30, 2015
At January 1	\$ 112,301	\$ 123,852	\$ 123,852
Capital surplus	—	(19,306)	—
Cash dividend	(13,192)	—	—
Investment income under equity method	3,861	6,728	6,674
Cumulative translation adjustments	(6,026)	(2,012)	(17,486)
Unrealized Gross Profit	167	3,039	2,943
Other	121	—	—
At September 30	<b>\$ 97,232</b>	<b>\$ 112,301</b>	<b>\$ 115,983</b>

2. The information about affiliates important to the consolidated companies is stated as following:

Name of Affiliate	Nature of relationship with consolidated company	Principal business place/country where the company is registered	Proportion of ownership and voting right			Measurement method
			Sep 30, 2016	Dec 31, 2015	Sep 30, 2015	
MJC Microelectronics Shanghai Co.,Ltd.	Primarily engaged in selling semi-conductor testing probe cards, under the strategic alliance for development of the market in territories of Mainland China by consolidated companies.	China	40%	40%	40%	Equity method
MJC Microelectronics Kunshan Co.,Ltd.	Primarily engaged in selling semi-conductor testing probe cards, under the strategic alliance for development of the market in territories of Mainland China by consolidated companies.	China	40%	40%	40%	Equity method
Lumitek Corporation	Primarily engaged in OEM service of LED	Taiwan	20.15%	20.15%	20.15%	Equity method



dice production process;  
the affiliate has been  
dissolved on February  
28, 2015.

3. Book value and share of operating result of the affiliates not important to the Group individually

The financial information about the Group's affiliates under equity method not important the Company individually is summarized as following. Said financial information refers to the figures included into the Group's consolidated financial statements:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
The carrying amount of the Group's individually immaterial associates	\$ 97, 232	\$ 112, 301	\$ 115, 983
	<u>Jan.1~Sep 30, 2016</u>	<u>Jan.1~Sep 30, 2015</u>	
Profit or loss for the period from continuing operations	\$ 3, 861	\$ 6, 674	
Loss for the period from discontinued operations	—	—	
Other comprehensive income- net of tax	—	—	
Total comprehensive income	<u>\$ 3, 861</u>	<u>\$ 6, 674</u>	

4. As of September 30, 2016 and 2015, the financial statements of investments accounted for using equity method were consolidated and measure based on their unreviewed financial statements.
5. As of September 30, 2016, December 31, 2015 and September 30, 2015, the Investments accounted for using equity method were not pledged as collateral.

**(VII) Property, plant and equipment**

1. The Company in July 2015 to Non related party purchased land located Taihe segment Zhubei City, the sale of a total of \$251,817 thousand dollars for contract dollars. And settled transfer on September 24, 2015, serves the purpose of staff's dormitory.
2. The Company in December 2015 to Non related party purchased land located Taihe segment Zhubei City, the sale of a total of \$123 thousand dollars for contract dollars. And settled transfer in December, 2015.
3. The Group in September 2014 to Non related party purchased pre - sale housing, the sale of a total of RMB 4,320,000.
4. The Group to Non related party purchased pre-sale housing in 2015, the sale of a total of RMB 1,641,816.

5. About Leased assets as follows :

a. Leased assets, net :

	Jan.1~Sep. 30, 2016	2015	Jan.1~Sep. 30, 2015
Cost			
Machinery	\$ 87,580	\$ —	\$ —
Less : Accumulated depreciation	(13,137)	—	—
effect of movements in exchange rate	(2,325)	—	—
Leased assets, Net.	<u>\$ 72,118</u>	<u>\$ —</u>	<u>\$ —</u>

b. The content of capital were summarized as follows :

The company signed the five-year lease agreement with non-related party in January of the 2016; lessee will pay RMB\$ 366 thousand dollars to buy the capital lease assets at the expiration of lease term. lease assets detail :

Lessor	Properties	Rental Paid	Payment Terms
Non related party	Agilent Technologies	NT \$ 90,094	2016. 01. 01~ 2020. 12. 31

c. Future payments for Payables on leased were as follows :

	Total	Financing Expenses	Present Value
Current			
Up to 1 years	\$ 16,279	\$ 690	\$ 16,969
Non-current			
1 to 5 years	52,498	2,651	55,149
Total	<u>\$ 68,777</u>	<u>\$ 3,341</u>	<u>\$ 72,118</u>

6. The collateralized land and building for loans amounted please see note 8 for details.

7. Total capitalized interest amounted see note VI (XVII) for details.

8. The cost, depreciation, and impairment of the property, plant and equipment of the Group were as follows:

	Land	Buildings	Machinery	Transportation	Office equipment	Research equipment	Other equipment	Leased assets	construction in progress	Total
<b>Cost:</b>										
At January 1, 2016	\$ 763,767	\$ 1,294,595	\$ 1,024,363	\$ 4,189	\$ 94,639	\$ 559,075	\$ 51,336	\$ -	\$ 52,107	\$ 3,844,071
Acquisition through business combination	-	-	-	-	-	-	-	-	-	-
Additions	-	17,197	54,370	-	6,886	8,049	7,410	87,580	35,178	216,670
Disposals	-	-	(25,650)	(1,320)	(6,463)	(6,442)	(795)	-	-	(40,670)
Reclassifications	-	48,809	27,145	-	360	16,963	121	-	(48,809)	44,589
effect of movements in exchange rate	-	(1,900)	(32,197)	(174)	127	12	(1,507)	(2,735)	(673)	(39,047)
At September 30, 2016	\$ 763,767	\$ 1,358,701	\$ 1,048,031	\$ 2,695	\$ 95,549	\$ 577,657	\$ 56,565	\$ 84,845	\$ 37,803	\$ 4,025,613
<b>Cost:</b>										
At January 1, 2015	\$ 512,073	\$ 1,204,309	\$ 544,548	\$ 4,244	\$ 79,371	\$ 424,972	\$ 27,216	\$ -	\$ 4,603	\$ 2,801,336
Acquisition through business combination	-	-	-	-	-	-	-	-	-	-
Additions	251,817	8,946	175,033	-	11,269	36,607	14,071	-	78,354	576,087
Disposals	-	-	(8,727)	-	(2,415)	(5,509)	-	-	-	(16,651)
Reclassifications	-	23,450	160,436	-	1,773	61,157	733	-	(28,700)	218,849
effect of movements in exchange rate	-	533	38,911	49	(18)	-	(250)	-	-	39,225
At September 30, 2015	\$ 763,890	\$ 1,237,238	\$ 910,201	\$ 4,293	\$ 89,880	\$ 517,227	\$ 41,770	\$ -	\$ 54,257	\$ 3,618,856
<b>Accumulated depreciation and impairment :</b>										
At January 1, 2016	\$ -	\$ 202,323	\$ 331,938	\$ 1,617	\$ 53,737	\$ 273,007	\$ 18,480	\$ -	\$ -	\$ 881,102
Acquisition through business combination	-	-	-	-	-	-	-	-	-	-
Additions	-	33,861	140,606	566	14,262	58,680	7,670	13,137	-	268,782
Disposals	-	-	(25,650)	(678)	(6,455)	(6,438)	(794)	-	-	(40,015)
Reclassifications	-	-	-	-	-	-	-	-	-	-
effect of movements in exchange rate	-	(861)	(7,763)	(76)	68	11	(170)	(410)	-	(9,201)
At September 30, 2016	\$ -	\$ 235,323	\$ 439,131	\$ 1,429	\$ 61,612	\$ 325,260	\$ 25,186	\$ 12,727	\$ -	\$ 1,100,668
<b>Accumulated depreciation and impairment :</b>										
At January 1, 2015	\$ -	\$ 166,741	\$ 201,159	\$ 680	\$ 41,384	\$ 210,301	\$ 13,294	\$ -	\$ -	\$ 633,559
Acquisition through business combination	-	-	-	-	-	-	-	-	-	-
Additions	-	25,514	62,939	721	11,702	50,350	3,699	-	-	154,925
Disposals	-	-	(8,639)	-	(2,237)	(5,481)	-	-	-	(16,357)
Reclassifications	-	-	-	-	-	-	-	-	-	-
effect of movements in exchange rate	-	219	5	9	283	-	(557)	-	-	(41)
At September 30, 2015	\$ -	\$ 192,474	\$ 255,464	\$ 1,410	\$ 51,192	\$ 255,170	\$ 16,436	\$ -	\$ -	\$ 772,086
<b>Book value</b>										
At September 30, 2016	\$ 763,767	\$ 1,123,378	\$ 608,900	\$ 1,266	\$ 33,937	\$ 252,397	\$ 31,379	\$ 72,118	\$ 37,803	\$ 2,924,945
At December 31, 2015	\$ 763,767	\$ 1,092,272	\$ 692,425	\$ 2,572	\$ 40,902	\$ 286,068	\$ 32,856	\$ -	\$ 52,107	\$ 2,962,969
At September 30, 2015	\$ 763,890	\$ 1,044,764	\$ 654,737	\$ 2,883	\$ 33,848	\$ 262,057	\$ 25,334	\$ -	\$ 54,257	\$ 2,846,770

### (VIII) Intangible assets

The details about changes in the cost, amortization and impairment loss of intangible assets as of and for the ended of September 30, 2016 and 2015 were stated as follows:

	Goodwill	Software	Total
<b>January~September 2016</b>			
At January 1	\$ 45,533	\$ 35,934	\$ 81,467
Additions	—	12,252	12,252
Reclassifications	—	—	—
Amortization	—	(16,514)	(16,514)
Impairment loss	—	—	—
effect of movement in exchange rate	—	(27)	(27)
At September 30	<u>\$ 45,533</u>	<u>\$ 31,645</u>	<u>\$ 77,178</u>

	Goodwill	Software	Total
<b>January~September 2015</b>			
At January 1	\$ 45,533	\$ 23,741	\$ 69,274
Additions	—	12,916	12,916
Reclassifications	—	—	—
Amortization	—	(11,470)	(11,470)
Reclassifications	—	1,248	1,248
Impairment loss	—	—	—
effect of movement in exchange rate	—	4	4
At September 30	<u>\$ 45,533</u>	<u>\$ 26,439</u>	<u>\$ 71,972</u>

#### 1. Recognized amortization and impairment

The amortization expenses for intangible assets and other deferred expenses (stated as other noncurrent assets) for the three-month and nine-month periods ended September 30, 2016 and 2015, respectively, were stated as the following items in the comprehensive income statement:

	<u>Jul~Sep, 2016</u>	<u>Jul~Sep, 2015</u>	<u>Jan~Sep, 2016</u>	<u>Jan~Sep, 2015</u>
Operating cost	\$ 5,945	\$ 4,123	\$ 17,131	\$ 12,420
Operating expense	8,085	7,950	24,909	22,933
Total amortization expenses	<u>\$ 14,030</u>	<u>\$ 12,073</u>	<u>\$ 42,040</u>	<u>\$ 35,353</u>

#### 2. R&D expenditure

Research and development expenditures are recognized as Operating-Research and development, which represented \$197,480 thousand dollars, \$220,887 thousand dollars, \$624,891 thousand dollars and \$599,186 thousand dollars for the three-month and six-month periods ended September 30, 2016 and 2015, respectively.

#### 3. Acquisition of subsidiaries

We are able to improve the product production because using Allstron Corp patented technology by taking over Allstron Corp.

The Company started on January 1, 2014 as the acquisition date.

The consideration for the business combination and the fair values of identifiable assets and liabilities accounted for on acquisition date were as follows:

a. Transfer pricing : \$50,000 thousand dollars.

b. Identifiable assets and liabilities acquired

Fair values of identifiable assets and liabilities acquired on acquisition date were \$4,467 thousand dollars.

c. Goodwill

Transfer pricing	\$	50,000
Less : Fair value of net assets		(4,467)
Goodwill	<u>\$</u>	<u>45,533</u>

The goodwill of acquisition Allstron Corp mainly comes from Allstron Corp's measurement application of product line in electronics industry. For example, the measurement of RFM skills uses the wide spacing probe in order to accord the changeful demands of the market and also the value of employer. Furthermore, transfer the consideration relationship includes the expect of business to business semiconductor manufacturing and integrate the testing equipment to produce combined synergy, the growth of income and the future development.

