Stock Code: 3189


# KINSUS INTERCONNECT TECHNOLOGY CORP.
# 2016 Annual Report

***Notice to readers***

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

Printed on April, 2017
Taiwan Stock Exchange Market Observation Post System: **http://mops.twse.com.tw**
Annual Report is available at: **http://www.kinsus.com.tw**

# The inside cover of annual report

1. **The name, title, telephone number, and e-mail address of the spokesman or acting spokesman**
   (1) The Spokesman
   Name: Mu, Xian Jue
   Title: Senior Project Director of Planning Office
   Telephone number: 886-(03) 487-1919 EXT 26660
   E-mail: jackmu@kinsus.com.tw
   (2) The Acting Spokesperson
   Name: Liu, Su Zhen
   Title: Senior Director of Finance Department
   Telephone number: 886-(03) 487-1919 EXT 25005
   E-mail: suejaneliu@kinsus.com.tw

2. **The address and telephone number of the Company's headquarters, branch offices, and factories**
   Headquarter (Shilei Factory): No.1245, Zhonghua Rd., Xinwu Dist., Taoyuan City 327, Taiwan, R.O.C.
   Telephone number: 886-(03) 487-1919
   Qinghua Factory: No.810, Zhonghua Rd., Xinwu Dist., Taoyuan City 327, Taiwan, R.O.C.
   Telephone number: 886 (03) 487-1988
   Xinfeng Factory: No.526, Sec. 2, Jianxing Rd., Xinfeng Township, Hsinchu County 304, Taiwan, R.O.C.
   Telephone number: 886-(03) 557-1799

3. **The name, address, e-mail address, and telephone number of the agency handling shares transfer**
   Name: Shareholder Services Department, KGI Securities
   Address: 5th Fl., No. 2, Sec. 1, Chongqing S. Rd., Zhongzheng Dist., Taipei City 100, Taiwan, R.O.C.
   Website: https://www.kgieworld.com.tw
   Telephone number: 886-2-2389-2999

4. **The name of the certified public accountant who duly audited the annual financial report for the most recent fiscal year, and the name, address and telephone number of said person's accounting firm**
   Names of certified public accountant: Huang, Yi Hui and Zhang, Zhi Ming
   Name of accounting firm: Ernst & Young
   Address: 9th Fl., No. 333, Sec. 1, Keelung Rd., Songshan Dist., Taipei City 105, Taiwan, R.O.C.
   Website: http://www.ey.com.tw
   Telephone number: 886-2-2757-8888

5. **The name of any exchanges where the company's securities are traded offshore, and the method by which to access information on said offshore securities**
   NA

6. **The address of the Company's website**
   http://www.kinsus.com.tw

# The contents of annual report

# 1. A report to the shareholders

Dear Shareholders,

(1)2016 Business Report

The Company's business performance was not good as prior year for the first half of 2016 due to the overall atmosphere of semi-conductor industry mainly focusing merely on disposing the existing inventory. While the level of stock has been reduced and needed to be replenished, the sale revenue of semi-conductor industry was enhanced for the second half of 2016 because of the improvement in products demand and sale price. Overall, worldwide 2016 semi-conductor revenue totaled to US$339.684 billion, which was about flat compared to US$334.768 billion, according to a result of research conducted by Gartner.

The growth from telecommunication market in 2016 has been offset by the recession from PC market. Revenue of wireless telecommunication grew 9.6%, mainly driven by the growth of smartphones and memory products. However, the semi-conductor market related to PC and Tablet was suffering a recession at a rate of 8.3%. Many countries have been taking actions to maintain economy development by adopting the "easy money policy" to build up an easy financial environment and conducting finance restructures. However, these actions seem to come to an end when FED decides to raise the interest rates starting the end of 2016 and expects to raise them 3 times during 2017. Moreover, although the remaining problems from global financial crisis have been resolved, certain structure problems, including aging population, long-term insufficient investment in capital, low-speedy technology innovation, and decline in ambition and enthusiasm, still exist and reduce the potential of global economy growth by influencing consumption and investment.

The Company's revenue in parent-company-only basis totaled to NT$17,931,850 thousand in 2016, increased by 0.59% compared to NT$17,827,251 thousand in 2015. Net income in parent-company-only basis was NT$2,233,705 thousand in 2016, decreased by 23.08% compared to NT$2,903,952 thousand in 2015. The Company's consolidated revenue totaled to NT$23,165,066 thousand in 2016, increased by 0.45% compared to NT$23,061,311 thousand in 2015. The consolidated net income was NT$2,073,028 thousand in 2016, decreased by 24.05% compared to NT$2,729,526 thousand in 2015. The Company expects to re-catch the growth in light of increasing significant investments in Shin-Fon Factory for capital expenditures and initial investment after organizational adjustments.

(2)Summary of the business plan for FY2017

(A) Business Policy

Since our establishment, we have been upholding the principle of "Satisfying Customers, Pursuing of Excellence" as our business policy, developing leadership in technique to meet market demand, mastering new generation product demands, investing engineering resources to stay ahead, and striving for better profit under competition for the purpose of greater profit.

(B) 2017 Expected Sales and Its Sources

For 2017, Deutsche Bank expects that there will be 10% growth in the Data Center market, 9% in automotive, 7% in communications, and 4% in consumer and industrial markets. WSTS highlights that memory and sensor products would be the major chip products to bring semi-conductor industry for growing. While, International Business Strategies expect that Data Center and automotive will be the major strengths for growth in 2017.

New developments in electronics/semiconductor industry include the applications of autonomous driving services, virtual reality, cloud IOT, etc. Although the related technology is not yet mature, the market size is huge and prospective. According to Gartner, a market survey institution, the compound annual growth rate of IOT appliance will be up to 30%. The future business opportunity is infinitive. Kinsus' fastest-growing products such as SiP substrates, FCCSP substrates, embedded high-density substrates are exactly the well-preparation for the industrial trend.

However, we have to be cautious that the variety of handheld devices. The market of semiconductor remains stable due to speedy shift to smartphone and 4G LTE. However, the yearly sale growth probably slows down due to the trend of high-end but low-price of products.

(C) Significant Production and Marketing Policy

A. We will continuously invest research and development resources to support the diversified needs of consuming products and expand micro fine circuit manufacturing process production line. Also we will invest to meet the need of Fab 10 nm product process in order to obtain the market opportunities.

B. As the expanding scale in operation, we will continuously recruit the professional talent, import high quality systems and technology, and invest in automated production equipment to improve production yields in order to achieve the Company's high-profit target.

C. We will maintain the partnerships with the advanced wafer design companies, timely grasp the most updated market information, and complete process technology and product capacity preparation as early as possible in order to maintain the long-term competitiveness of the Company.

(3)Company development strategy

The components of portable and wearable devices miniature trend will continue. The demand on related SiP substrate, FCCSP substrates and embedded high-density substrates will remain strong. These are the substrate products applied on current products and for the transition to the future of virtual reality and cloud IOT terminal devices. Kinsus will do whatever we can to seize key opportunities in market and continue to adjust the layout for market changes. We hope to win in market and to share the growing performance results with our shareholders.