The goodwill resulted from the merger of Allstron Corp. The Transfer pricing is determined through the income approach by an independent appraisal company.

There was no impairment of intangible assets for the years ended September 30, 2016.

**(IX) Short-term loan**

Nature	September 30, 2016		December 31, 2015		September 30, 2015	
	Amounts	Interest rates	Amounts	Interest rates	Amounts	Interest rates
Credit loan	\$ 4,301	4.67%	\$ 4,217	~5.60%	\$ 4,194	5.31%
Secured borrowings	700,000	1.01%	550,000	1.18%	550,000	1.25%
Total	<u>\$ 704,301</u>		<u>\$ 554,217</u>		<u>\$ 554,194</u>	

1. For the information about exposure of the Group's interest rate and liquidity risks, please refer to Note XII(II).
2. Collateral for bank loan.

For bank loans secured by the Group's assets, please see Note VIII.

**(X) Other payable accounts**

	September 30, 2016	December 31, 2015	September 30, 2015
Payable expenses	\$ 331,282	\$ 405,819	\$ 316,325

Payable employees' remuneration (bonus)	40,497	29,189	25,247
Short-term employee benefits	41,587	33,884	26,725
Payable stock dividends	—	—	—
Others (all less than 5%)	23,570	10,218	9,032
Total	<u>\$ 436,936</u>	<u>\$ 479,110</u>	<u>\$ 377,329</u>

**(XI) Reserve for liabilities**

	<u>Warranty</u>		<u>Warranty</u>		<u>Warranty</u>
At January 1, 2016	\$ 1,240	At January 1, 2015	\$ 4,856	At January 1, 2015	\$ 4,856
Provision made/(Payment)	1,606	Provision made/(Payment)	(3,616)	Provision made/(Payment)	(2,430)
At September 30, 2016	<u>\$ 2,846</u>	At December 31, 2015	<u>\$ 1,240</u>	At September 30, 2015	<u>\$ 2,426</u>
Current	\$ 2,846	Current	\$ 1,240	Current	\$ 2,426
Non-current	—	Non-current	—	Non-current	—
At September 30, 2016	<u>\$ 2,846</u>	At December 31, 2015	<u>\$ 1,240</u>	At September 30, 2015	<u>\$ 2,426</u>

The Group's reserve for warranty and liabilities for the year ended September 30, 2016 and 2015 was primarily related to the sale of semi-conductor production process and testing equipments. The reserve for warranty and liabilities was estimated based on the historical warranty information. The Group expects that the liabilities would be mostly incurred in the following year of the sale.

**(XII) Corporate bonds-payable**

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
The convertible bonds issued in 2014	\$ 700,000	\$ 700,000	\$ 700,000
Bonds transferred to common stock	(99,300)	(99,300)	(99,300)
Less: Discount of bonds payable	(12,877)	(21,267)	(26,793)
Corporate bonds-payable, net	<u>\$ 587,823</u>	<u>\$ 579,433</u>	<u>\$ 573,907</u>
Current	\$ 587,823	\$ 579,433	\$ —
Non-current	—	—	573,907
At September 30, 2016	<u>\$ 587,823</u>	<u>\$ 579,433</u>	<u>\$ 573,907</u>
Embedded derivative-Financial (Assets) liability	\$ (180)	\$ 1,682	\$ 1,622
Equity element	<u>\$ 28,261</u>	<u>\$ 28,261</u>	<u>\$ 28,261</u>

- In order to purchase factory premises and machine & equipment and repayment of bank loan, the Company issued 3rd domestic unsecured convertible corporate bonds upon resolution of the board of directors on October 16, 2014, and upon approval of FSC via its approval letter under Ching-Kuan-Chen-Fa-Tze No. 1030042656 dated November 4, 2014. The issuance conditions are stated as

following:

- (1) Total issued amount: NT\$700 million
- (2) Duration: 3 years (November 18, 2014~November 18, 2017)
- (3) Coupon rate: 0%
- (4) Duration: The day following expiration of one month after the date of issuance (December 19, 2014) until the expiry date (November 18, 2017).
- (5) Conversion price and adjustment thereof:
  - A. The conversion price at the time of issuance shall be NT\$100 per share.
  - B. In the case of changes in shares of common stock (e.g. capital increase in cash, recapitalization of earnings and recapitalization from capital surplus, et al.), the conversion price shall be adjusted relatively.
  - C. The Company's board of directors resolved on August 7, 2015 to authorize the Chairman to issue 3rd domestic unsecured convertible corporate bonds. According to Article 11 of the Company's Regulations Governing Issuance and Conversion of 3rd Domestic Unsecured Convertible Corporate Bonds, where the cash dividend of common stock to the market price per share is more than 1.5%, the conversion price shall be cut based on the cash dividend to the market price per share on the ex-dividend date. Upon verification, as of September 13, 2015, the Company's 3rd domestic unsecured convertible corporate bonds shall be adjusted as NT\$93.4 per share.
  - D. The Company's board of directors resolved on July 11, 2016 to authorize the Chairman to issue 3rd domestic unsecured convertible corporate bonds. According to Article 11 of the Company's Regulations Governing Issuance and Conversion of 3rd Domestic Unsecured Convertible Corporate Bonds, where the cash dividend of common stock to the market price per share is more than 1.5%, the conversion price shall be cut based on the cash dividend to the market price per share on the ex-dividend date. Upon verification, as of August 26, 2016, the Company's 3rd domestic unsecured convertible corporate bonds shall be adjusted as NT\$90.2 per share.
- (6) Bondholders' put option: The bondholders may exercise the put option of the bonds earlier on the record date for exercise of put option, namely, November 18, 2016, upon expiration of two years after issuance of the bonds. The bondholders may ask the Company to redeem the bonds at 100% of the book value thereof in cash within 40 days prior to the record date for exercise of put option.
- (7) The Company's right of redemption:
  - A. From the date following expiration of one month upon offering of the

bonds (December 19, 2014) until 40 days prior to expiration of the duration (October 9, 2017), if the closing price of the Company's common shares at Taipei Exchange exceeds the current conversion price by more than 30% for 30 consecutive business days, the Company may exercise the call option to repurchase the bonds from the bondholders at the book value thereof in cash.

B. From the date following expiration of one month upon offering of the bonds (December 19, 2014) until 40 days prior to expiration of the duration (October 9, 2017), if the balance of the outstanding bonds is less than 10% of the initial total issue price, the Company may exercise the call option to repurchase the bonds from the bondholders at the book value thereof in cash.

(8) Date and method of repayment of principal: Except those converted to the Company's common stock by the bondholders according to the Regulations, or those redeemed upon exercise of the put option, or those redeemed by the Company earlier pursuant to the Regulations, or those repurchased by the Company from securities firms for cancellation, the others would be repaid in cash in full amount upon maturity.

2. Until September 30, 2016, the book value of 3rd domestic unsecured convertible corporate bonds which have been converted upon request cumulatively was NT\$99,300 thousand. The issued stock totaled 993 thousand shares, and the capital surplus-convertible corporate bond conversion premium generated therefore was NT\$88,540 thousand.

3. The Company analyzed the 3rd domestic unsecured convertible corporate bonds according to IFRS No.7 and identified the bonds as the compound financial instruments. Therefore, the Company separated the conversion option from liabilities and stated it into equity and liability respectively. The information about convertible corporate bonds in the financial statements is stated as following:

	<b>November 18, 2014</b>
	<b>(Issuing date)</b>
Total issuing amount of convertible corporate bond	\$ 700,000
Cost of convertible corporate bond	(5,203)
Elements of equity at the time of issuance - conversion option	(32,933)
Embedded financial derivatives at the time of issuance	(980)
Corporate bond payable, net on the issuing date	<u>\$ 660,884</u>

The elements of equity were stated into capital surplus-stock option at the time of issuance. At the time of issuance, the fair value of embedded non-equity derivative was re-evaluated for the year ended September 30, 2015, which was stated into the "financial asset (liability) held for trading". The "gain (loss) from financial assets and liabilities at fair value through profit or loss" was NT\$1,862 thousand and NT\$(3,426) thousand in 2016 and 2015.



The effective interest rate for the 3rd domestic unsecured convertible corporate bonds was 1.9183%. The interest expenses of convertible corporate bond recognized for the year ended September 30, 2016 and 2015 were NT\$8,390 thousand and NT\$8,262 thousand.

**(XIII) Long-term Loans**

Lender	Nature	Amount	Period	September 30, 2016
Land Bank –East Shichu Branch	Secured bank borrowings	\$ 201, 100	2015. 09. 30-2020. 09. 30	\$ 201, 000
Land Bank –East Shichu Branch	Secured bank borrowings	\$ 163, 000	2009. 03. 02-2022. 03. 02	51, 300
Less: Long-term Loans payable-current portion				(9, 328)
Long-term Loans, net				\$ 242, 972
Interest rates for long-term loans				1. 28 %~1. 32%

Lender	Nature	Amount	Period	December 31, 2015
Land Bank –East Shichu Branch	Secured bank borrowings	\$ 201, 100	2015. 09. 30-2020. 09. 30	\$ 201, 100
Land Bank –East Shichu Branch	Secured bank borrowings	\$ 163, 000	2009. 03. 02-2022. 03. 02	58, 296
Less: Long-term Loans payable-current portion				(9, 328)
Long-term Loans, net				\$ 250, 068
Interest rates for long-term loans				1. 49 %~1. 53 %

Lender	Nature	Amount	Period	September 30, 2016
Land Bank –East Shichu Branch	Secured bank borrowings	\$ 201, 100	104. 09. 30-109. 09. 30	\$ 201, 100
Land Bank –East Shichu Branch	Secured bank borrowings	\$ 163, 000	98. 03. 02-111. 03. 02	60, 628
Less: Long-term Loans payable-current portion				(9, 329)
Long-term Loans, net				\$ 252, 399
Interest rates for long-term loans				1. 56 %

1. For the information about exposure of the Group's interest rate and liquidity risks, please refer to Note XII(II).
2. Collateral for bank loan.

For bank loans secured by the Group's assets, please see Note VIII.

**(XIV) Pension Benefits**

1. Defined benefit plan
  - (1) The Company and its domestic subsidiaries have instituted regulations for the defined pension plan under the “Labor Standards Law” applicable to the years of services of employees before July 1, 2005, which is the day that the new

“Labor Pension Act” came into full force, and the following years of services of employees who choose to continue applying the Labor Standard Law upon enforcement of the Labor Pension Act. Employees who meet the retirement requirements will be paid the pension based on their years of service and average salary or wage of the last six (6) months prior to retirement. Two units are accrued for each year of service for the first 15 years and one unit is accrued for each additional year thereafter, up to a maximum of 45 units. The Company and its domestic subsidiaries contribute 2% of the total salaries of the employees to the special pension fund account with Bank of Taiwan supervised by the Employee Pension Fund Reserve Supervisory Committee. Until the end of September 2016, the balance of the pension funds contributed to the special pension fund account at Bank of Taiwan was \$54,675 thousand.

- (2) For the aforementioned pension plan, the Group recognized pension costs of \$4,199 thousand and \$415 thousand dollars for the three-month periods ended September 30, 2016 and 2015, respectively.
- (3) Expected contributions to the defined benefit pension plans of the Group for the next annual reporting period as at September 30, 2016 is \$4,232 thousand dollars.

## 2. Defined contribution plans

- (1) As of July 1, 2005, the Group instituted the defined contribution retirement plan according to the "Labor Pension Act", applicable to the native employees. The Group shall contribute the amount equivalent to 6% of the monthly salary of respective native employees to the individual pension accounts of the employees at Labor Insurance Bureau, with respect to the labor pension system under the "Labor Pension Act" chosen by employees. Retired employees may claim for pension disbursement in accordance with the status of their individual accounts and the cumulative contribution in the account through monthly payment or in lump sum.
- (2) Foreign subsidiaries shall contribute specific ratio of the local employees' total salary, on a monthly basis, as the pension or fund of endowment insurance according to the local government regulations. The pension of each employee shall be arranged and managed by government. Except that the subsidiaries shall be obligated to contribute the fund on a monthly basis, the subsidiaries shall bear no other obligations.
- (3) The pension expenses recognized under the Group's defined contributed pension regulations were \$42,690 thousand dollars and \$37,623 thousand dollars for the three-month periods ended September 30, 2016 and 2015.