Sincerely Yours,

The Chairman and CEO
Guo, Ming-Dong

# 2. A Company Profile

(1) Date of Incorporation: 9/11/ 2000

(2) A brief history of the Company

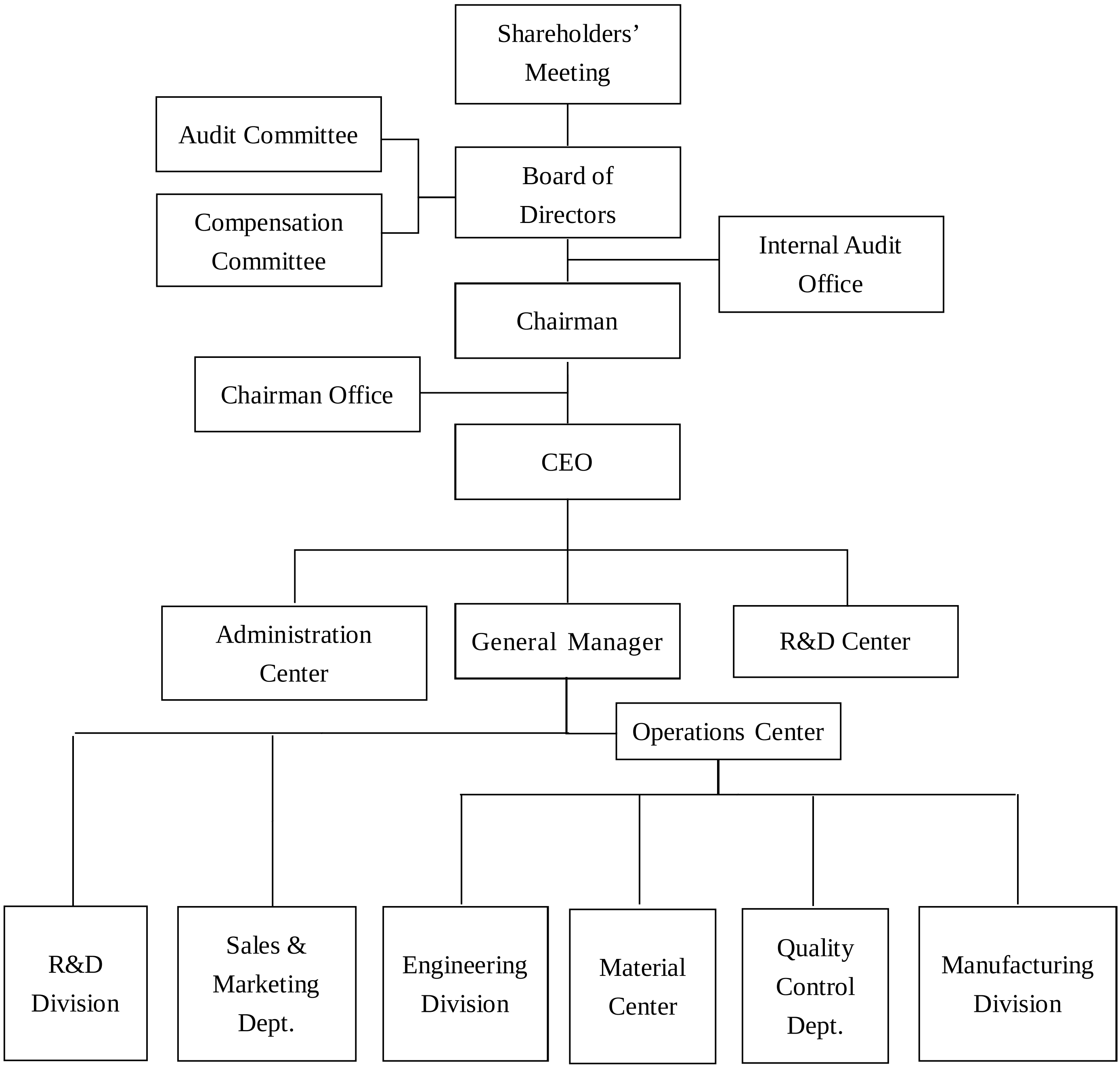
| Year | Milestones |
|---|---|
| 2000/09 | Founded with NT$2.5 billion capital and NT$12 billion paid-up capital. Manufacturing mainly in BGA related products. |
| 2000/12 | Cash capital increased by issuing new shares of NT$100 million with NT$1.3 billion paid-up capital after increase in total. |
| 2001/04 | Cash capital increased by issuing new shares of NT$600 million with NT$1.9 billion paid-up capital after increase in total. |
| 2001/05 | Started operations. |
| 2001/07 | Be certified to QS 9000. |
| 2001/12 | Be certified to ISO 14000 - Environmental management. |
| 2002/06 | Corporation went public. |
| 2002/11 | Cash capital increased by issuing new shares of NT$100 million with NT$2 billion paid-up capital after increase in total. |
| 2003/03 | Plant expansion to the 3rd floor and the 4th floor. |
| 2003/09 | Listed for trading in emerging markets. |
| 2003/12 | Acquired the review by Industrial Science and Technology Committee on the submissions of “Science and technology product or technology successful development and marketing”. |
| 2004/06 | Surplus capital increased by issuing new shares of NT$220 million with NT$2.22 billion paid-up capital after increase in total. |
| 2004/11 | Listed on Taiwan Stock Exchange. |
| 2004/11 | Plant built in Qinghua: No.810, Zhonghua Rd., Xinwu Dist., Taoyuan City. |
| 2005/05 | Operating performance ranked the 2nd, return on assets ranked 15th, return on equity ratio ranked 31st, growth drive ranked 33rd, profitability ranked 38th, and business revenue ranked 355th among top 1000 manufacturing companies by Commonwealth Magazine. |
| 2005/07 | Surplus capital increased by issuing new shares of NT$378 million with NT$2.598 billion paid-up capital after increase in total. |
| 2005/08 | Cash capital increased by issuing new shares of NT$300 million with NT$2.898 billion paid-up capital after increase in total. |
| 2005/10 | Plant bought at No.8, Qingnian Rd., Yangmei Dist., Taoyuan City 32661, Taiwan (R.O.C.). |
| 2006/05 | Cash capital increased by issuing new shares of NT$500 million with NT$3.398 billion paid-up capital after increase in total. |
| 2006/05 | Ranked 19th as Taiwan's most profitable companies by Commonwealth Magazine. |
| 2006/07 | Ranked 89th as Taiwan's most profitable companies by Digital Time Business among top 100 Taiwan Technology. |
| 2006/08 | Surplus capital increased by issuing new shares of NT$492 million with NT$3.89 billion paid-up capital after increase in total. |

| | |
|---|---|
| 2006/11 | Ranked 131st among Asia's top 150 with 14 Taiwan Enterprises listed by Business Week Asia. |
| 2007/03 | Be certified to ISO 14001 - Environmental management and OHSAS 18001. |
| 2007/05 | Ranked No. 212 on business revenue by Commonwealth Magazine. |
| 2007/08 | Surplus capital increased by issuing new shares of NT$464 million with NT$4.354 billion paid-up capital after increase in total. |
| 2008/05 | Ranked 52nd on return on assets, 146th on equity ratio, 22nd on profitability, and 595th on business revenue among top 1000 manufacturing companies by Commonwealth Magazine. |
| 2008/08 | Surplus capital increased by issuing new shares of NT$106 million with NT$4.46 billion paid-up capital after increase in total. |
| 2009/05 | Ranked 35th on profitability and 229th on business revenue among top 1000 manufacturing companies by Commonwealth Magazine. |
| 2010/05 | Ranked 48th on profitability and 234th on business revenue among top 1000 manufacturing companies by Commonwealth Magazine. |
| 2010/08 | Invested PIOTEK COMPUTER (SUZHOU) CO., LTD. |
| 2011/05 | Ranked 115th on profitability and 192nd on business revenue among top 1000 manufacturing companies by Commonwealth Magazine. |
| 2012/05 | Ranked 108th on profitability and 162nd on business revenue among top 1000 manufacturing companies by Commonwealth Magazine. |
| 2013/03 | Bought plant at Xinfeng: No.526, Sec. 2, Jianxing Rd., Xinfeng Township, Hsinchu County 304, Taiwan. |
| 2013/04 | Being selected as 2012 Deloitte Asia Pacific top 500 high tech, high growth enterprises. |
| 2013/05 | Ranked 116th on profitability and 158th on business revenue among top 1000 manufacturing companies by Commonwealth Magazine. |
| 2014/04 | Kick-off for building Xinfeng Factory. |
| 2014/05 | Ranked 720th on market capitalization among top 1000 enterprise in China, Taiwan, Hong Kong, and Macau by Business Today. |
| 2015/05 | Ranked 139th on profitability and 56th on net profit by Commonwealth Magazine. |
| 2016/05 | Invest in FuYang Technology Corp. |

# 3. A Corporate Governance Report

(1) Organizational system

(A) The Company's structure



(B) The tasks of its principal divisions

| Dept. | Job Description |
|---|---|
| Chief Executive Officer (CEO) | 1. Business planning and strategic planning.<br>2. Company long-term development policy planning.<br>3. Business monitoring, promoting and implementation. |
| Audit Office | Identify deficiencies in internal control system, assess the effectiveness and efficiency of operations, and provide appropriate improvement suggestions. |
| General Manager | Responsible for business plan development, business performance management and analysis, Investment analysis and benefit assessment, cost reduction and control, business process automation and improvement, annual budgeting, overseas business management, promotion and performance evaluation in other important projects, manufacturing capacity and standard work hours, rationalization of personnel standards. |
| R&D Center | Advanced product and technology research and development, equipment automation, and building new plants. |
| Administration Center | Responsible for finance and investment, annual budgeting, credit control, and stocks services. Responsible for the planning and execution of human resource, general affairs, environmental and purchasing. Responsible for the planning and execution of web information. |
| Operations Center | Responsible for the integration of manufacturing quality and operational resources of the overall planning and management. |
| Manufacturing Division | Responsible for substrates related products manufacturing and work objectives and effectiveness management, manufacturing cost control analysis and improvement and production planning. |
| Quality Control Dept. | Responsible for the quality policy, objectives and systems developed and implemented in order to meet customers' needs. |
| Material Center | Responsible for production scheduling, shipping schedule, the material management, transportation, warehousing and import/export and customs bonded business. |
| Engineering Division | Responsible for assessing process operations, and developing the most appropriate manufacturing process, and improving production technology and yield analysis, and new product process import stability and optimization testing. |
| Sales & Marketing Dept. | Responsible for the Company's product sales and marketing. |
| R&D Dept. | Responsible for coordinating the product, design, development, and facility services. |

(2) Information on the Company's directors, general manager, assistant general managers, deputy assistant general managers, and the supervisors of all the Company's divisions and branch units.