## **(XV) EQUITY**

1. The Company's outstanding common stock at beginning and ending is reconciled as follows:

	<u>Jan.1~Sep 30,2016</u>	<u>2015</u>	<u>Jan.1~Sep 30,2015</u>
At January 1	79, 005, 392	79, 536, 392	79, 536, 392
Employee stock options exercised	600, 000	—	—
Convertible Bonds Transferred To Common Stock	—	69, 000	69, 000
Purchase of Treasury stock	—	(600, 000)	(280, 000)
At September 30	<u>79, 605, 392</u>	<u>79, 005, 392</u>	<u>79, 325, 392</u>

2. Capital surplus

- (1) Pursuant to the R.O.C. Company Law amended in January 2012, capital surplus shall be first used to offset a deficit and then new shares or cash may be allocated based on realized capital surplus subject to shareholdings. Realized capital surplus referred to in the preceding paragraph included the surplus generated from donations and the excess of the issuance price over the par value of capital stock. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the capital surplus may be transferred to common stock up to an annual limit of 10% of the paid-in capital.
- (2) The balance of the Company's capital surplus:

	<u>September 30,2016</u>	<u>December 31,2015</u>	<u>September 30,2015</u>
Additional paid-in capital	\$ 210, 163	\$ 210, 163	\$ 210, 163
From convertible bonds	569, 216	569, 216	569, 216
Treasury Stock Transactions	58, 236	44, 073	44, 073
Donations	1	1	1
From share of changes in equities of subsidiaries and associates	—	—	—
Other	19, 858	19, 858	19, 858
Option	28, 261	28, 261	28, 261
Total	<u>\$ 885, 735</u>	<u>\$ 871, 572</u>	<u>\$ 871, 572</u>

- A. The company issued the first and second Domestic unsecured convertible corporate bonds; the company recognized \$480,676 thousand dollars as paid-in capital in excess of par-common stock and treasury stock transaction \$8,477 thousand dollars.
- B. The group issued the first and second Domestic unsecured convertible corporate bonds; the company recognized \$35,596 thousand dollars as paid-in capital in excess of par-common stock.
- C. The Company received the shareholders' waiver of equity and 8 shares were transferred to the Company in June 2013. According to laws, the equity acquired by the Company upon receipt of the shareholders' waiver of the same shall be held as treasury stock and stated at the fair value of the stock on the same day, credited into capital surplus-donation from shareholders, NT\$1,000.

- D. The Company invest in LUMITED CORPORATION through JIA-SIN INVESTMENT CORP. and YI-SIN INVESTMENT CORP. and JIA-YING INVESTMENT CORP. handle to increase the Company's working capital and employee stock options ,didn't subscribe, so the additional paid-in capital from investee under equity method were \$19,306 thousand dollars. Because LUMITED CORPORATION dismissed on February 28, 2015, it is \$0 dollars to close the components of capital surplus.
- E. The Company issued new shares and swapped the equity with the subsidiary, Chain-Logic International Corp. on June 15, 2002. The Company's shareholding is 100%. The difference between the investment cost and net worth of the acquired equity was NT\$19,858 thousand on the date of investment, stated as capital surplus-others
3. Retained earnings
- (1) According to the Company's Articles of Incorporation, if the Company has profits after final account for the concerning fiscal year, the profits shall be allocated in the following order: (1) Payment of tax. (2) Covering of loss; (3) 10% set aside as legal reserve; (4) Provision of special reserve pursuant to laws; (5) The remainder, if any, plus allocable earnings at the end of the year may be subject to the motion for distribution of allocable earnings prepared by the board of directors and submitted to a shareholders' meeting for resolution. Where the earnings are resolved to be allocated, they shall be allocated in the following manners:
- Employee bonus: at least 20% of the allocable earnings.
  - Remuneration to directors/supervisors: no more than 3% of the allocable earnings.
  - Shareholders bonus: the remainder less the allocated amount referred to in the preceding two sub-paragraphs.
- The counterparts whom the stock dividends may be allocated to shall include the employees of affiliated companies.
- (2) The shareholders' meeting resolved to amend the Company Act of Incorporation as following on June 17, 2011: For the time being, the Company's industrial development is still growing, the dividend policy requires that the board of directors shall draft the motion for allocation of earnings each year and submit the same to a shareholders' meeting for ratification, subject to the Company's present and future investment environments, funding demand, status of competition domestically/overseas and capital budget and by taking care of shareholders' interest, balanced stock dividend and the Company's long-term financial planning into consideration.

The earnings will be allocated in the form of cash dividend or stock dividend, subject to the funding demand and level of dilution of EPS. The cash dividend to be allocated, if any, shall be no less than 10% of the total stock dividend.

- (3) According to the company laws amended in May 2015, employee bonus and remuneration to directors/supervisors shall not be allocated from earnings any longer. The Company has had the amended Articles of Incorporation resolved and approved by the board of directors on June 16, 2016. Therefore, if the Company has a profit at the year's final accounting, it shall first pay profit-seeking enterprise income tax and make up any losses from past years, and then make contribution of 10% of the balance to the statutory reserve, unless the statutory reserve reaches the amount of the Company paid-in capital, and also make provision/reversal of special reserves pursuant to laws. The residual balance shall be added to undistributed earnings carried from previous years. The Board shall draft a motion for allocation of the residual balance plus the undistributed earnings, and submit the same to a shareholders' meeting to resolve whether shareholder bonus shall be allocated or the earnings shall be retained.

- (4) Legal reserve

According to the Company Law amended in January 2012, the Company shall contribute 10% from the income after tax as the legal reserve until it is equivalent to the gross capital. When the Company suffers no loss, new shares or cash may be allocated from the legal reserve upon resolution of the shareholders' meeting, provided that the new shares or cash allocated shall be no more than 25% of the paid-in capital.

- (5) Special reserve

Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve based on the difference between the amount already set aside and the total debit balance of other shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

The Company doesn't need to provide special reserve, pursuant to the related laws in, in 2015 and the year ended September 30, 2016.

- (6) The Company resolved to allocate the cash dividend, NT\$238,816 thousand (NT\$3 per share), to shareholders from earnings 2015 on June 16, 2016.

The Company resolved to allocate the cash dividend, NT\$318,422 thousand (NT\$4 per share), to shareholders from earnings 2014 on June 12, 2015.

- (7) The information about allocation of retained earning approved by the Board of

Directors and resolved by a shareholders' meeting may be viewed at the "MOPS".

- (8) For the information about remuneration (bonus) to employees and remuneration to directors/supervisors, please see Note 6(20)

#### 4. Treasury stock

- (1) Cause of repurchase and increase/decrease in quantity:

Year ended September 30, 2016				
Cause	Quantity, Beginning	Increase in current period	Decrease in current period	Quantity, Ending
To be reissued to employees	600,000	—	600,000	—

Year ended December 31, 2015				
Cause	Quantity, Beginning	Increase in current period	Decrease in current period	Quantity, Ending
To be reissued to employees	—	600,000	—	600,000

Year ended September 30, 2015				
Cause	Quantity, Beginning	Increase in current period	Decrease in current period	Quantity, Ending
To be reissued to employees	—	—	—	—

- (2) According to the Securities and Exchange Act, the number of outstanding shares repurchased may not exceed ten percent of the Company's total number of issued shares. The total amount of the repurchased shares may not exceed the amount of retained earnings plus premium on capital stock and realized capital surplus. The Company repurchased the treasury stock totaling 600,000 shares, i.e. NT\$34,454 thousand, from August to October 2015.
- (3) According to the Securities and Exchange Act, the treasury stock held by the Company shall not be pledged. Before the transfer, the treasury stock shall not be entitled to any shareholder right.
- (4) According to the Securities and Exchange Act, the shares repurchased by a company for transfer of the same to employees shall be transferred within three years from the date of repurchase. The shares not transferred within the said time limit shall be deemed as not issued by the company, and amendment registration shall be processed.
- (5) In order to recruit and retain the technical and professional talents for the Company, and encourage their long-term service, loyalty, productivity and sense of belonging to create interest for the Company and shareholders jointly, the Company established the "Third time Regulations Governing Share Repurchase and Transfer of Shares to Employees", in accordance with Article

28-2 of Securities and Exchange Act, and the Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies promulgated by FSC. The Regulations were approved upon resolution of the board of directors on March 9, 2016. The treasury stock, totaling 2,000,000 shares, was transferred to employees of the Company and Chain-Logic International Corp. wholly owned by the Company on the record date of stock option, namely March 9, 2016, at NT\$54.72 per share. According to the estimation under Black-Scholes evaluation model, the fair value was NT\$23.78 per share on the grant date. The Company recognized the remuneration cost, NT\$14,268 thousand (stated as salary expenses). The parameters adopted by the evaluation model are stated as following:

		<b>2016 Treasury stock</b>	
		<b><u>transferred to employees</u></b>	
Evaluation Model	Black-Scholes		
	option-pricing model		
	Vesting period	March 9~14, 2016	
	Dividend yield rate	4.42 %	
	Exercise price	\$ 57.42	
	Stock price	\$ 81.20	
	Expected price volatility	49.60 %	
	Risk-free interest rate	0.210 %	

The price difference between the transfer consideration less necessary trading cost, NT\$34,349 thousand, and capital surplus-employee stock option, NT\$14,268 thousand, and the repurchase cost, NT\$34,454 thousand, was stated into the capital surplus-treasury stock exchange, NT\$14,163 thousand.

**(XVI) Share-based payment — employee compensation plan**

As of September 30, 2016, information on outstanding ESO is shown below: N/A

**(XVII) NON-OPERATING INCOME AND EXPENSES**

1. Other gains and losses, net

	<u>Jul 1~ Sep 30, 2016</u>	<u>Jul 1~ Sep 30, 2015</u>	<u>Jan.1~ Sep 30, 2016</u>	<u>Jan.1~ Sep 30, 2015</u>
Gains (losses) on disposal of property, plant and equipment	\$ —	\$ 3	\$ (173)	\$ (63)
Gains (losses) on disposal of investments	—	—	—	5,706
Net gains (losses) on financial liabilities at fair value through profit or loss	—	—	1,862	—
Net currency exchange gains (losses)	(120)	(1,201)	—	(3,426)
Others	(16,293)	21,243	(19,392)	19,245
Total	<u>(1,392)</u>	<u>(217)</u>	<u>(1,467)</u>	<u>(930)</u>
Gains (losses) on disposal of property, plant and equipment	<u>\$ (17,805)</u>	<u>\$ 19,828</u>	<u>\$ (19,170)</u>	<u>\$ 20,532</u>

For the notes to gain on disposition of investment, please refer to Note VI(VI).

2. Financial cost

	Jul 1~Sep 30, 2016	Jul 1~Sep 30, 2015	Jan.1~Sep 30, 2016	Jan.1~Sep 30, 2015
Interest expense				
Bank borrowings	\$ 2,559	\$ 703	\$ 7,939	\$ 1,336
The convertible bonds issued in 2014	2,810	2,757	8,390	8,262
Interest of Financial Leasing	167	—	517	—
subtotal	5,536	3,460	16,846	9,598
Less: capitalisation of qualifying assets	—	—	—	—
Total	\$ 5,536	\$ 3,460	\$ 16,846	\$ 9,598

(XVIII) Income Tax

1. The Group's income tax expenses (gains) are specified as following:

	Jul 1~Sep 30, 2016	Jul 1~Sep 30, 2015	Jan.1~Sep 30, 2016	Jan.1~Sep 30, 2015
Current tax:				
Current tax on profits for the period	\$ 30,734	\$ 20,758	\$ 70,927	\$ 74,621
Adjustments in respect of prior years	—	—	52	(47)
Total current tax	30,734	20,758	70,979	74,574
Deferred tax:				
Origination and reversal of temporary differences	(1,200)	(2,867)	(1,172)	(11,729)
Impact of change in tax rate	—	—	—	—
Total deferred tax	(1,200)	(2,867)	(1,172)	(11,729)
Income tax expense	\$ 29,534	\$ 17,891	\$ 69,807	\$ 62,845

2. The Group recognized Income tax expenses in other comprehensive income are NT\$ 0 start from January to September, at 2016 and 2015.

3. The income tax expenses recognized under the title of equity are NT\$0 start from January to September, at 2016 and 2015.

4. As of September 30, 2016, the investment tax credits of the Company consisted of the following:

Item	Total tax credits	Used tax Credits before the year	Used tax credits of the year	Unused tax credits	Final year tax credits are due
Research and development-2016	\$ 58,780	—	\$ 12,458	\$ —	2016
	\$ 58,780	—	\$ 12,458	\$ —	

5. Authorization of income tax:

	Year
MPI Corporation	2013
Chain-Logic International Corp.	2014
JIA-YING INVESTMENT CORP.	2014
JIA-SIN INVESTMENT CORP.	2014
YI-SIN INVESTMENT CORP.	2014
WANG-TONG CORP.	2014
Allstron Corp	2014



6. Information about the Company's two-in-one tax policy:

	September 30, 2016	December 31, 2015	September 30, 2015
Balance in deductible tax accounts	\$ 201, 771	\$ 203, 331	\$ 179, 861
	2015 (Actual)	2014 (Actual)	
Deduction percentage of earnings appropriation	16. 25 %	14. 70 %	

Said information about the two-in-one tax policy refers to the amount treated according to the letter of Ministry of Finance under Tai-Tsai-Shui No. 10204562810 dated October 17, 2013.

According to Article 66-6 of the amended Income Tax Law, the tax deduction applicable to individual shareholders residing within the territories of the R.O.C. may be discounted at 50% as of January 1, 2015 when the earnings are allocated.

7. Information about the Company's undistributed earnings

Except the balance, NT\$322 thousand, before 1997, the remainder of the Company's undistributed earnings refers to those after 1998.

**(XIX) Earnings Per Common Share**

1. Basic EPS

The basic EPS is calculated based on the income vested in the Company's common stock holders dividing by the weighted average number of outstanding common stock.

2. Diluted EPS

The diluted EPS is calculated upon adjustment of the effect of all potential diluted common stocks based on the income vested in the common stock holders and the weighted average number of outstanding common stock.

3. The Company's basic EPS and diluted EPS are calculated as follows:

	Jul 1~Sep 30, 2016			Jul 1~Sep 30, 2015		
	Amount after tax	Weighted average number of outstanding common stock (thousand shares)	EPS (NT\$)	Amount after tax	Weighted average number of outstanding common stock (thousand shares)	EPS (NT\$)
<b>Basic EPS</b>						
Net profit attributed to the Company's common stock shareholders	\$206, 014	79, 605	\$ 2. 59	\$ 99, 426	79, 525	\$ 1. 25
<b>Diluted EPS</b>						
Net profit attributed to the Company's common stock shareholders	\$206, 014	79, 605		\$ 99, 426	79, 525	

Effect of all potential diluted common stocks						
3rd domestic unsecured convertible corporate bond		6,660			6,007	
Employee stock bonus	—	220		—	473	
Net profit attributed to the Company's common stock shareholders plus effect of potential common stocks	\$206,014	86,485	\$ 2.38	\$ 99,426	86,005	\$ 1.16

	Jan 1~Sep 30, 2016			Jan 1~Sep 30, 2015		
	Amount after tax	Weighted average number of outstanding common stock (thousand shares)	EPS (NT\$)	Amount after tax	Weighted average number of outstanding common stock (thousand shares)	EPS (NT\$)
<b>Basic EPS</b>						
Net profit attributed to the Company's common stock shareholders	\$409,046	79,439	\$ 5.15	\$275,745	79,560	\$ 3.47
<b>Diluted EPS</b>						
Net profit attributed to the Company's common stock shareholders	\$409,046	79,439		\$275,745	79,560	
Effect of all potential diluted common stocks						
3rd domestic unsecured convertible corporate bond		6,660			6,007	
Employee stock bonus	—	465		—	473	
Net profit attributed to the Company's common stock shareholders plus effect of potential common stocks	\$409,046	86,564	\$ 4.73	\$275,745	86,040	\$ 3.20

For the details about capital increase, please see Note VI(XV).

**(XX) Employee benefits, depreciation, depletion and amortization expenses are summarized as follows**

Nature \ Function	Jul 1~Sep 30, 2016			Jul 1~Sep 30, 2015		
	Operation cost	Operation expense	Total	Operation cost	Operation expense	Total

Employee benefit expense						
Wages and salaries	200,012	147,450	347,462	143,342	155,734	299,076
Labor and health insurance expense	14,966	11,234	26,200	14,295	15,418	29,713
Pension costs	11,899	6,771	18,670	7,691	6,754	14,445
Other personnel expense	15,104	6,026	21,130	18,707	4,522	23,229
Depreciation	74,389	16,460	90,849	42,614	15,825	58,439
Amortization	5,944	8,086	14,030	4,123	7,950	12,073

Nature \ Function	Jan.1~ Sep30,2016			Jan.1~ Sep 30,2015		
	Operation cost	Operation expense	Total	Operation cost	Operation expense	Total
Employee benefit expense						
Wages and salaries	585,366	505,616	1,090,982	423,292	472,613	895,905
Labor and health insurance expense	36,848	32,621	69,469	33,206	35,633	68,839
Pension costs	25,842	21,047	46,889	18,414	19,624	38,038
Other personnel expense	61,825	18,867	80,692	61,524	19,287	80,811
Depreciation	213,459	55,323	268,782	103,942	50,983	154,925
Amortization	17,131	24,909	42,040	12,420	22,933	35,353

(Note) The other employee benefit expenses including meal expenses, overtime pay and workers' benefits.

1. According to the Company's existing articles of incorporation, the Company shall allocate remuneration (bonus) to employees and remuneration to directors/supervisors when allocating the earnings. For the details about capital increase, please see Note VI(XV).

Notwithstanding, according to the Company Law amended on May 20, 2015, the Company shall allocate remuneration to employees in specific amount or at specific percentage, subject to the status of earnings in the year.

2. A resolution was passed at the stockholders' meeting of the Company held on June 16, 2016 to amend the Articles of Incorporation of the Company. According to the amend Articles of Incorporation of the Company, 5%~15% of profit of the current year is distributable as employees' compensation and no higher than 3% of profit of the current year is distributable as remuneration to directors and supervisors.

However, the Company's accumulated losses shall have been covered (if any). The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employee's compensation in the form of shares or in cash; And in addition thereto a report of such distribution is submitted to the shareholders' meeting.

3. For the three-month and nine-month periods ended September 30, 2016 and 2015, employees remuneration(bonus) was accrued at NT\$19,155, NT\$8,976, NT\$40,497 and NT \$25,247 thousand dollars, respectively, and directors' and supervisors' remuneration was accrued at NT \$5,387, NT \$2,244, NT \$11,389 and NT \$6,312 thousand dollars, respectively. The aforementioned amounts were recognized as

salary expenses. The expense recognized for 2016 were accrued based on the earnings of current year; The expenses recognized for 2015 were accrued based on the net income for 2015 and the percentage specified in the Articles of Incorporation of the Company, taking into account other factors such as legal reserve.

4. The remuneration to employees and directors/supervisors 2015 resolved to be allocated at the directors' meeting on June 16, 2016 were NT \$28,640 thousand dollars and NT \$7,160 thousand dollars, respectively, identical with that recognized in the financial statement 2015, and the remuneration to employees will be paid in cash. The remuneration will be paid after the amended Articles of Incorporation is resolved at the general shareholders' meeting 2016.
5. Upon resolution by the shareholders' meeting, the Company's actual cash dividend to shareholders and remuneration to directors/supervisors in 2014 were NT\$49,168 thousand and NT\$11,240 thousand. The difference between the employee bonus, NT\$48,242 thousand, and remuneration to directors/supervisors, NT\$12,061 thousand, as recognized in the financial statements 2016 was NT\$105 thousand, resulting from the amendment to the estimated employee bonus and remuneration to directors/supervisors after the Company took the shareholders' equity and employee benefits, and also the standards in the same trade and future operation into consideration. The difference was held as a change in the accounting estimation and adjusted as income 2015.
6. The information about remuneration (bonus) to employees and remuneration to directors/supervisors approved by the Board of Directors and resolved by a shareholders' meeting may be viewed at the "MOPS".

**(XXI) Supplemental cash flow information**

1. Investing activities paid in cash in part only:

	<u>Jan.1~Sep 30,2016</u>	<u>Jan.1~Sep 30,2015</u>
Purchase of fixed assets	\$ 261,148	\$ 921,964
Add: opening balance of payable on equipment	127,068	141,920
Less: ending balance of payable on equipment	(40,405)	(78,475)
Less: ending balance of lease obligations payable	(72,118)	—
Cash paid during the period	<u>\$ 275,693</u>	<u>\$ 985,409</u>

2. Financing activities not affecting cash flow:

	<u>Jan.1~Sep 30,2016</u>	<u>Jan.1~Sep 30,2015</u>
Convertible bonds being converted to capital stocks	<u>—</u>	<u>\$ 690</u>

**VII. Transactions with related parties**

(I) Parent company and ultimate controller

The Company is the ultimate controller of the Group.

(II) Important transactions with related parties

The balance and transaction between the Company and its subsidiaries have been derecognized from the consolidated financial statements and were not disclosed accordingly. The details about transactions between the Group and other related parties are disclosed as following:

1. Operating revenue

The Group's sales values to related parties are stated as follows:

<u>Related parties</u>	<u>Jul 1~Sep 30, 2016</u>	<u>Jul 1~Sep 30, 2015</u>	<u>Jan.1~Sep 30, 2016</u>	<u>Jan.1~ Sep 30, 2015</u>
<b>Sales of goods:</b>				
Affiliates	\$ 12,662	\$ 9,997	\$ 49,404	\$ 31,174
The Company's director	77,650	170,546	271,056	450,419
<b>Sales of services: :</b>				
The Company's director	25,835	19,856	72,939	46,947
<b>Total</b>	<b>\$ 116,147</b>	<b>\$ 200,399</b>	<b>\$ 393,399</b>	<b>\$ 528,540</b>

The price of the Group's sale to related parties was not significantly different from the Group's general selling price.

2. Purchase

The Group's purchase values to related parties are stated as follows:

<u>Related parties</u>	<u>Jul1~Sep 30, 2016</u>	<u>Jul1~Sep 30, 2015</u>	<u>Jan.1~Sep 30, 2016</u>	<u>Jan.1~Sep 30, 2015</u>
Affiliates	\$ 16	\$ 2,422	\$ 666	\$ 30,974
The Company's director	4,584	14,967	75,054	58,402
<b>Total</b>	<b>\$ 4,600</b>	<b>\$ 17,389</b>	<b>\$ 75,720</b>	<b>\$ 89,376</b>

The price of the Group's purchase from related parties was not significantly different from the Company's price of purchase from the general suppliers.

3. Receivable accounts-related parties

The Company's receivable accounts-related parties are stated as following:

<u>Item</u>	<u>Related parties</u>	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Accounts receivable	Affiliates	\$ 20,885	\$ 18,633	\$ 13,721
Accounts receivable	The Company's director	32,372	63,825	55,177
Accounts receivable		\$ 53,257	\$ 82,458	\$ 68,898
Less: Allowance for bad debt		(1,661)	(520)	(59)
Accounts receivable, net		\$ 51,596	\$ 81,938	\$ 68,839
Other receivable	Affiliates	—	—	\$ 77

4. Payable accounts-related parties

The Group's payable accounts-related parties are stated as following:

<u>Item</u>	<u>Related parties</u>	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Accounts payable	Affiliates	\$ 121	\$ 82	\$ 167
Accounts payable	The Company's director	922	2,910	39,088
Other payables	Affiliates	—	—	410

Other payables	The Company's director	899	6,667	12,065
Total		\$ 1,942	\$ 9,659	\$ 51,730

5. Prepayments : None.

6. Exchange of property

(1) Acquisition of property, plant, and equipment

Related parties	Nature	Jul 1~Sep 30, 2016	Jul 1~Sep 30, 2015	Jan.1~Sep 30, 2016	Jan.1~Sep 30, 2015
Affiliates	Other equipment	\$ —	\$ —	\$ —	\$ 130

(2) Disposition of property, plant, and equipment: N/A.