(a) Directors as of March 28, 2017

| Title | Nationality/Country of Origin | Name | Gender | Date Elected | Term (Years) | Date First Elected | Shareholding When Elected | | Current Shareholding | | Spouse&Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience(Education) | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Chairman | R.O.C | Guo, Ming-Dong | Male | 2015.6.11 | 3 | 2000.9.1 | 1,179,795 | 0.26% | 1,069,795 | 0.24% | – | – | – | – | National Taipei Institute of Technology<br>President/UNICAP ELECTRONICS | Note 1 | – | – | – |
| Director | R.O.C | Tong,Zi-Xian | Male | 2015.6.11 | 3 | 2000.9.1 | 200,000 | 0.04% | 200,000 | 0.04% | – | – | – | – | Computer and Communication Engineering /Taipei Tech<br>Chairman/PEGATRON Corp. | Note 2 | – | – | – |
| Director | R.O.C | Lu, Jing | Female | 2015.6.11 | 3 | 2003.9.1 | 1,151,607 | 0.26% | Resignation at 2016.10.31 | | | | | | | | | | |
| Director | R.O.C | Hua Xu Investment Corp.<br>Rep. : Su, Yan-Xue | | 2015.6.11 | 3 | 2000.9.1 | 58,233,091 | 13.06% | 58,233,091 | 13.06% | – | – | – | – | Master of Industrial Engineering/Carnegie MellonUniv.<br>Chief Investment Officer/ASUSTEK ComputerIncorp.<br>Chief Investment Officer/PEGATRON Corp. | Note 3 | – | – | – |
| Director | R.O.C | Su,Yan-Xue | Female | 2015.6.11 | 3 | 2009.6.16 | – | – | – | – | – | – | – | – | as above | as above | – | – | – |
| Director | R.O.C | Hua Xu Investment<br>Rep : Wu, Xiang-Xiang | | 2015.6.11 | 3 | 2000.9.1 | 55,556,221 | 12.46% | 55,556,221 | 12.46% | – | – | – | – | International Trade/Providence Univ.<br>M.B.A./Univ. of St.Thomas<br>Vice President/kun jian Consulting Co.,<br>Chief Investment Officer/PEGATRON Corp. | Note 4 | – | – | – |
| Director | R.O.C | Wu,Xiang-Xiang | Female | 2015.6.11 | 3 | 2003.9.1 | – | – | – | – | – | – | – | – | as above | as above | – | – | – |
| Director | R.O.C | Zbeng,Zhong-Ren | Male | 2015.6.11 | 3 | 2003.9.1 | – | – | – | – | – | – | – | – | School of Law/Soochow Univ.<br>PhD./Stanford University<br>Dean&Professor/Law School of Shih Hsin Univ. | Note 5 | – | – | – |
| Independent Director | R.O.C | Chen, Jin-Cai | Male | 2015.6.11 | 3 | 2003.9.1 | – | – | – | – | – | – | – | – | Graduate School/Tamkang Univ.<br>M.P.A/Univ. of San Francisco<br>President/Namchow Group | Note 6 | – | – | – |
| Independent Director | R.O.C | Huang, Chun-Bao | Male | 2015.6.11 | 3 | 2003.9.1 | – | – | – | – | – | – | – | – | Electrical Engineering/National Taipei Institute of<br>President& GM/HAVIX ELECTRONICS CO., LTD. | Note 7 | – | – | – |
| Independent Director | R.O.C | Wu, Hui-Huang | Male | 2015.6.11 | 3 | 2010.6.18 | – | – | – | – | – | – | – | – | Board Director& President/UNIVERSAL SCIENTIFIC INDUSTRIAL CO., LTD<br>Director/Taiwan Electrical and Electronic<br>Director/Taiwan Federation of Industry<br>Director/Taiwan Province Industry Asso. | Note 8 | – | – | – |

| | | |
|---|---|---|
| Note 1 | CEO | Kinsus Interconnect Technology Corp. |
| | Chairman | Kinsus Corp. (USA). |
| | Director | Kinsus Investment, Pegavision Corp, Kinsus Holding (Samoa) Limited, Kinsus Holding (Cayman) Limited, Piotek Holding Ltd., Piotek Holdings Ltd. (Cayman), Piotek (HK) Trading Limited. |
| | Independent Director | TAIFLEX Scientific Corp., Silergy Corp. |
| Note 2 | Chairman | Pegatron Corp.(also the Executive CEO), Lumens Digital Optics Inc., Hua Wei Investment, Hua Yu Investment, Hua Xu Investment, Kinsus Investment, Pegavision Corp., Eslite Foundation for Culture and Arts, and Ri-Kuan Metal Corporation. |
| | Director | Asrock Inc., Hua Yuan Investment, Hua Wei Investment, Hua Wei International, The Eslite Spectrum Corporation, Ezhi Technologies, Inc., AS Fly Travel Service, Azurewave Technologies, Inc., FuYang Technology Corp, Pegatron Holding Ltd., Unihan Holding Ltd., Protek Global Holdings Ltd., Magnificent Brightness Ltd., Casetek Holdings Ltd., Casetek Holdings Limited(CAYMAN), Pegatron Holland Holding B.V.I., Digitek Global Holdings Ltd., AMA Holdings Ltd., Kinsus Corp.(USA), Powtek Holdings Limited, Cotek Holdings Limited, Grand Upright Technology Limited, Alliance Culture Foundation, Hanguang Education Foundation, Public Television Service, Ministry of Culture National Performing Arts Center, Koo Medical Foundation, Lung Yingtai Cultural Foundation, ASLINK PRECISION CO., LTD., Huang Da-fu Medical Education Promotion Foundation, Fair Winds Foundation, Relations Across the Taiwan Straits Development Research Foundation. |
| | Chairman | Taipei Computer Association |
| Note 3 | Chairman | WYSE Research Inc. |
| | Director | Guang Dian Cinema, KHL IV Venture Capital Corporation, Eslite Foundation for Culture and Arts. |
| | Independent Director | TXC Corporation. |
| Note 4 | Director | OFCO Industrial Corp., Kinsus Investment., Tong Hsing Electronics Industries, Ltd. |
| Note 5 | Director | LOTES Co. Ltd. |
| | Independent Director | Wistron Corporation, ThroughTek Co., Ltd. |
| | Supervisor | Apex Material Technology Corp, Apacer Technology Inc., OTO Photonics Inc. |
| Note 6 | Chairman | Win Semiconductors Corp., Inventec Energy Corp., Win-Win Venture Capital Co., Ltd. |
| | Assistant Chairman | Hiwin Technologies Corp. |
| | Director | Inventec Solar Energy Corp., Namchow (BVI), Nan Xin International, Brotzeit German restaurant and bar (ShangHai), . Tingyi (Cayman Islands), Namchow Oil, Namchow (Thailnad), WIN Semi USA Inc., Win Semiconductors, Cayman Island Co., Ltd., WinMEMS Technologies Holdings Co., Ltd., Chowhao Trading (ShangHai), Tianjin Yoshi Yoshi Food Co., Ltd., Yong Ju (Thailand), Namchow Oil (Guang Zhou), Xin Sheng SanVenture Capital, Lucky Royal Co., Ltd., Namchow Management Co., Tian Bo Co., ITEQ Corp., Inventec Energy Corp. |
| | Independent Director | Tong Hsing Electronics Industries, Ltd., PlexBio Co., Ltd. |

| | | |
|---|---|---|
| | Supervisor | Inventec Solar Energy Corp., TAIPEI 101 |
| Note 7 | Chairman & G/M | HAVIX Electronics Co., Ltd. |
| | Independent Director | Pegatron Corp. |
| Note 8 | Director | Taiwan Read Foundation |
| | Member of compensation committee | Merry Corp. |
| | Independent Director | Universal Microelectronics Co., Ltd. |

## Major shareholders of the institutional shareholders

| Name of the Company's institutional shareholder | Major Shareholders of the Company's institutional shareholder |
|---|---|
| Hua Wei Investment | Pegatron Corp. (100.00%) |
| Hua Yu Investment | Pegatron Corp. (100.00%) |
| Hua Xu Investment | Pegatron Corp. (100.00%) |

## Major shareholders of the Company's institutional shareholders

| Name of major institutional shareholders of the Company's institutional shareholder | Major Shareholders, if institutional, of major institutional shareholders of the Company's institutional shareholder |
|---|---|
| Pegatron Corp. | Asustek Computer Incorporation (17.42%) |

## Professional qualifications and independence analysis of directors

| Qualification / Name | Meet One of the Following Professional Qualification Requirements, Together with at Least 5 Years Work Experience | | | Independence Criteria(Remark 2) | | | | | | | | | | Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company | Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| Guo, Ming-Dong | - | - | YES | | | | V | V | V | V | V | V | V | 2 |
| Tong, Zi-Xian | - | - | YES | | | V | V | | V | V | V | V | V | - |
| Lu, Jing (Remark 1) | - | - | YES | | | | V | V | V | V | V | V | V | - |
| Su, Yan-Xue | - | - | YES | V | V | V | V | V | V | V | V | V | | 1 |
| Wu, Xiang-Xiang | - | - | YES | | | V | V | | V | V | V | V | | - |
| Zheng, Zhong-Ren | YES | - | YES | V | V | V | V | V | V | V | V | V | V | 1 |
| Chen, Jin-Cai | YES | - | YES | V | V | V | V | V | V | V | V | V | V | 2 |
| Huang, Chun-Bao | - | - | YES | V | V | V | V | V | V | V | V | V | V | 1 |
| Wu, Hui-Huang | - | - | YES | V | V | V | V | V | V | V | V | V | V | 1 |

Remark 1：She resigned from directorship on 2016.10.31. Her independency was reviewed based on the information provided before resignation.

Remark 2：Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company's affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary elected based on Security Act or local regulations.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEx".
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

(b) The general manager, assistant general managers, deputy assistant general managers and the chief of all the Company's divisions and branch units

As of March 28, 2017

| Title | Nationality/ Country of Origin | Name | Gender | Date Effective | Shareholding | | Spouse & Minor Shareholding | | Shareholding by Title Nominee | | Experience(Education) | Other Position | Managers who are Spouses or Within Two Degrees | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| CSO | R.O.C | Tong, Zi-Xian | Male | 2014.11.01 | 200,000 | 0.04% | – | – | – | – | Computer and Communication Engineering /Taipei Tech<br>Chairman/PEGTRON Corp. | Page 9/Note 2 | – | – | – |
| CEO | R.O.C | Guo, Ming-Dong | Male | 2000.09.11 | 1,069,795 | 0.24% | – | – | – | – | National Taipei Institute of Technology<br>President/UNICAP ELECTRONICS | Page 9/Note 1 | – | – | – |
| Assistant CEO | R.O.C | Lu, Jing | Female | 2000.09.11 | Resignation at 2016.10.31. | | | | | | | | | | |
| CTO | R.O.C | Zhang, Qian-Wei | Male | 2000.09.11 | 391,614 | 0.09% | – | – | – | – | Mechanics/National Central Univ.<br>PCB Manager/MANZ Electronics | Director of FuYang Technology Corp. | – | – | – |
| General Manager | R.O.C | Chen, He-Xu | Male | 2000.09.11 | 361,002 | 0.08% | – | – | – | – | Physics/Qinghua Univ.<br>Production Manger/Motorola | Director of Pegavision Corporation and FuYang Technology Corp. | – | – | – |
| COO | R.O.C | Hu, Gui-Qin | Female | 2016.09.01 | – | – | – | – | – | – | Chemical Engineering/Chung Yuan Christian<br>General Manager/Tripod Technology Corporation | N/A | – | – | – |
| Senior Assistant GM | R.O.C | Huang, Geng-Fang | Male | 2005.08.01 | 314,875 | 0.07% | – | – | – | – | Ta Hwa Univ. of Science&Technology<br>Senior Manager/MITAC Int'l Corp. | N/A | – | – | – |
| Senior Assistant GM | R.O.C | Yang, De-Sheng | Male | 2006.07.27 | Resignation at 2016.12.31. | | | | | | | | | | |
| Assistant GM | R.O.C | Lin, Zhi-Wei | Male | 2001.03.01 | 41,909 | 0.01% | – | – | – | – | Material Science & Enginnering/Qinghua Univ.<br>QC Manager/AU Optronics Corp | N/A | – | – | – |
| Assistant GM | R.O.C | Huang, Sheng-Chuan | Male | 2015.02.01 | – | – | – | – | – | – | Mechanical Engineering/Univ. of Cambridge<br>Senior Manager/UNICAP Electronics | N/A | – | – | – |
| Assistant GM | R.O.C | Wu, Wei-Wen | Male | 2016.09.01 | – | – | – | – | – | – | Master of Management/Wichita State Univ.<br>Assistant GM/Tripod Technology Corporation | N/A | – | – | – |
| Finance Supervisor | R.O.C | Liu, Su-Zhen | Female | 2010.08.01 | 19,400 | 0.00% | – | – | – | – | M.B.A/National Central Univ.<br>Junior Manager/EY Accounting Firm | N/A | – | – | – |

(c) Remuneration paid during 2016 to directors, the general manager, and assistant general manager

Unit: NT$’000

| Title | Name | Remuneration | | | | | | | | Ratio of Total Remuneration (A+B+C+D) to Net Income (%)(Rmk10) | | Relevant Remuneration Received by Directors Who are Also Employees | | | | | | | | Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)(Rmk10) | | Compensation Paid to Directors from an Invested Company Other than the Company’s Subsidiar (Rmk11) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Base Compensation (A) (Rmk.2) | | Severance Pay (B) | | Bonus to Directors (C)(Rmk.3) | | Allowances(D)(Rmk.4) | | | | Salary, Bonuses, and Allowances (E) (Rmk5) | | Severance Pay Profit (F) | | Profit Sharing- Employee Bonus (G) (Rmk6) | | | | | | |
| | | The Company | Companies in the consolidated financial statements (Rmk7) | The Company | Companies in the consolidated financial statements (Rmk7) | The Company | Companies in the consolidated financial statements (Rmk7) | The Company | Companies in the consolidated financial statements (Rmk7) | The Company | Companies in the consolidated financial statements (Rmk7) | The Company | Companies in the consolidated financial statements (Rmk7) | The Company | Companies in the consolidated financial statements (Rmk7) | The Company | | Companies in the consolidated financial statements (Rmk8) | | The Company | Companies in the consolidated financial statements (Rmk7) | |
| | | | | | | | | | | | | | | | | Cash | Stock | Cash | Stock | | | |
| Chairman | Guo, Ming-Dong | | | | | | | | | | | | | | | | | | | | | |
| Director | Tong, Zi-Xian | | | | | | | | | | | | | | | | | | | | | |
| Director | Lu, Jing (Resignation at 2016.10.31.) | | | | | | | | | | | | | | | | | | | | | |
| Director | Hua Xu Investment Rep.: Su, Yan-Xue | | | | | | | | | | | | | | | | | | | | | |
| Director | Hua Yu Investment Rep.:Wu, Xiang-Xiang | - | - | - | - | 20,911 | 20,911 | 240 | 240 | 0.95% | 0.95% | 12,667 | 12,667 | 90 | 90 | 19,314 | - | 19,314 | - | 2.38% | 2.38% | N/A |
| Director | Zheng, Zhong-Ren | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Chen, Jin-Cai | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Huang, Chun-Bao | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Wu, Hui-Huang | | | | | | | | | | | | | | | | | | | | | |

Note:

1. Compensation to directors and employee for 2016 has been approved by a board meeting held on 2017/02/08 and will be reported in the coming shareholders’ meeting. As of now, details of the proportion can’t be decided yet while it is estimated by the actual distribution rate in prior year.
2. The Severance pay listed above is an accrual while the actual payment is zero.

## Range of Remuneration

<table>
<tr><th rowspan="3">Range of Remuneration</th><th colspan="4">Name of Directors</th></tr>
<tr><th colspan="2">Total of (A+B+C+D)</th><th colspan="2">Total of (A+B+C+D+E+F+G)</th></tr>
<tr><th>The company (Remark 8)</th><th>Companies in the consolidated financial statements (Remark 9) H</th><th>The company (Remark 8)</th><th>Companies in the consolidated financial statements (Remark 9) I</th></tr>
<tr><td>Under NT$ 2,000,000</td><td>Hua Xu Investment Representative: Su, Yan-Xue<br>Hua Yu Investment Representative: Wu, Xiang-Xiang<br>Zheng, Zhong-Ren<br>Chen, Jin-Cai<br>Huang, Chun-Bao<br>Wu, Hui-Huang</td><td>Hua Xu Investment Representative: Su, Yan-Xue<br>Hua Yu Investment Representative: Wu, Xiang-Xiang<br>Zheng, Zhong-Ren<br>Chen, Jin-Cai<br>Huang, Chun-Bao<br>Wu, Hui-Huang</td><td>Hua Xu Investment Representative: Su, Yan-Xue<br>Hua Yu Investment Representative: Wu, Xiang-Xiang<br>Zheng, Zhong-Ren<br>Chen, Jin-Cai<br>Huang, Chun-Bao<br>Wu, Hui-Huang</td><td>Hua Xu Investment Representative: Su, Yan-Xue<br>Hua Yu Investment Representative: Wu, Xiang-Xiang<br>Zheng, Zhong-Ren<br>Chen, Jin-Cai<br>Huang, Chun-Bao<br>Wu, Hui-Huang</td></tr>
<tr><td>NT$2,000,000 ~ NT$5,000,000</td><td>Lu, Jing</td><td>Lu, Jing</td><td>—</td><td>—</td></tr>
<tr><td>NT$5,000,000 ~ NT$10,000,000</td><td>Guo, Ming-Dong<br>Tong, Zi-Xian</td><td>Guo, Ming-Dong<br>Tong, Zi-Xian</td><td>—</td><td>—</td></tr>
<tr><td>NT$10,000,000 ~ NT$15,000,000</td><td>—</td><td>—</td><td>Guo, Ming-Dong<br>Tong, Zi-Xian<br>Lu, Jing</td><td>Guo, Ming-Dong<br>Tong, Zi-Xian<br>Lu, Jing</td></tr>
<tr><td>NT$15,000,000 ~ NT$30,000,000</td><td>—</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td>NT$30,000,000 ~ NT$50,000,000</td><td>—</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td>NT$50,000,000 ~ NT$100,000,000</td><td>—</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td>Over NT$100,000,000</td><td>—</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td>Total</td><td>9</td><td>9</td><td>9</td><td>9</td></tr>
</table>

Remark:

1. Board directors should be disclosed separately (Corporation-stockholder and Representative should be marked), and the payment should be displayed in a consolidated amount. The board directors who also act as Chairman or GM should fill in the following Form (3-1) or (3-2).
2. Refers to the latest pay which includes basic base compensation, professional allowance, severance pay, and the other bonuses.
3. Bonus to Directors had approved in board meeting before shareholder meeting.
4. Refers to the consolidated allowances which include honorarium, special disbursement, and the other allowances. The allowances which include housing, cars, and the other vehicles should be listed the nature and the cost of asset on actual or market value. If accompanied with drivers, plese remarktheir payment excluded from personal payment.
5. Refers to the consolidated remuneration received by directors who are also employees which include honorarium, special disbursement, and the other allowances. The allowances which include housing, cars, and the other vehicles should be listed the nature and the cost of asset on actual or market value. If accompanied with drivers, the drivers' salary shall be remarked but excluded from the persons' compensation. In addition, acquiring employee stock options, employee's restricted stocks right and the right to subscribe in cash offerings shall be taken into consideration in recognizing the compensation cost based on IFRS#2, Share-based Compensation.
6. Refers to the consolidated remuneration received by directors who are also employees (GM, assistant GM, and the other managers) which include stock bonus and cash bonus should be listed the approved number in board meeting before shareholder meeting. If unable to forecast, take reference to the last year, and fill in the Form 1-3.
7. Disposed the consolidated payment of our company and all the other companies in this report.
8. The payment to all the board directors by our company would be disclosed.in the form of range of remuneration.
9. The consolidated payment to all the board directors by our company and the other companies would be listed in the form of range of remuneration.
10. The after-tax net profit refers to the one happened in personal or individual financial statement in the latest year.
11. a. This column should dispose the remuneration to the board directors from our affiliates and the other investments.
    b. The remuneration to the board directors from our affiliates and the other investments should be including the column J and defined as other investment.
    c. The remuneration received by directors refers to the one paid by other investment other than the Company's Subsidiary in the positions of the board director, supervisor, or manager which include honorarium、special disbursement、and the other allowances.