7. Purchase of labor services from related parties

	Jul 1~Sep 30, 2016	Jul 1~Sep 30, 2015	Jan.1~Sep 30, 2016	Jan.1~Sep 30, 2015
<b>Selling expense - Commission expense :</b>				
Affiliates	\$ 1,236	\$ 1,789	\$ 1,609	\$ 3,053
The Company's director	1,074	526	3,232	1,723
<b>Selling expense -Royalty:</b>				
The Company's director	—	11,709	—	34,950
Total	\$ 2,310	\$ 14,024	\$ 4,841	\$ 39,726

For the calculation of the royalty to related parties, please see Note IX(II).

8. Others

(1) Payment on behalf of others (stated as other current assets)

Related parties	September 30, 2016	December 31, 2015	September 30, 2015
The Company's director	\$ 3,424	\$ 583	\$ 895
Total	\$ 3,424	\$ 583	\$ 895

Payment of goods on behalf of others for triangle trade

(2) Sales revenue received in advance

Related parties	September 30, 2016	December 31, 2015	September 30, 2015
Affiliates	\$ 60	\$ 23	\$ 1,374
The Company's director	9,657	688	3,151
Total	\$ 9,717	\$ 711	\$ 4,525

(3) Receipts under custody (stated as other current liabilities)

Related parties	September 30, 2016	December 31, 2015	September 30, 2015
The Company's director	\$ 13,028	\$ 5,800	\$ 5,902

Payment of goods and general receipt under custody for triangle trade.

(4) Temporary receipts (stated as other current liabilities)

Related parties	September 30, 2016	December 31, 2015	September 30, 2015
The Company's director	\$ —	\$ —	\$ 97

(5) Manufacturing expenses (stated as operating cost)

Related parties	Nature	Jul 1~ Sep 30, 2016	Jul 1~ Sep 30, 2015	Jan.1~ Sep 30, 2016	Jan.1~ Sep 30, 2015
Affiliates	Others	\$ —	\$ —	\$ —	\$ 665
Affiliates	Manufacturing Overhead-outsourced	\$ —	\$ 2,172	\$ 2,795	\$ 4,704
The Company's director	Others	\$ 4	\$ 4	\$ 4	\$ 4

(6) Selling expenses

Related parties	Nature	Jul 1~ Sep 30, 2016	Jul 1~ Sep 30, 2015	Jan.1~ Sep 30, 2016	Jan.1~ Sep 30, 2015
Affiliates	Stationary	\$ —	\$ —	\$ —	\$ 1
Affiliates	repair and maintenance	\$ 1,089	\$ —	\$ 1,089	\$ 4
The Company's director	repair and maintenance	\$ —	\$ —	\$ —	\$ 4
The Company's director	Others	\$ 380	\$ 1,155	\$ 567	\$ 1,339

(7) Management expenses

Related parties	Nature	Jul 1~ Sep 30, 2016	Jul 1~ Sep 30, 2015	Jan.1~ Sep 30, 2016	Jan.1~ Sep 30, 2015
Affiliates	Consulting	\$ —	\$ 13	\$ —	\$ 697
Affiliates	Others	\$ —	\$ 62	\$ —	\$ 232

(8) Research and development expense

Related parties	Nature	Jul 1~ Sep 30, 2016	Jul 1~ Sep 30, 2015	Jan.1~ Sep 30, 2016	Jan.1~ Sep 30, 2015
Affiliates	Stationary	\$ —	\$ —	\$ —	\$ 4
Affiliates	Others	\$ —	\$ —	\$ —	\$ 220
Affiliates	Others	\$ —	\$ —	\$ —	\$ 869

(9) Rent revenue

Related parties	Jul~Sep 30, 2016	Jul~Sep 30, 2015	Jan.1~Sep 30, 2016	Jan.1~Sep 30, 2015
Affiliates	\$ 107	\$ 183	\$ 433	\$ 1,130

The main contents of lease contract:

Objective	Lease period	Collection Term
Wenshan Rd., Xinpu Township, Hsinchu County	2014.11.01-2017.10.31	<p>\$ 1,359 thousand dollars per month (excluded VAT) from 2014.</p> <p>Since January 1, 2015, NT \$ 296 thousand per month (excluded VAT) ;</p> <p>Since February 1, 2015, NT \$ 185 thousand per month (excluded VAT) ;</p> <p>Since March 1, 2015, NT \$ 162 thousand per(excluded VAT) ;</p> <p>Since April 1, 2015, NT \$ 105 thousand per(excluded VAT) ;</p> <p>Since June 1, 2015, NT \$ 67 thousand per(excluded VAT) ;</p> <p>Since July 1, 2015, NT \$ 61 thousand per(excluded VAT) ;</p> <p>Since January 1, 2016, NT \$ 58 thousand per(excluded VAT) ;</p> <p>Since April 1, 2016, NT \$ 51 thousand</p>

per(excluded VAT) ;  
 Since September 1 1, 2016, NT \$ 6 thousand  
 per(excluded VAT) ;  
 To count for actual parking space per month.

(10) Other revenue

Related parties	Jul 1~Sep 30, 2016	Jul 1~Sep 30, 2015	Jan.1~Sep 30, 2016	Jan.1~Sep 30, 2015
The Company's director	\$ —	\$ 203	\$ 272	\$ 6,607
Affiliates	\$ 1	\$ 478	\$ 440	\$ 1,468

(III) Information about remuneration to the management

Information about remuneration to the Group's management is stated as follows:

	Jul 1~Sep 30, 2016	Jul 1~Sep 30, 2015	Jan.1~Sep 30, 2016	Jan.1~Sep 30, 2015
Salaries and other short-term employee	\$ 2,818	\$ 4,456	\$ 8,579	\$ 12,083
Resignation benefits	—	—	—	—
Retirement benefits	—	—	—	—
Other long-term benefits	—	—	—	—
Share-based payments	—	—	—	—
Total	\$ 2,818	\$ 4,456	\$ 8,579	\$ 12,083

Said remuneration to the management is decided by the Remuneration Committee subject to personal performance and market trend. For the relevant information, please see the annual report of the general shareholders' meeting.

**VIII. Pledged assets**

The following assets have been provided to the Group as the collaterals for bank loans, import business tax and sale commitment. The book value thereof is stated as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
Land	\$ 763,767	\$ 699,538	\$ 699,661
Buildings	917,452	937,299	943,914
Pledged time deposit	9,304	8,968	8,963
Total	\$ 1,690,523	\$ 1,645,805	\$ 1,652,538

**IX. Significant contingent liability and unrecognized contractual commitment**

(I) Contingency: N/A.

(II) Commitment:

- In order to upgrade the product quality and local content rate, the Group entered into the cooperative contract with the following companies. The main contents of the contract are stated as follows:

Cooperative company	Payment method	Product by technical cooperation
---------------------	----------------	----------------------------------



the Company's  
director-MICRONICS  
JAPAN CO., LTD.

The technical remuneration equivalent  
to 3% of the total sales value of all  
probe cards manufactured and sold by  
the Company shall be payable once  
per quarter.  
(Terminated on November 30, 2015)

Provide the technology and  
intelligence for improvement  
on precision of the position  
of pins applied to IC wafer  
inspection.

2. Balance of unused letter of credit issued by the Group, guarantee money paid and service charges: N/A.
3. The Group's significant long-term rent:
  - (1) The Group rented the land lots in Tainan Science Park from Southern Taiwan Science Park Administration for construction of Luchu 1st Plant and 2nd Plant. The lease commenced from February 15, 2005 and October 1, 2006 respectively. According to the lease contract, the lease of the land shall persist for no more than 20 years, and the lease shall expire on December 31, 2024. Upon expiration of the lease, both parties may enter into a new contract; otherwise, the contract shall terminate naturally and the Group is prohibited from claiming the continuance of lease or irregular lease with any excuse. In the case of land price re-set by the government pursuant to laws, the rent shall be adjusted and collected based on the re-set land price.
  - (2) The Group rented the land at Taiho Section, Zhubei City, Hsinchu Country from a non-related party for parking lots. The lease shall be effective from May 15, 2012 to May 14, 2017, for a total of 5 years. The Company shall surrender the land to the lessor upon expiration of termination of the lease contract.
  - (3) The Group rented the land and the construction at Zhonghe Street, Zhubei City, Hsinchu Country from a non-related party for parking lots and plants. The lease shall expire on August 31, 2018. According to the lease contract, upon expiration of the lease, the company has the priority to rent under the same conditions.
  - (4) The Group rented the land and the construction at Guangfu Rd, Hukou Township, Hsinchu Country from a non-related party for parking lots and plants. The lease shall expire on September 30, 2021. According to the lease contract, upon expiration of the lease, the company has the priority to rent under the same conditions.

The income expenses for said lots and constructions of long-term operating leased land were stated as NT\$5,686 and NT\$5,552 thousand for the year ended September 30, 2016 and 2015.

The future payable rent for important long-term operating lease is stated as follows:

September 30, 2016

Not later than one year	\$ 13,808
Later than one year but not later than five years	42,838
Later than five years	12,624
Total	<u>\$ 69,270</u>

4. The outstanding amount under the purchase orders signed for the Group's purchase of equipment is stated as following:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Purchases of property, plant and equipment	\$ 70,716	\$ 73,940	\$ 168,411
Total	<u>\$ 70,716</u>	<u>\$ 73,940</u>	<u>\$ 168,411</u>

**X. Significant disaster loss: N/A.**

**XI. Significant subsequent events: N/A.**

**XII. Others**

(I) Information about fair value of financial instrument

1. Financial instruments not measured at fair value:

The carrying amounts of the Group' (including cash and cash equivalents, accounts receivable, other receivables, Pledged time deposit ,short-term loans, notes payable, accounts payable and other payables are approximate to their fair values.

Noncurrent financial instrument (including refundable deposit, deposits received, long-term loans, term accounts payable) · The effect of discounting is minor, thus, the book value are approximate their the fair values. Fair value recognized in the consolidated balance sheet:

The Group applied the input which was observable in the market as possible as it could when measuring its assets and liabilities. The level of fair value is concluded as following based on the input used by the valuation technology:

1st level: Open quotation of the same assets or liabilities in an active market on the date when the assets or liabilities may be acquired (before adjustment). The active market means the market in which there are frequent and large volumes of transactions to provide the information about pricing on an ongoing basis.

2nd level: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

3rd level: Inputs for the asset or liability that are not based on.

	<u>1st level</u>	<u>2nd level</u>	<u>3rd level</u>	<u>Total</u>
<b>September 30, 2016</b>				
<b>Financial assets</b>				
Financial Assets held for trading - current	—	\$ 180	—	\$ 180

Convertible corporate bond				
<b>Financial liabilities</b>	—	—	—	—
<b>December 31, 2015</b>				
<b>Financial assets</b>	—	—	—	—
<b>Financial liabilities</b>				
Financial liabilities held for trading - current	—	\$ 1,682	—	\$ 1,682
Convertible corporate bond				
<b>September 30, 2015</b>				
<b>Financial assets</b>	—	—	—	—
<b>Financial liabilities</b>				
Financial liabilities held for trading - noncurrent	—	\$ 2,823	—	\$ 2,823
Convertible corporate bond				

- (1) The methods and hypotheses used by the Group to measure fair value are stated as following:

With respect to more complicate financial instruments; the Group applied the evaluation models consisting of the evaluation methods and technologies extensively employed in the same trade to measure the fair value. Such evaluation model is used to applying to the debt instruments or securitization products, including financial derivatives and embedded derivatives.

- (2) There was no transfer between Level 1 and Level 2 for the measurement of fair value from January 1 to September 30, 2016 and 2015.
- (3) Among the total gains (losses) stated into the income, the gains (losses) related to the financial derivatives were NT\$1,862 thousand and NT\$(3,426) thousand until September 30, 2016 and 2015.

(II) Financial risk management

1. Purpose

- (1) The Group's financial risk management aims to manage the market risk, credit risk and liquidity risk related to operating activities, and to identify measure and administer said risks based on policies and risk preference.
- (2) The Group has established adequate policies, procedures and internal controls pursuant to the related regulations, in order to manage said financial risk. The important financial activities shall be audited and approved by the board of directors according to the related regulations and internal control system. In the duration of financial management activities, the Group shall strictly comply with the requirements related to financial risk management defined by the Company.