*The forms here are for the purpose of information disposal, not applicable for taxation if conflicts aroused with law.

## Remuneration of the general manager and assistant general managers

Unit: NT$'000

| Title | Name | Base Compensation (A) (Remark 2) | | Severance Pay (B) | | Bonus and Special Allowance (Remark 3) | | Disposition of Net Earnings (D) (Remark 4) | | | | Ratio of Total Remuneration (A+B+C+D) to Net Income (%)(Remark 8) | | Compensation Paid to Supervisors from an Invested Company Other than the Company's Subsidiary (Remark 9) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | The Company | Companies in the consolidated financial statements (Remark 5) | The Company | Companies in the consolidated financial statements (Remark 5) | The Company | Companies in the consolidated financial statements (Remark 5) | The Company | | Companies in the consolidated financial statements (Remark 5) | | The Company | Companies in the consolidated financial statements (Remark 5) | |
| | | | | | | | | Cash | Stock | Cash | Stock | | | |
| CSO | Tong, Zi-Xian | 31,363 | 31,363 | 810 | 810 | 9,293 | 9,293 | 52,544 | - | 52,544 | - | 4.21% | 4.21% | N/A |
| CEO | Guo, Ming-Dong | | | | | | | | | | | | | |
| Assistant CEO | Lu, Jing (Resignation at 2016.10.31) | | | | | | | | | | | | | |
| CTO | Zhang, Qian-Wei | | | | | | | | | | | | | |
| General Manager | Chen, He-Xu | | | | | | | | | | | | | |
| COO | Hu, Gui-Qin (Inauguration at 2016.09.01) | | | | | | | | | | | | | |
| Senior Assistant GM | Huang, Geng-Fang | | | | | | | | | | | | | |
| Senior Assistant GM | Yang, De-Sheng (Resignation at 2016.12.31) | | | | | | | | | | | | | |
| Assistant GM | Lin, Zhi-Wei | | | | | | | | | | | | | |
| Assistant GM | Huang, Sheng-Chuan | | | | | | | | | | | | | |
| Assistant GM | Wu, Wei-Wen (Inauguration at 2016.09.01) | | | | | | | | | | | | | |

*It is required to be disclosed for a position equivalent to the General Manager, Assistant General Manager (example: President, CEO, Executive supervisor, etc.)

Note:

1. Compensation to directors and employee for 2016 has been approved by a board meeting held on 2017/02/08 and will be reported in the coming shareholders' meeting. As of now, details of the proportion can't be decided yet while it is estimated by the actual distribution rate in prior year.
2. The retirement pay listed above is based on an accrual only while the actual payment was zero.

## Range of Remuneration

| Range of Remuneration | Name of the general manager and assistant general managers | |
|---|---|---|
| | The company (Remark 6) | Companies in the consolidated financial statements (Remark 7) |
| Under NT$2,000,000 | - | - |
| NT$2,000,000 ~ NT$5,000,000 | Hu, Gui-Qin<br>Wu, Wei-Wen | Hu, Gui-Qin<br>Wu, Wei-Wen |
| NT$5,000,000 ~ NT$10,000,000 | Tong, Zi-Xian<br>Huang, Geng-Fang<br>Yang, De-Sheng<br>Lin, Zhi-Wei<br>Huang, Sheng-Chuan | Tong, Zi-Xian<br>Huang, Geng-Fang<br>Yang, De-Sheng<br>Lin, Zhi-Wei<br>Huang, Sheng-Chuan |
| NT$10,000,000 ~ NT$15,000,000 | Guo, Ming-Dong<br>Lu, Jing<br>Zhang, Qian-Wei<br>Chen, He-Xu | Guo, Ming-Dong<br>Lu, Jing<br>Zhang, Qian-Wei<br>Chen, He-Xu |
| NT$15,000,000 ~ NT$30,000,000 | - | - |
| NT$30,000,000 ~ NT$50,000,000 | - | - |
| NT$50,000,000 ~ NT$100,000,000 | - | - |
| Over NT$100,000,000 | - | - |
| Total | 11 | 11 |

Remark:

1. GM, assistant GM should be disclosed separately, and the payment should be displayed in a consolidation. The board directors who also act as Chairman or GM should fill in this form and the following Form (1-1) or (1-2).
2. Refers to the latest pay of the GM, assistant GM which include basic base compensation, professional allowance, and severance pay.
3. Refers to the consolidated allowances of the GM, assistant GM which include honorarium, special disbursement, and the other allowances. The allowances which include housing, cars, and the other vehicles should be listed the nature and the cost of asset on actual or market value. If accompanied with drivers, the drivers' salary shall be remarked but excluded from the persons' compensation. In addition, acquiring employee stock options, employee's restricted stocks right and the right to subscribe in cash offerings shall be taken into consideration in recognizing the compensation cost based on IFRS#2, Share-based Compensation.
4. Refers to the consolidated remuneration received by the GM, assistant GM who are which include stock bonus and cash bonus should be disposed the approved number in board meeting before shareholder meeting. If unable to forecast, take reference to the last year, and fill in the Form 1-3. The after-tax net profit refers to the one happened in personal or individual financial statement in the latest year.
5. Disposed the consolidated payment of our company and all the other companies in this report.
6. The payment to all the GM, assistant GM by our company would be disclosed.in the form of range of remuneration.
7. The payment to all the GM, assistant GM by our company and the other companies should be disclosed.in the form of range of remuneration.
8. The after-tax net profit refers to the one happened in personal or individual financial statement in the latest year.
9. a. This column should dispose the remuneration to the GM, assistant GM from our affiliates and the other investments.

   b. The remuneration to the GM, assistant GM from our affiliates and the other investments should be included in column and defined as other investment.

   c. The remuneration received by GM, assistant GM from our subsidiaries and the other investments other than the Company's in the positions of the board director, supervisor, or manager which include honorarium, special disbursement, and the other allowances.

*The forms here are for the purpose of information disposal, not applicable for taxation if conflicts aroused with law.

## The name of each individual and the corresponding remuneration amount

Unit: NT$'000

| | Title | Name | Stock Bonus | Cash Bonus | Total | % of Net income (%) |
|---|---|---|---|---|---|---|
| Managers | CSO | Tong, Zi-Xian | - | 52,544 | 52,544 | 2.35% |
| | CEO | Guo, Ming-Dong | | | | |
| | Assistant CEO | Lu, Jing<br>(Resignation at 2016.10.31) | | | | |
| | CTO | Zhang, Qian-Wei | | | | |
| | General Manager | Chen, He-Xu | | | | |
| | COO | Hu, Gui-Qin<br>(Inauguration at 2016.09.01) | | | | |
| | Senior Assistant GM | Huang, Geng-Fang | | | | |
| | Senior Assistant GM | Yang, De-Sheng<br>(Resignation at 2016.12.31) | | | | |
| | Assistant GM | Lin, Zhi-Wei | | | | |
| | Assistant GM | Huang, Sheng-Chuan | | | | |
| | Assistant GM | Wu, Wei-Wen<br>(Inauguration at 2016.09.01) | | | | |

Note: Compensation to employees for 2016 had been approved in Board meeting on 2017/02/08 and will be reported in shareholders' meeting. As of now, details of the proportion as proposed above hadn't been decided yet while it is estimated by the actual distribution rate in prior year.

Remark:

1. Names and titles should be disclosed individually and the earning distribution may be disclosed in consolidation.
2. The earnings distribution for the managers approved in board meeting which include stock bonus and cash bonus will be estimated by the numbers given last year. The after-tax net profit refers to the one happened in personal or individual financial statement in the latest year.
3. Scope of application of the Manager is regulated by TWSE file No.0920001301 on March 27, 2003 and defined as：(1) President and equivalent rank (2) Vice President and equivalent rank (3) Junior President and equivalent rank (4) Financial Supervisor(5)Accounting Supervisor(6) Other signed for management services and the rights of man.
4. Board directors, GM and assistant GM who receive employee bonuses (including stock dividends and cash bonus) should fill in this form and Form1-2.

(d) Separately compare and describe total remuneration, as a percentage of net income stated in the parent company only financial reports or individual financial reports, as paid by this company and by each other company included in the consolidated financial statements during the past 2 fiscal years to directors, supervisors, general managers, and assistant general managers, and analyze and describe remuneration policies, standards, and packages, the procedure for determining remuneration, and its linkage to operating performance and future risk exposure

a. The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, supervisors, presidents and vice presidents of the Company, to the net income.

Unit: NT$'000

| Year / Title | 2016 | | 2015 | |
|---|---|---|---|---|
| | Total remuneration | Total remuneration to net income (%) | Total remuneration | Total remuneration to net income (%) |
| Director | 21,151 | 0.95% | 26,266 | 0.90% |
| GM and Assistant GM | 94,010 | 4.21% | 100,886 | 3.47% |

Note: Compensation to employees for 2016 had been approved in Board meeting on 2017/02/08 and will be reported in the annual shareholders' meeting. As of now, details of the proportion as proposed above hadn't been decided yet while it is estimated by the actual distribution rate in prior year.

b. The ratios of remuneration paid to directors, presidents and vice presidents of the Company in the last two years, and the percentage to net income, in 2016 and 2015. The policy, standards, and portfolios for the payment of remuneration have been complied with the Company's Article of Incorporation. The compensation to management employees is measured based on the employees' personal achievements, contribution made to the business operation, and the market averages. The compensations to directors and management employees have been reviewed by the Company's Compensation Committee, proposed to the Board of Directors and to be reported in annual stockholders' meeting.

(3) The state of the Company's implementation of corporate governance

(A) The state of operations of the board of directors

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

| Title | Name (Remark 1) | Attendance in Person (B) | By Proxy | Attendance Rate (%) 【B/A】(Remark 2) | Note |
|---|---|---|---|---|---|
| Chairman | Guo, Ming-Dong | 6 | 0 | 100% | Lu, Jing resigned at 2016.10.31and the number of her attending in board meetings was 5. |
| Director | Tong, Zi-Xian | 5 | 0 | 83% | |
| Director | Lu, Jing (Note) | 5 | 0 | 100% | |
| Director | Hua Xu Investment Representative: Su, Yan-Xue | 4 | 2 | 67% | |
| Director | Hua Yu Investment Representative: Wu, Xiang-Xiang | 6 | 0 | 100% | |
| Director | Cheng, Zhong-Ren | 6 | 0 | 100% | |
| Independent director | Chen, Jin-Cai | 6 | 0 | 100% | |
| Independent director | Huang, Chun-Bao | 6 | 0 | 100% | |
| Independent director | Wu, Hui-Huang | 6 | 0 | 100% | |

Other mentionable items:

1.The date of board meeting, the term, the content of proposal in board meeting, the opinions of all independent directors, and the Company's response or action to the independent directors' opinions shall be specified in the meeting minutes if one of the following situations is met:

(1) The items listed in article #14-3 of Security Act. (None)

(2) In addition to Item # (1) above, those resolutions accompanying with independent directors' written objection or qualification. (None)

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

3. Measures taken to strengthen the functionality of the board: None

Remark:

1. Director or supervisor, who is an institutional shareholder and its representative, should be revealed of the names.

2. (1) Supervisors resigning prior to the end of the year should be indicated in the notes column the date of resign. The actual attendance rate (%) is calculated based on the accumulation of attendance in Board meeting divided by the times of board meeting before his/her resigning.

   (2) For any re-election of director/supervisor, the old and the new one should be revealed with remarks and the actual attendance rate (%) based on the accumulation of attendance in board meeting divided by the times of board meeting after his/her election.

(B)The state of operations of the audit committee

A total of 6 (A) Audit Committee meetings were held in the previous period. The attendance of the independent directors was as follows:

<table>
<tr><th>Title</th><th>Name</th><th>Attendance in Person (B)</th><th>By Proxy</th><th>Attendance Rate (%)【B/A】(Remark)</th><th>Note</th></tr>
<tr><td>Independent director</td><td>Chen, Jin-Cai</td><td>6</td><td>0</td><td>100%</td><td rowspan="3"></td></tr>
<tr><td>Independent director</td><td>Huang, Chun-Bao</td><td>6</td><td>0</td><td>100%</td></tr>
<tr><td>Independent director</td><td>Wu, Hui-Huang</td><td>6</td><td>0</td><td>100%</td></tr>
<tr><td colspan="6">Other mentionable items:<br>1. The date of board meeting, the term, the content of proposal in board meeting, the opinions of all independent directors, and the Company’s response or action to the independent directors’ opinions shall be specified in the meeting minutes if one of the following situations is met:<br>(1) The items listed in article #14-3 of Security Act. (None)<br>(2) In addition to Item # (1) above, those resolutions accompanying with independent directors’ written objection or qualification. (None)<br>2. If there are independent directors’ avoidance of motions in conflict of interest, the directors’ names, contents of motion, causes for avoidance and voting should be specified: NA<br>3. Communications between the independent directors, the Company's chief internal auditor and CPAs (e.g. the items, methods and results of audits of corporate finance or operations, etc.) The independent directors periodically obtained reports from the chief internal auditors and CPAs.</td></tr>
</table>

Remark:

1. Independent Director resigning before the end of the year should be indicated in the notes column date of release. The actual attendance rate (%) is calculated based on the accumulation of attendance in board meeting divided by the times of board meeting before his/her resigning.
2. For any re-election of independent director, the old and the new one should be revealed with remarks and the actual attendance rate (%) based on the accumulation of attendance in board meeting divided by the times of board meeting after his/her election.

(C) The state of the company's implementation of corporate governance, any departure of such implementation from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, and the reason for any such departure

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Abstract Illustration | |
| 1. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"? | Yes | | "Code of practice for corporate governance" has been exposed on the company Web site and public observatories. | No obvious deviation |
| 2. Shareholding structure & shareholders' rights | | | | |
| (1) Does the company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedure? | Yes | | (1)Spokesman system has been established according to regulations and the will handle related issues. | No obvious deviation |
| (2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares? | Yes | | (2)The board directors and the shareholders who hold more than 10%-owned holdings will be declared in accordance with the provisions of Declaration of Directors. | No obvious deviation |
| (3) Does the company establish and execute the risk management and firewall system within its conglomerate structure? | Yes | | (3)According to the company "internal control system", "internal audit system" and other related laws and regulations. | No obvious deviation |
| (4) Does the company establish internal rules against insiders trading with undisclosed information? | Yes | | (4)According to the company "for possible insider trading, operating procedures", "code of conduct" and other related laws and regulations. | No obvious deviation |

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Abstract Illustration | |
| 3. Composition and Responsibilities of the Board of Directors | | | | |
| (1) Does the Board develop and implement a diversified policy for the composition of its members? | Yes | | (1)Member diversification is considered by the Board members. | (1)No obvious deviation |
| (2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee? | | No | (2)Functional commissions will be created in order to meet the need of operating situation of the company and other various. | (2)Will actively assessing the need of Functional commissions. |
| (3) Does the company establish a standard to measure the performance of the Board, and implement it annually? | | No | (3)Will actively assessing relevant stipulations. | (3)Will actively assessing relevant stipulations. |
| (4) Does the company regularly evaluate the independence of CPAs? | Yes | | (4)Board in assessing the independence of accountants and by appointment on 2016.12.26. | (4)No obvious deviation |
| 4. Has a listed company assigned a specific or other department to take in-charge of detailed matters of implementing corporate governance? (including, but not limited to, furnishing directors or supervisors with information needed, preparing the data for board meeting and shareholders' meeting, executing business registration, preparing the minutes of board and shareholders' meeting.) | Yes | | The Company has assigned the HR department and the finance department for taking responsibility of detailed matters of implementing corporate governance. | No obvious deviation |

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Abstract Illustration | |
| 5. Does the company establish a communication channel and build a designated section on its website for stakeholders (Including, but not limited to, shareholders, employees, customers and suppliers, etc.), as well as handle all the issues they care for in terms of corporate social responsibilities? | Yes | | Spokesman system has been established according to regulations and the will handle related issues. Aggressively assess to establish zones of the interested on website. | No obvious deviation |
| 6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs? | Yes | | Companies entrust KGI stock agency to handle the relevant Affairs of the Department. | No obvious deviation |
| 7. Information Disclosure<br>(1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?<br><br>(2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)? | <br>Yes<br><br><br>Yes | | <br>(1)The Company has set up a Chinese/English website to disclose information regarding the Company's financials, business and corporate governance status.<br>(2)Spokesman system has been established. | <br>(1)No obvious deviation<br><br><br>(2)No obvious deviation |
| 8. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and | Yes | | (1)The company in accordance with the relevant statutes provide personnel regulations to protect employees' rights.<br>(2)Spokesman system and company website have been established to keep good | No obvious deviation |

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Abstract Illustration</th></tr>
<tr><td>supervisors’ training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?</td><td></td><td></td><td>relationship with the interests.<br>(3)Directors decree training are held as regulated.<br>(4)Company crisis management policy、crisis measurement standard and relevant customer policy have been stipulated and put into practice.<br>(5)Company directors have been appropriated liability insurance.</td><td></td></tr>
<tr><td colspan="5">9. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange.<br><br>Achievements:<br>The Company has disclosed in its web-side Information regarding corporate governance, including the Article of Incorporation and the comprehensive corporate governance framework. Complete English version of all financial statements, annual reports, notification of shareholders’ meeting, Handbooks for shareholders’ meeting as well as the meeting minutes have been well-disclosed and announced to the public prior to the required timing. In addition, the Company’s material information in both Chinese and English versions have always announced at the same time.<br><br>To be enhanced in priority:<br>To establish a specific whistleblower system for public use in the Company’s web-side.</td></tr>
</table>

## (D)If the company has a compensation committee in place, the composition, duties, and operation of the compensation committee shall be disclosed

### a. Professional Qualifications and Independence Analysis of Remuneration Committee Members

| Title (Remark 1) | Criteria / Name | Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience | | | Independence Criteria (Remark 2) | | | | | | | | Number of Other Public Companies in Which the Individual is Concurrently Serving as an Remuneration Committee Member | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university | A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company | Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | |
| Independent Director | Chen, Jin-Cai | Yes | - | Yes | V | V | V | V | V | V | V | V | 2 | |
| Independent Director | Huang, Chun-Bao | - | - | Yes | V | V | V | V | V | V | V | V | 1 | |
| Independent Director | Wu, Hui-Huang | - | - | Yes | V | V | V | V | V | V | V | V | 2 | |

Remark: 1. Please fill columns for directors, independent directors, respectively, or others.

2. Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office.

(1)Not an employee of the Company or any of its affiliates.

(2)Not a director or supervisor of affiliated companies. Not applicable in cases where the person is set up as an independent director of the parent company, the Company, or any subsidiary in accordance with this Act or local regulations.

(3)Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in holdings.

(4)Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.

(5)Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranked in the top five holdings.

(6)Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution which has a financial or business relationship with the Company.

(7)Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.

(8) Not a person of any conditions defined in Article 30 of the Company Law.

b. Attendance of Members at Remuneration Committee Meetings

(a)There are 3 members in the Remuneration Committee.

(b)Current member tenure: 2015/06/11-2018/06/10. A total of 4 (A) Remuneration Committee meetings were held in the previous period. The attendance record of the Remuneration Committee members was as follows:

| Title | Name | Attendance in Person(B) | By Proxy | Attendance Rate (%)【B/A】 | Note |
|---|---|---|---|---|---|
| Convener | Chen, Jin-Cai | 4 | 0 | 100% | |
| Committee Member | Huang, Chun-Bao | 4 | 0 | 100% | |
| Committee Member | Wu, Hui-Huang | 4 | 0 | 100% | |
| Other mentionable items:<br>1. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the remuneration committee's opinion (e.g. the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified): N/A<br>2. Resolutions of the remuneration committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: N/A | | | | | |

Remark:

1. Remuneration committee member resign before the end of the year should be indicated in the notes column date of release, the actual attendance rate (%) based on the accumulation of attendance in board meeting.
2. If any Remuneration committee member re-election, the old and the new one should be revealed with remarks and the actual attendance rate (%) based on the accumulation of attendance in board meeting in the column.

(E)The state of the Company's performance of corporate social responsibilities

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Abstract Explanation | |
| 1. Corporate Governance Implementation | | | | |
| (1)Does the company declare its corporate social responsibility policy and examine the results of the implementation? | Yes | | (1)We have established the Corporate Social and Environmental Responsibility Regulation and examine regularly. | (1)No obvious deviation |
| (2)Does the company provide educational training on corporate social responsibility on a regular basis? | Yes | | (2)Holding on-the-job training and Environmental Safety training regularly. | (2)No obvious deviation |
| (3)Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board? | | No | (3)The charity activity is exercised by administration department, which include donation to the metropolitan Association of Police Friends, Firefighter Volunteer and other minority groups. | (3)Not submitting to the Board yet |
| (4)Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system? | Yes | | (4)Company regularly conducts employee education and training for enhancing corporate ethics. According to the assessment results, reward or punishment will be given along with for inspire growth altogether. | (4)No obvious deviation |

| Evaluation Item | Implementation Status | | | Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons |
|---|---|---|---|---|
| | Yes | No | Abstract Explanation | |
| 2.Sustainable Environment Development | | | | |
| (1)Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment? | Yes | | (1)Companies are implementing garbage classification and recycling to reducing environmental impact. | (1)No obvious deviation |
| (2)Does the company establish proper environmental management systems based on the characteristics of their industries? | Yes | | (2)Establishing industrial characteristics of waste water and air pollution prevention and control regulations and exercise by environmental safety management Department. | (2)No obvious deviation |
| (3)Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction? | Yes | | (3)Implementing Paperless offices, advocating for energy saving in air conditioning in summer and turning off the lights. Checking greenhouse gas emissions on a regular basis, and obtaining the ISO 14064 certification. Expanding the water resource recycle system to enhance recycle rate to 30%. | (3)No obvious deviation |
| 3.Preserving Public Welfare | | | | |
| (1)Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights? | Yes | | (1)The company shall submit work rules to the Labor Bureau for approval, and hold Labor Conference based on 「Measures for the implementation of the」 quarterly and submit the report to Labor Bureau for approval. | (1)No obvious deviation |
| (2)Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions? | Yes | | (2)HR suggestion boxes are available for suggestions to the company. | (2)No obvious deviation |

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Abstract Explanation | |
| (3)Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis? | Yes | | (3)In compliance with ISO14001 and OHSAS18001 international standards. Safety management plan is developed yearly, and carried out through meetings for self-inspection and occupational safety and health education training. | (3)No obvious deviation |
| (4)Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them? | Yes | | (4)HR suggestion boxes are available for suggestions to the company. Significant impacts on the company's operation will be issued in public timely. | (4)No obvious deviation |
| (5)Does the company provide its employees with career development and training sessions? | Yes | | (5)Company regularly conducts employee education and training to enhance staff career development. | (5)No obvious deviation |
| (6)Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service? | Yes | | (6)Company does not supply products or service directly to consumers. The operational staff will be responsible for follow-up services. Company products are clearly labeled. | (6)No obvious deviation |
| (7)Does the company advertise and label its goods and services according to relevant regulations and international standards? | Yes | | (7)Yes. | (7)No obvious deviation |
| (8)Does the company evaluate the records of suppliers' impact on the environment and society before taking on business partnerships? | Yes | | (8)Adopting EICC Enterprise Social Responsibility System and implementing Green thinking through purchase capacity. Prohibiting polluted materials expanding purchase environment to protect products, prohibiting | (8)No obvious deviation |

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Abstract Explanation</th></tr>
<tr><td>(9)Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?</td><td></td><td>NO</td><td>use of materials from conflicting regions. Requesting the suppliers to furnishing RoHS testing reports and the guaranty for products not to contain REACH SVHC.<br>The Company includes conflict-free-minerals in supplier management system to exclude the materials production nations and respects EICC ethic standards and accepting the audit from its delegated parties. Complete evaluations are completely appropriated before collaborating with suppliers.<br>(9)Contracts are not stipulated to terminate or cancel at any time</td><td>(9)It’s not stipulated that the contract can be suspended or terminated at any time.</td></tr>
<tr><td>4. Enhancing Information Disclosure<br>(1)Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?</td><td>Yes</td><td></td><td>(1)The corporate social responsibilities(CSR) are revealed on its website and the Market Observation Post System (MOPS)</td><td>(1)No obvious deviation</td></tr>
<tr><td colspan="5">5. If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies”, please describe any discrepancy between the Principles and their implementation: No obvious deviation</td></tr>
<tr><td colspan="5">6. Other important information to facilitate better understanding of the company’s corporate social responsibility practices: None</td></tr>
<tr><td colspan="5">7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions: None</td></tr>
</table>

(F)The state of the Company’s performance in the area of good faith management and the adoption of related measures

| Evaluation Item | Implementation Status | | | Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons |
|---|---|---|---|---|
| | Yes | No | Abstract Illustration | |
| 1.Establishment of ethical corporate management policies and programs | | | | |
| (1)Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies? | Yes | | (1)The “Code of conduct for Integrity” approved at board meeting are revealed on its website and the Market Observation Post System (MOPS) | (1)No obvious deviation |
| (2)Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies? | Yes | | (2)The “Code of conduct for Integrity” prohibits any dishonest behavior and prevention programs. | (2)No obvious deviation |
| (3)Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies? | Yes | | (3)The “Code of conduct for Integrity” stipulates the scope in the prohibition of any dishonest behavior and prevention programs. | (3)No obvious deviation |
| 2.Fulfill operations integrity policy | | | | |
| (1)Does the company evaluate business partners’ ethical records and include ethics-related clauses in business contracts? | Yes | | (1)The company evaluates business partners’ ethical records and include ethics-related clauses in business contracts | (1)No obvious deviation |
| (2)Does the company establish an exclusively (or | Yes | | (2)HR should implement credit management, and | (2)No obvious deviation |

| Evaluation Item | Implementation Status | | | Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Abstract Illustration | |
| concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity? | | | exercises investigation when receiving any of the acts referred to questioned, prosecutors to the company. And the result will be published, if necessary, through legal channels to seek solutions. | |
| (3)Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it? | Yes | | (3)The "Code of Conduct for Integrity" is made as the business standard for the employees, contractors, suppliers, and business partners | (3)No obvious deviation |
| (4)Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis? | Yes | | (4)Sound corporate accounting and internal control system, and audit plan is made and exercised by, internal auditors every year. | (4)No obvious deviation |
| (5)Does the company regularly hold internal and external educational trainings on operational integrity? | Yes | | (5)Company regularly conducts employee education and training, including for business ethical business courses. | (5)No obvious deviation |
| 3.Operation of the integrity channel | | | | |
| (1)Does the company establish both a reward or punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up? | Yes | | (1)"Employee reporting and complaint handling procedures" is made for the protection of supplier and employee reporting and complaint rights. | (1)No obvious deviation |
| (2)Does the company establish standard operating procedures for confidential reporting on | Yes | | (2)"Employee reporting and complaint handling procedures" is clearly stipulated the relevant | (2)No obvious deviation |

| Evaluation Item | Implementation Status | | | Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Abstract Illustration | |
| investigating accusation cases?<br>(3)Does the company provide proper whistleblower protection? | <br>Yes | | procedure and confidentiality.<br>(3)"Employee reporting and complaint handling procedures" render protection to the petitioner from any possible revenge. | <br>(3)No obvious deviation |
| 4.Strengthening information disclosure<br>(1)Does the company disclose its ethical corporate management policies and the results of its implementation on the company's website and MOPS? | <br>Yes | | <br>(1)The "Code of Conduct for Integrity" has been revealed on corporate website. (http://www.kinsus.com.tw) | <br>(1)No obvious deviation |
| 5.If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies, please describe any discrepancy between the policies and their implementation: None | | | | |
| 6.Other important information to facilitate a better understanding of the company's ethical corporate management policies: None | | | | |

(G)If the Company has adopted corporate governance best-practice principles or related bylaws, disclose how these are to be searched.