2. Nature and degree of important financial risk

(1) Market risk

The Group's market risk arises from market price fluctuation resulting in

fluctuation of the fair value or cash flow of financial instruments. The market risk primarily includes foreign exchange risk, interest rate risk and other pricing risks.

Practically, few single risk variances would change independently. Additionally, changes of various risk variances are generally correlative to each other. Notwithstanding, the sensitivity analysis of the following risks does not take the interaction of related risk variances into consideration.

A. Foreign exchange risk

The Group's foreign exchange risk arises primarily from the operating activities (revenue or expense denominated in the currency different from the Group's functional currency) and net investment in foreign operations. The Group's receivable accounts denominated in foreign currency are identical with payable accounts denominated in foreign currency in some currencies and, therefore, the equivalent positions would produce the hedging effect naturally. Considering that said natural hedging did not meet the hedging accounting policy, the Group did not adopt the hedging accounting policy. Further, the net investment in foreign operations was identified as strategic investment. Therefore, the Company did not adopt any hedging policy against it.

The sensitivity analysis on the Company's foreign exchange risk was primarily intended to be conducted against the titles in foreign currencies at the end of the financial reporting and the effect produced by the revaluation/devaluation of related foreign currencies on the Group's income and equity. The Group's foreign exchange risk arises primarily from fluctuation in the foreign exchange rate of USD, Japanese Yen and Euro.

The Group's business lines involved some non-functional currencies (the functional currency of the Company and some of its subsidiaries was NTD, and that of some subsidiaries is USD, RMB or Won). Therefore, the Company would be subject to the effect produced by fluctuation in foreign exchange rate. The information about assets denominated in foreign currency exposed to significant effect produced by fluctuation in foreign exchange rate is stated as follows:

September 30, 2016				
	Currency unit	Amount in foreign currency (thousand dollars)	Applicable foreign exchange rate, ending (Dollar)	Book value (NTD) (thousand dollars)
<b>Financial assets</b>	NTD/USD	\$ 12,401	31.36	\$ 388,895
	NTD/JPY	\$ 5,826	0.3108	\$ 1,811
	NTD/EUR	\$ 174	35.074	\$ 6,103
	NTD/RMB	\$ 47,297	4.693	\$ 221,965

	NTD/KRW	\$ 801	0.02867	\$ 23
	NTD/HKD	\$ 4	3.9915	\$ 16
	NTD/MYR	\$ 5	7.239	\$ 36
	NTD/SGD	\$ 2	22.85	\$ 46
	NTD/THB	\$ 5	0.8716	\$ 4
<b>Financial liabilities</b>	NTD/USD	\$ 2,784	31.614	\$ 88,013
	NTD/JPY	\$ 30,241	0.311	\$ 9,405
	NTD/EUR	\$ 30	35.074	\$ 1,052
	NTD/GBP	\$ 3	40.515	\$ 122

**December 31, 2015**

	Currency unit	Amount in foreign currency (thousand dollars)	Applicable foreign exchange rate, ending (Dollar)	Book value (NTD) (thousand dollars)
<b>Financial assets</b>	NTD/USD	\$ 9,688	32.819	\$ 317,988
	NTD/JPY	\$ 5,675	0.2727	\$ 1,548
	NTD/EUR	\$ 671	35.882	\$ 24,094
	NTD/RMB	\$ 43,589	4.995	\$ 217,736
	NTD/KRW	\$ 671	0.028105	\$ 17
	NTD/HKD	\$ 4	4.181	\$ 16
	NTD/SGD	\$ 6	23.248	\$ 132
	NTD/MYR	\$ 7	7.3425	\$ 52
<b>Financial liabilities</b>	NTD/USD	\$ 3,018	32.665	\$ 98,597
	NTD/JPY	\$ 65,757	0.274	\$ 18,034
	NTD/EUR	\$ 175	34.037	\$ 6,305
	NTD/SGD	\$ 17	23.248	\$ 389
	NTD/KRW	\$ 270	0.028105	\$ 8
	NTD/RMB	\$ 27	4.99525	\$ 136

**September 30, 2015**

	Currency unit	Amount in foreign currency (thousand dollars)	Applicable foreign exchange rate, ending (Dollar)	Book value (NTD) (thousand dollars)
<b>Financial assets</b>	NTD/USD	\$ 11,244	32.869	\$ 369,593
	NTD/JPY	\$ 6,909	0.27385	\$ 1,892
	NTD/EUR	\$ 130	36.818	\$ 4,791
	NTD/CNY	\$ 49,833	5.151	\$ 256,698
<b>Financial liabilities</b>	NTD/USD	\$ 4,100	32.748	\$ 134,298
	NTD/JPY	\$ 58,661	0.276	\$ 16,181
	NTD/EUR	\$ 26	37.111	\$ 996

In consideration of the Group's multiple functional currency types, the information about exchange gain or loss for currency is disclosed by summarization. The foreign currency exchange gain (loss) (including the realized and unrealized) was NT\$(19,392) thousand and NT\$19,245 thousand for the year ended September 30, 2016 and 2015.

**B. Interest rate risk**

The interest rate risk arises when the fluctuation of market interest rate

results in fluctuation in fair value of financial instruments or in future cash flow. The Group's interest rate risk arises primarily from the loan with floating interest rate.

The Group maintained adequate portfolio with fixed and floating interest rates to manage the interest rate risk.

C. Pricing risk

Due to the fact that in the investment held by the Group indicated in the individual balance sheet, the Group did not hold the financial assets including equity instruments. Therefore, the Group did not suffer significant pricing risk.

D. Other risks over market value

In addition to meeting expected consumption and sale needs, the Group did not sign any product contract which did not apply net settlement.

E. Under the circumstance that all of the other factors remained unchanged, the sensitivity analysis on the changes in related risks before tax on September 30, 2016 and 2015 is stated as following:

<b>September 30, 2016</b>		
<b>Primary risk</b>	<b>Range of change</b>	<b>Sensitivity of income</b>
Foreign exchange risk	Fluctuation in foreign exchange rate +/- 3%	+/-NT\$15,672 thousand
Interest rate risk	Loan with floating interest rate +/- 0.25%	(2,381) thousand

<b>December 31, 2015</b>		
<b>Primary risk</b>	<b>Range of change</b>	<b>Sensitivity of income</b>
Foreign exchange risk	Fluctuation in foreign exchange rate +/- 3%	+/-NT\$13,226 thousand
Interest rate risk	Loan with floating interest rate +/- 0.25%	(2,023) thousand

<b>September 30, 2015</b>		
<b>Primary risk</b>	<b>Range of change</b>	<b>Sensitivity of income</b>
Foreign exchange risk	Fluctuation in foreign exchange rate +/- 3%	+/-NT\$14,372 thousand
Interest rate risk	Loan with floating interest rate +/- 0.25%	(2,029) thousand

(2) Credit risk

A. Credit risk represents the financial loss that would be incurred by the Group if its customers or financial instrument trading counterparts fail to perform the contracts.

B. According to the loan policy expressly defined internally in the Group,

each business dept. within the Group shall conduct the management and credit risk analysis on each new customer before setting payment and proposing the delivery terms and conditions. The internal risk control evaluates customers' credit quality by taking into consideration the customers' financial position, and past experience and other factors. The individual risk limit is set by the management according to the internal or external ratings. The management will also control the periodic drawdown of credit limits. The main credit risk results from derivative financial instruments and the balance deposited in banks and financial organizations, and customers' credit risk, including the unearned accounts receivable and undertaken transactions. The Group also applied some credit enhancement instruments (e.g. advance sale receipts) in a timely manner to reduce customers' credit risk.

- C. For the year ended September 30, 2016 and 2015, no circumstances resulting in excess of the credit limit have taken place. Meanwhile, the management expects no material loss resulting from trading counterpart's failure to perform contract.
- D. The Group grants the loan period varying based on the evaluation on each trading customer, generally O/A 90 days or 150 days. For the information about the changes of bad debt provided for the Group's impairment on receivable accounts and account age analysis on loans, please see Note 6(3).
- E. The Group's Finance Dept. manages the credit risk over the deposits in banks and other financial instruments according to the Group's policy. The Group's trading counterparts were decided by the internal control procedure, who were trustworthy banks and corporations which were not expected to breach the contracts. Therefore, there should be no significant credit risk.
- F. Guarantee  
According to the Group's policy, the Group may only make financial guarantee for the subsidiaries wholly owned by the Group. Before September 30, 2016 and 2015, the Group has never made any endorsements/guarantees.

### (3) Liquidity risk

- A. The liquidity risk arises when the Group fails to deliver cash or other financial assets to repay financial liabilities and to perform the related obligation. The Group managed the liquidity in a manner ensuring that the Company has sufficient working fund to repay matured liabilities under the general and critical circumstances, so as to avoid unacceptable

loss or impairment on the Group's goodwill.

- B. The Group's will call the management meeting periodically to assist Financial Accounting Dept. control the need for cash flow and the optimal investment return in cash. Generally, the Group will ensure that it has sufficient cash to meet the need for expected operating expenditure for 90 days, including performance of financial obligation, but excluding the potential effect which it is impossible to expect reasonably under extreme circumstances, e.g. natural calamity. The unused limit of the Group's loan totaled NT\$830,000 thousand on the reporting date.
- C. The following table refers to the non-derivative financial liabilities and grouped subject to the relevant expiry dates. The non-derivative financial liabilities are analyzed based on the residual period from the date of balance sheet until the expiry date. Nevertheless, the Group did not hold derivative financial liabilities.

Non-derivative financial liabilities	September 30, 2016			
	Within 1 year	1~2 years	More than 2 years	Total
Short-term loan	\$ 704,301	\$ -	\$ -	\$ 704,301
Payable accounts (including related party)	441,765	-	-	441,765
Other payable accounts (including related party)	478,240	-	-	478,240
Long-term loan (including the current portion)	9,328	9,328	233,644	252,300
Corporate bond payable	587,823	-	-	587,823
Rent payable	16,969	16,969	38,180	72,118
Total	<u>\$ 2,238,426</u>	<u>\$ 26,297</u>	<u>\$ 271,824</u>	<u>\$ 2,536,547</u>

Non-derivative financial liabilities	December 31, 2015			
	Within 1 year	1~2 years	More than 2 years	Total
Short-term loan	\$ 554,217	\$ -	\$ -	\$ 554,217
Payable accounts (including related party)	397,230	-	-	397,230
Other payable accounts (including related party)	612,845	-	-	612,845
Long-term loan (including the current portion)	9,328	9,328	240,740	259,396
Corporate bond payable	579,433	-	-	579,433
Total	<u>\$ 2,153,053</u>	<u>\$ 9,328</u>	<u>\$ 240,740</u>	<u>\$ 2,403,121</u>

Non-derivative financial liabilities	September 30, 2015			
	Within 1 year	1~2 years	More than 2 years	Total
Short-term loan	\$ 554,194	\$ -	\$ -	\$ 554,194
Payable accounts (including related party)	431,337	-	-	431,337
Other payable accounts (including related party)	468,279	-	-	468,279
Long-term loan	9,329	9,329	243,070	261,728



(including the current portion)				
Corporate bond payable	-	576,664	-	576,664
Total	<u>\$1,463,139</u>	<u>\$ 585,993</u>	<u>\$ 243,070</u>	<u>\$ 2,292,202</u>

### (III) Capital risk management

The Group's capital management objective is intended to protect the Group's continued operation and ensure maintenance of well-founded credit ratings and optimal capital structure to reduce capital cost, in order to support the enterprise's operation and maximization of shareholders' return. The Group manages and adjusts the capital structure subject to the economic condition. The Group might adjust the stock dividend to be paid, refund of capital, issuance of new shares or realization of assets to reduce liabilities, in order to maintain and adjust the capital structure.

The Group controls its capital structure based on the debt/equity ratio. Said ratio is net liabilities dividing by the net worth. The Group maintained the same strategy in 2016 as that in 2015, dedicated to maintaining the debt/equity ratio between 70% and 120%. The Group's debt ratios on December 31, 2015, September 30, 2016 and 2015 are stated as following:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Total liabilities	\$ 3,505,281	\$ 3,003,043	\$ 2,978,850
Total net worth	3,817,370	3,648,428	3,680,975
Debt/equity ratio	92%	82%	81%

### XIII. Disclosures of Notes

#### (I) Information about important transactions

According to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the Group shall also disclose the information about important transactions:

No.	Contents	January~ September 2016
1	Loans to others	Attached table 1
2	Endorsement/guarantees made for others	N/A
3	Marketable securities-ending	N/A
4	Cumulative amount of the same marketable securities purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital in the current period.	N/A
5	Acquisition amount of real estate reaching 300 million NTD or more than 20% of the Paid-in capital.	N/A
6	Amount on disposal of real estate reaching 300 million NTD or more than 20% of the Paid-in capital.	N/A
7	Amount on purchase from and sale to related parties reaching 100 million NTD or more than 20% of the Paid-in capital.	Attached table 2
8	Accounts receivable-related party reaching 100 million NTD or more than 20% of the Paid-in capital.	N/A
9	Transactions of derivative instruments.	N/A
10	Business relationship and important transactions between parent company and subsidiaries.	Attached table 3

Attached table 1: Loans to others

No. (Note 1)	Lender	Borrower	Account titles	Related party?	Maximum balance in current period (Note 2)	Balance, ending	Drawdown (Note 3)	Interest rate range	Nature of loans to others	Amount of transaction	Reasons necessary for offering short-term loans	Allowance for bad debt	Collateral		Limit of loans to particular borrower (Note 5)	Limit of total loans (Note 5)
													Name	Value		
0	The Company	MEGTAS CO.,LTD.	Other receivable accounts-related party	Yes	\$7,980	\$7,980	—	5.35%	Short-term loans	—	Working capital	—	—	—	\$372,570	\$1,490,282

Note 1: "0" for the Company and each investee are numbered in sequential order starting from 1.

Note 2: The maximum balance of the loan to others accumulated in the current year until the reporting month.

Note 3: The facility of the loan to others still effective until the reporting month

Note 4: The Company's board of directors resolved on March 24, 2015 to loan the fund to its subsidiary, MEGTAS CO., LTD., in the amount of NT\$7,980 thousand.

The subsidiary, MEGTAS CO., LTD., has repaid NT\$3,096 thousand of the loan on March 23, 2016.

Note 5: According to the Company's Operating Procedure for Loaning to Others, the limit of loan shall be set in the following manners:

- (1) The limit of total loans to others shall be no more than 40% of the net worth in the Company's latest financial statement: 3,725,704 thousand (the Company's net worth on December 31, 2014) X 40% = 1,490,282 thousand.
- (2) The limit of loan to any single subsidiary shall be no more than 10% of the net worth in the Company's latest financial statement: 3,725,704 thousand (the Company's net worth on December 31, 2014) X 10% = 372,570 thousand.

Attached table 2: Amount on purchase from and sale to related parties reaching 100 million NTD or more than 20% of the Paid-in capital

Purchaser/seller	Trading counterpart	Relationship	Status				Distinctive terms and conditions of trade and the reasons		Accounts/notes receivable (payable)		Remark
			Purchase (sale)	Amount	Percentage in total purchase (sale) amount	Duration of loan	Unit price	Duration of loan	Balance	Percentage in total accounts/notes receivable (payable)	
The Company	MJC Electronics Corporation	Subsidiary of the Company's director, MJC	Sale	\$ 262,076	7 %	same as that applicable to the general customer	—	—	Receivable accounts \$ 32,372	3 %	

Attached table 3: Business relationship and important transactions between parent company and subsidiaries

1. For the year ended September 30, 2016

No. (Note 1)	Trader	Trading counterpart	Affiliation with trader (Note 2)	Status of transaction			
				Title	Amount	Trading terms and conditions	To consolidated operating revenue or total assets (Note 3)
0	MPI Corporation	Chain-Logic International Corp.	1	Sale revenue	\$ 16,564	Note 4	—
				Receivable accounts	\$ 3,613	Note 6	—
				Other receivable accounts	\$ 3,266	Note 8	—
				Rent revenue	\$ 2,894	Note 7	—
				Administrative and general expenses – other expenses, less	\$ 28	Note 7	—
				Other gains (losses)	\$ 143	Note 4	—
0	MPI Corporation	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	1	Sale revenue	\$ 17,734	Note 4	—
				Receivable accounts	\$ 8,727	Note 6	—
				Advance sale receipts	\$ 7,998	Note 4	—
0	MPI Corporation	MEGTAS CO.,LTD.	1	Interest revenue	\$ 40	Note 9	—
0	MPI Corporation	Lumitek (Changchou) Co. Ltd.	1	Sale revenue	\$ 22,307	Note 4	1%
				Receivable accounts	\$ 203,615	Note 6	3%
				Other gains (losses)	\$ 16,633	Note 8	—
				Other gains (losses)	\$ 17,563	Note 4	—
1	Chain-Logic International Corp.	MPI Corporation	2	Sale revenue	\$ 6,930	Note 4	—
				Receivable accounts	\$ 6,953	Note 6	—
				Revenue from commission	\$ 36,868	Note 5	1%
				Receivable commission	\$ 75,522	Note 6	1%
				Advance sale receipts	\$ 103	Note 4	—
1	Chain-Logic International Corp.	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	1	Sale revenue	\$ 11,226	Note 4	—
				Receivable accounts	\$ 6,447	Note 6	—
1	Chain-Logic International Corp.	MEGTAS CO.,LTD.	3	Revenue from commission	\$ 639	Note 5	—
1	Chain-Logic International Corp.	Lumitek (Changchou) Co. Ltd.	3	Sale revenue	\$ 130	Note 4	—
				Receivable accounts	\$ 130	Note 6	—
2	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	MPI Corporation	2	Sale revenue	\$ 228	Note 4	—
				Revenue from commission	\$ 16,484	Note 5	—
				Receivable accounts	\$ 13,134	Note 6	—
2	CHAIN LOGIC	Lumitek (Changchou)	3	Sale revenue	\$ 1,734	Note 4	—

	(SHANGHAI) INTERNATIONAL CORP.	Co. Ltd.		Receivable accounts	\$ 61	Note 6	—
3	MEGTAS CO.,LTD.	MPI Corporation	2	Sale revenue	\$ 44	Note 4	—
				Receivable accounts	\$ 25	Note 6	—
3	MEGTAS CO.,LTD.	Chain-Logic International Corp.	3	Sale revenue	\$ 7,747	Note 4	—
				Receivable accounts	\$ 2,937	Note 6	—
3	MEGTAS CO.,LTD.	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	3	Sale revenue	\$ 1,652	Note 4	—
				Receivable accounts	\$ 334	Note 6	—
4	MPI TRADING CORP.	MPI Corporation	2	Sale revenue	\$ 462	Note 4	—
5	Lumitek (Changchou) Co. Ltd.	CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	3	Sale revenue - maintenance	\$ 167	Note 4	—
				Receivable accounts	\$ 74	Note 6	—

2. For the year ended September 30, 2015

No. (Note 1)	Trader	Trading counterpart	Affiliation with trader (Note 2)	Status of transaction			
				Title	Amount	Trading terms and conditions	% of consolidated total operating revenue or total assets (Note 3)
0	MPI Corporation	Chain-Logic International Corp.	1	Sales revenue	\$ 15,659	Note 4	1%
				Receivable accounts	\$ 5,987	Note 6	—
				Other receivable accounts	\$ 1,153	Note 8	—
				Rent revenue	\$ 2,906	Note 7	—
				Administrative and general expenses – other expenses, less	\$ 28	Note 7	—
				Other gains (losses)	\$ 248	Note 4	—
0	MPI Corporation	Chain Logic (Shanghai) International Corp.	1	Sales revenue	\$ 32,913	Note 4	1%
				Receivable accounts	\$ 26,242	Note 6	—
0	MPI Corporation	Leda-One (Shenzhen) Corp.	1	Sales revenue	\$ 4,686	Note 4	—
				Receivable accounts	\$ 6,661	Note 6	—
0	MPI Corporation	MEGTAS Co.,Ltd.	1	Other receivable accounts	\$ 3,129	Note 9	—
				Interest revenue	\$ 131	Note 9	—
0	MPI Corporation	Lumitek (Changchou) Co. Ltd.	1	Sales revenue	\$ 247,160	Note 4	8%
				Receivable accounts	\$ 255,078	Note 6	4%
1	Chain-Logic International Corp.	MPI Corporation	2	Sales revenue	\$ 3,208	Note 4	—
				Receivable accounts	\$ 2,529	Note 6	—

				Other receivable accounts	\$ 528	Note 8	—
				Revenue from commission	\$ 47,771	Note 5	2%
				Receivable commission	\$ 27,140	Note 6	—
1	Chain-Logic International Corp.	Chain Logic (Shanghai) International Corp.	1	Sales revenue	\$ 9,365	Note 4	—
				Receivable accounts	\$ 5,381	Note 6	—
1	Chain-Logic International Corp	MEGTAS CO., LTD	2	Revenue from commission	\$ 627	Note 5	—
2	Chain Logic (Shanghai) International Corp.	MPI Corporation	2	Revenue from commission	\$ 24,160	Note 5	1%
				Receivable accounts	\$ 15,118	Note 6	—
2	Chain Logic (Shanghai) International Corp.	Lumitek (Changchou) Co. Ltd.	3	Sales revenue	\$ 7,990	Note 4	—
				Receivable accounts	\$ 8,976	Note 6	—
2	Chain Logic (Shanghai) International Corp.	Leda-One (Shenzhen) Corp.	3	Sales revenue	\$ 228	Note 4	—
				Receivable accounts	\$ 269	Note 6	—
3	MEGTAS Co.,Ltd.	MPI Corporation	2	Sales revenue	\$ 883	Note 4	—
3	MEGTAS Co.,Ltd.	Chain-Logic International Corp.	3	Sales revenue	\$ 1,726	Note 4	—
				Receivable accounts	\$ 992	Note 6	—
3	MEGTAS Co.,Ltd.	Chain Logic (Shanghai) International Corp.	3	Sales revenue	\$ 2,739	Note 4	—
				Receivable accounts	\$ 757	Note 6	—
4	MPI TRADING CORP.	MPI Corporation	2	Sales revenue	\$ 547	Note 4	—
5	Lumitek (Changchou) Co. Ltd.	Chain Logic (Shanghai) International Corp.	3	Sale revenue - maintenance	\$ 835	Note 4	—
				Receivable accounts	\$ 390	Note 6	—
6	Leda-One (Shenzhen) Corp.	Lumitek (Changchou) Co. Ltd.	3	Sales revenue	\$ 1,482	Note 4	—
				Receivable accounts	\$ 1,749	Note 6	—

Note 1: Transactions between parent company and its subsidiaries are numbered as follows:

- (1) "0" for parent company.
- (2) Each subsidiary is numbered in sequential order starting from 1.

Note 2: Related-party transactions are divided into the three categories as follows (If it refers to the same transaction between parent company and subsidiary or subsidiary and subsidiary, the transaction is not required to be disclosed repeatedly. For example, if the parent company has disclosed any transaction between it and its subsidiary, the subsidiary is not required to disclose the same transaction again. If either of the subsidiaries which trade with each other has disclosed the transaction, the other subsidiary is not required to disclose the same transaction again.)

- (1) Parent company to subsidiary.
- (2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 3: For assets and liabilities, the proportion to the consolidated total income or total assets is shown as the Ratio of Shareholding to the consolidated total assets for the years ended on Dec. 31. For income, it shall be shown as a Ratio of Shareholding to the consolidated Total incomes for the years ended on September 30.

Note 4: Processed under the general trading conditions and price.

Note 5: Based on the price agreed by both parties.

Note 6: O/A 30~180 days, same as that applicable to the general customers or suppliers.

Note 7: Based on the rent agreed by both parties.

Note 8: Out-of-pocket expenses of the general expenditure.

Note 9: Financing.

(II) Information about investees

The information about name, territory, business lines, original investment amount, shares held at ending, income and investment income recognized in the current period of the investees in which the Group may exert material influence or control directly or indirectly (exclusive of investees in Mainland China) for the year ended September 30, 2016 is stated as following:

Investor	Investee	Territory	Business lines	Original investment amount		Held at ending			Investee income recognized in current period (Note 1)	Investment income recognized in the current period (Note 2) (Note 3)	Remark
				End of the period	End of last year	Quantity	Ratio	Book value			
MPI Corporation	MPI TRADING CORP.	Offshore Chambers, P.O.BOX 217, APIA, SAMOA	Trading of probe cards and semi-automatic probers	\$ 32	\$ 32	1,000	100%	\$ 56,738	\$ 5,663	\$ 5,663	Subsidiary of MPI Corporation
MPI Corporation	MMI HOLDING CO.,LTD.	Offshore Chamber P.O.BOX 217, APIA, SAMOA	Holding company	\$ 603,864	\$ 603,864	19,390,045	100%	\$ 464,395	\$ 10,856	\$ 11,129	Subsidiary of MPI Corporation (Note 4)
MPI Corporation	MEGTAS CO.,LTD.	134 Gunseo-ri, Jikson-eub, Seobuk-gu, Cheonan, Chungnam,331-811, Korea	Manufacturing, processing and sale of semi-conductor equipment and industrial mechanical spare parts, and manufacturing and sale of pottery and electronic spare parts	\$ 39,906	\$ 39,906	300,000	60%	\$ 18,734	\$ (8,786)	\$ (5,038)	Subsidiary of MPI Corporation
MPI Corporation	Chain-Logic International Corp.	3F, No. 153, Zhonghe Street, Zhubei City, Hsinchu County	Professional agent of semi-conductor	\$ 50,000	\$ 50,000	5,000,000	100%	\$ 222,386	\$ 394	\$ 1,745	Subsidiary of MPI Corporation
MPI Corporation	Chia Hsin Investment Co., Ltd.	3F, No. 10, Lane 98, Jiaren Street, Neighborhood 36, Shixing Vil., Zhubei City, Hsinchu County	General investment	\$ — (Note 5)	\$ 33,500	—	—	—	\$ 4,332	\$ 4,332	Subsidiary of MPI Corporation
MPI Corporation	Yi Hsin Investment Co., Ltd.	3F, No. 10, Lane 98, Jiaren Street, Neighborhood 36, Shixing Vil., Zhubei City, Hsinchu County	General investment	\$ — (Note 5)	\$ 33,500	—	—	—	\$ 4,332	\$ 4,332	Subsidiary of MPI Corporation

MPI Corporation	Won Tung Technology Co., Ltd.	1F, No. 100, Jiaren Street, Zhubei City, Hsinchu County	Manufacturing of telecommunication appliances, wholesale and retail of electronic materials, and manufacturing of electronic components	\$ 500	\$ 500	50,000	100%	\$ 304	—	—	Subsidiary of MPI Corporation
MPI Corporation	Lumitek Co.,LTD	No. 988, Sec. Litoushan, Wenshan Road, Xinpu Township, Hsinchu County	Manufacturing of electronic spare parts	\$ 18,551	\$ 1,976	7,473,968	20.15% (Note 5)	\$ 3,359	\$ (1,112)	\$ (13,214)	MPI adopted the evaluation under equity method.
MPI Corporation	Allstron Corporation	2F, No.8, Singhua 5th St, Dahua Vil, Gueishan Dist, Taoyuan City	High-frequency wafer measurement probe card manufacturer	\$ 50,000	\$ 50,000	1,550,000	100%	\$ 48,155	\$ (98)	\$ (98)	Subsidiary of MPI Corporation (Note 5)
Chain-Logic International Corp.	CHAIN-LOGIC TRADING CORP.	Offshore Incorporations (Mauritius) Limited, G.P.O.BOX 365,307 St James Court, St Denis Street, Port Louis, Republic of Mauritius.	Primarily engaged in international trading	\$ 46,921	\$ 46,921	1,400,100	100%	\$ 81,585	\$ 262	—	Subsidiary of Chain-Logic International Corp.
Chain-Logic International Corp.	Chia Ying Investment Co., Ltd.	3F, No. 8, Lane 98, Jiaren Street, Neighborhood 36, Shixing Vil., Zhubei City, Hsinchu County	General investment	\$ — (Note 5)	\$ 33,300	—	—	—	—	—	Subsidiary of Chain-Logic International Corp.
Chia Ying Investment Co., Ltd.	Lumitek Co.,LTD	No. 988, Sec. Litoushan, Wenshan Road, Xinpu Township, Hsinchu County	Manufacturing of electronic spare parts	\$ — (Note 5)	\$ 18,000	—	—	—	—	—	Chia Ying Investment Co., Ltd. adopted the evaluation under equity method.
Chia Hsin Investment Co., Ltd.	Lumitek Co.,LTD	No. 988, Sec. Litoushan, Wenshan Road, Xinpu Township, Hsinchu County	Manufacturing of electronic spare parts	\$ — (Note 5)	\$ 33,000	—	—	—	—	—	Chia Hsin Investment Co., Ltd. adopted the evaluation under equity method.
Yi Hsin Investment Co., Ltd.	Lumitek Co.,LTD	No. 988, Sec. Litoushan, Wenshan Road, Xinpu Township, Hsinchu County	Manufacturing of electronic spare parts	\$ — (Note 5)	\$ 33,000	—	—	—	—	—	Yi Hsin Investment Co., Ltd. adopted the evaluation under equity method.

Note 1: Except MMI HOLDING CO., LTD., which recognized the investment income based on the financial statements reviewed by other external auditors, the investment income of the others were recognized based on the financial statements reviewed by the parent company's external auditors.

Note 2: The investment income recognized in the current period includes the investment income recognized under equity method and realized (unrealized) gain recognized from upstream/side stream transactions.

Note 3: The subsidiaries' income recognized in the current period includes the investment income to be recognized for their re-investment pursuant to the requirements.

Note 4: In order to meet the need for business expansion, the Group's subsidiary, MMI HOLDING CO., LTD., increased capital by US\$7,500,000 thousand (equivalent to NT\$235,875 thousand) in February 2015, and by US\$600,000 (equivalent to

NT\$19,140 thousand) in August 2015, and by US\$2,900,000 (equivalent to NT\$94,975 thousand) in November 2015. So far, the Group has invested a total of US\$19,390,045 in the subsidiary, MMI HOLDING CO., LTD., totaling 19,390,045 shares, at the par value of US\$1 per share. The Company's shareholding was 100%.

In order to expand the market in Mainland China, LUMITEK (Changchou) Co. Ltd. Increased capital by US\$7,500,000 thousand (equivalent to NT\$235,875 thousand) again in February 2015, and by US\$600,000 (equivalent to NT\$19,140 thousand) again in August 2015, and by US\$2,900,000 (equivalent to NT\$94,975 thousand) in November 2015. Until now, a total of US\$15,000,000 has been invested in LUMITEK (Changchou) Co. Ltd., and the subsidiary, MMI HOLDING CO., LTD., held it wholly. The investment project was approved by Investment Commission, Ministry of Economic Affairs.

Note 5: By resolution of the board of directors on May 11, 2016, the Group would sell 17.87% of LUMITED CORPORATION's equity shares owned by its three subsidiaries (JIA-SIN INVESTMENT CORP., YI-SIN INVESTMENT CORP. and JIA-YING INVESTMENT CORP.) to ultimate parent company, MPI CORPORATION, which was in the event of liquidation. According to the legal interpretation of Ministry of Economic Affairs, original shareholders have the right to transfer their shares to others during company liquidation and it does not violate corporate law. The Group has migrated and integrated in MPI CORPORATION, and the Uni-President Enterprises Corporation deal with the proportional distribution of LUMITED CORPORATION of residual property claims request. It is unnecessary to keep the three subsidiaries in operation after their equity shares of LUMITED CORPORATION were all transferred. Therefore, the three subsidiaries were closed down.

### (III) Information related to investments in China:

#### 1. Information related to investments in the territories of Mainland China

Name of Chinese investee	Business lines	Paid-in capital	Mode of investment	Accumulated investment balance, beginning	Amount remitted or recovered in the current period		Accumulated investment balance, ending	Investee income recognized in current period	Direct and indirect shareholding of the Company	Investment income recognized in the current period (Note 4)	Book value, ending	Accumulated investment income received until the end of period
CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	Primarily engaged in international trading	USD 1,400,000 (\$46,917)	(Note 1)	USD 1,400,000 (\$ 46,917)	—	—	USD 1,400,000 (\$ 46,917)	\$ 260	100 %	\$ 260	\$ 76,234	\$ 15,852
Mjc Microelectronics (Shanghai) Co., Ltd.	Design and production of electronic equipment, testing instrument and probe card for semi-conductor testing, and sale of self-made products	USD 1,500,000 (\$52,033)	(Note 2)	USD 600,000 (\$20,813)	—	—	USD 600,000 (\$ 20,813)	\$ 1,282	40 %	\$ 513	\$ 30,484	\$ 40,273



MET	Electronic and communication technology development and import/export of electronic parts	RMB 500,000 (\$ 2,396)	(Note 3)	—	—	—	—	\$ 1,163	40 %	\$ 465	\$ 2,048	—
LEDA-ONE (Shenzhen) Co.	Production of new electronic components, LED prober, LED sorting machine, and LED spectrometer, and development of new electronic components	USD 1,800,000 (\$54,111)	(Note 2)	USD 1,800,000 (\$ 54,111)	—	—	USD 1,800,000 (\$ 54,111)	\$ (11,197)	100 %	\$ (11,197)	\$ 6,925	—
MMK (Kunshan)	Design and production of electronic equipment, testing instrument and probe card for semi-conductor testing, and sale of self-made products	USD 4,900,000 (\$143,558)	(Note 2)	USD 1,960,000 (\$ 57,423)	—	—	USD 1,960,000 (\$ 57,423)	\$ 8,370	40 %	\$ 3,348	\$ 63,673	—
Lumitek (Changchou) Co. Ltd.	R&D and production of LED semi-conductor LED chips, spare parts of calculators, LED process equipment, and new electronic components; procurement, wholesale, commissioned agency and import/export of electronic materials, electronic components, electronic products, LED process equipment, mechanical equipment and spare parts.	USD 15,000,000 (\$470,490)	(Note 2)	USD 15,000,000 (\$470,490)	—	—	USD 15,000,000 (\$470,490)	\$ 16,620	100 %	\$ 16,620	\$ 455,597	—

Note 1: Reinvest the company in Mainland China via the offshore subsidiary, CHAIN-LOGIC TRADING CORP.

Note 2: Reinvest the company in Mainland China via the offshore subsidiary, MMI HOLDING CO., LTD.

Note 3: Reinvest the company in Mainland China by own fund via the China investee, Mjc Microelectronics (Shanghai) Co., Ltd.

Note 4: Except the financial statement of Lumitek (Changchou) Co. Ltd, which was reviewed by company's external auditors, the investment income not recognized based on the financial statements reviewed by the parent company's external auditors was recognized under the equity method.

Note 5: The motion for liquidation of LEDA-ONE (Shenzhen) Co. submitted by the Company and approved by the directors' meeting on September 5, 2014 was still pending liquidation on the reporting date.

## 2. Information related to ceiling on investment in Mainland China

Accumulated amount of remittance from Taiwan to Mainland China at the end of period	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs	Ceiling on investment in Mainland China imposed by the Investment Commission of the Ministry of Economic Affairs (Note)
USD 20,760,000 (NTD 649,754)	USD 21,760,000 (NTD 666,191)	NTD 2,290,422

Note: The ceiling shall be the higher of the net worth or 60% of the consolidated net worth.

3. Important transactions:

For the important transactions of the Group with the investees in Mainland China, direct or indirect, for the year ended September 30, 2016 (which have been eliminated when preparing the consolidated financial statements), please see the “Information related to the investees” and “Major business dealings and transactions between the parent company and its subsidiaries”.

**XIV. Information by department**

(I) General information

The Group primarily engages in manufacturing, processing, maintenance, import/export and trading of semi-conductor production process and testing equipments.

(II) To report the information about department income, assets and liabilities, and basis of measurement and reconciliation

The department income, department assets and department liabilities are consistent with those identified in the financial statements. Please see the balance sheet and comprehensive income statement.

(III) By product and labor service:

The Group engages in a single industry. Its revenue from customers is primarily generated from the sale of semi-conductor production process and testing equipment.