Please refer to the Company’s website at http://www.kinsus.com.tw/zh-TW/Download/other-information.

(H)Other significant information that will provide a better understanding of the state of the company's implementation of corporate governance: None

(I)The state of implementation of the company's internal control system

a. For a Statement on Internal Control: Please refer to page 45 of the Statement of internal control.
b. A CPA has been hired to carry out a special audit of the internal control system: None

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

(K)Material resolutions of a shareholders meeting or a board of directors meeting during the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report.

a. Material resolutions of 2016 shareholders meeting (at May 27, 2016)

| Item | Date | Major resolutions |
|---|---|---|
| Shareholders’ meeting | May 27, 2016 | A. Approval of the 2015 business report, financial statements and consolidated financial statements:<br>Attending votes: 319,529,844 (Of which the exercise of the voting rights by electronic means: 142,678,028)<br>Favorable votes: 267,974,951(Of which the exercise of the voting rights by electronic means: 91,430,945)<br>Unfavorable votes: 5,056 (Of which the exercise of the voting rights by electronic means: 5,056)<br>Invalid votes: 0<br>Abstention and Not votes: 51,549,837 (Of which the exercise of the voting rights by electronic means: 51,242,027)<br><br>Implementation of the situation: The resolution was adopted. |

| | | |
|---|---|---|
| | | B. Approval of the distribution of 2015 retained earnings: (see Table 1 below)<br>Attending votes: 319,529,844 (Of which the exercise of the voting rights by electronic means: 142,678,028)<br>Favorable votes: 268,351,951 (Of which the exercise of the voting rights by electronic means: 91,807,945)<br>Unfavorable votes: 31,056 (Of which the exercise of the voting rights by electronic means: 31,056)<br>Invalid votes: 0<br>Abstention and Not votes: 51,146,837 (Of which the exercise of the voting rights by electronic means: 50,839,027)<br><br>Implementation of the situation:<br>The resolution was adopted and the dividends have been distributed on August 31, 2016 accordingly. |
| | | C. Amend the Article of Incorporation<br>Attending votes: 319,529,844 (Of which the exercise of the voting rights by electronic means: 142,678,028)<br>Favorable votes: 268,390,951 (Of which the exercise of the voting rights by electronic means: 91,846,945)<br>Unfavorable votes: 5,056 (Of which the exercise of the voting rights by electronic means: 5,056)<br>Invalid votes: 0<br>Abstention and Not votes: 51,133,837 (Of which the exercise of the voting rights by electronic means: 50,826,027)<br><br>Implementation of the situation:<br>The resolution was adopted and has been implemented in accordance with the revised charter. |

Table 1

Kinsus Interconnect Technology Corporation

2015 Earnings Distribution Table

| Item | Total (in NT$) |
|---|---|
| Beginning retained earnings | $11,884,863,961 |
| Add: Other comprehensive income and loss - the impact of the actuarial gains and losses of benefits | (8,721,698) |
| Add: Net profit after tax | 2,903,952,243 |
| Distributable earnings | 14,780,094,506 |
| Less: 10% Legal reserve | (290,395,224) |
| Shareholder cash dividend (NT$3.5/share) | (1,559,075,000) |
| Subtotal: | (1,849,470,224) |
| Ending unappropriated retained earnings | $12,930,624,282 |

b. Material resolutions from the meetings of board of directors

| Date of board meeting | Major resolutions |
|---|---|
| 2016/02/01 | 1. Approve 2015 compensation to employee and directors<br>2. 2015 Business report, parent-company-only financial statements, and consolidated financial statements<br>3. 2015 earnings distribution<br>4. 2015 representation letter for effectiveness on internal control structure<br>5. The 2016 annual shareholders' meeting convened and related matters |
| 2016/04/25 | 1. Participate in cash offering of the subsidiary, KINSUS INVESTMENT CO., LTD.<br>2. Resolve the addition and continuance of bank facility<br>3. Approve the endorsement for KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP. |
| 2016/05/27 | 1. Dispose part of the operating equipment to related party |
| 2016/07/25 | 1. Determine the measurement date for 2015 distribution of dividend<br>2. Distribution of 2015 compensation to directors<br>3. Propose the 2016 adjustment on managers' compensations<br>4. Propose the amounts of employee compensation for managers<br>5. Approve the endorsement for PIOTEK COMPUTER (SUZHOU) CO., LTD.<br>6. Revise the budget of 2016 capital expenditures |
| 2016/10/24 | 1. Approve the 2017 internal audit plan<br>2. Manager rotation<br>3. Resolve the addition and continuance of bank facility<br>4. Revise the budget of 2016 capital expenditures |
| 2016/12/26 | 1. Approve the 2017 business plan and budget<br>2. Assess auditors' independency, approve the engagement of auditors and the audit fee<br>3. Resolve the addition of bank facility<br>4. Determine the distribution of 2016 managers' year-end bonus |
| 2017/02/08 | 1. 2016 Business report, parent-company-only financial statements, and consolidated financial statements<br>2. 2016 earnings distribution<br>3. Approve 2016 compensation to employee and directors<br>4. 2016 representation letter for effectiveness on internal control structure |

| | |
|---|---|
| | 5. Amend the Article of Incorporation<br>6. Amend "Practice Guidance for Loaning to Others"<br>7. Amend "Practice Guidance for Providing Endorsement/Guarantee"<br>8. Amend "Procedures for Halt and Resumption Applications"<br>9. Amend "Practical Guidance for Corporate Governance"<br>10. By-electing a director<br>11. List of candidates for nomination of directors<br>12. To release the newly by-elected director from prohibition of non-compete.<br>13. The 2017 annual shareholders' meeting convened and related matters |
| 2017/03/30 | 1. To review the qualifications of the nominee for director to be by-elected<br>2. Amend "Procedures for Acquisition and Disposal of Assets"<br>3. Approve the revision of 2017 annual shareholders' meeting convened and related matters<br>4. Amend "The Rule for Establishing Audit Committee " |

(L)Where, during the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report, a director or supervisor has expressed a dissenting opinion with respect to a material resolution passed by the board of directors, and said dissenting opinion has been recorded or prepared as a written declaration, disclose the principal content thereof: None

(M)A summary of resignations and dismissals, during the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report, of the company's chairman, general manager, principal accounting officer, principal financial officer, chief internal auditor, and principal research and development officer: None

(4) Information on CPA professional fees

| Name of Accounting Firm | Name of CPA | Audit Period | Note |
|---|---|---|---|
| Ernst & Young | Huang, Yi-Hui | 2016 | |
| | Zhang, Zhi-Ming | | |

| Range \ Category | | Audit Fee | Non- Audit Fee | Total |
|---|---|---|---|---|
| 1 | Less than $2,000 thousand | | V | |
| 2 | $2,000 thousand (inclusive) - $4,000 thousand | | | |
| 3 | $4,000 thousand (inclusive) - $6,000 thousand | V | | V |
| 4 | $6,000 thousand (inclusive) - $8,000 thousand | | | |
| 5 | $8,000 thousand (inclusive) - $10,000 thousand | | | |
| 6 | $10,000 thousand and more | | | |

(A)The amount of non-audit fees paid to the CPAs, their firm, and its affiliated enterprises accounting for at least one-fourth of the amount of audit fees: None

(B) Change of the accounting firm with a decrease in the audit fees paid in the year of change compared to the year before the change: None

(C) The audit fees reduced by 15% or more compared to the previous year: None

(5) Information on replacement of certified public accountant: None

(6) Where the Company's chairperson, general manager, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm, the name and position of the person, and the period during which the position was held: None

(7) Any transfer of equity interests and/or pledge of or change in equity interests (during the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report) by a director, supervisor, managerial officer, or shareholder with a stake of more than 10 percent during the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report.

(A)Changes in equity due to transfer and pledge by directors, supervisors, officers, and greater-than-10-percent shareholders

a. Changes in shareholdings of Directors, Officers, and Major Shareholders

Unit: Shares

| Title | Name | 2016 | | As of March 28, 2017 | |
|---|---|---|---|---|---|
| | | Increase (Decrease) in # of Shares Held | Increase (Decrease) in # of Shares Pledged | Increase (Decrease) in # of Shares Held | Increase (Decrease) in # of Shares Pledged |
| Chairman & CEO | Guo, Ming-Dong | – | – | (100,000) | – |
| Director & CSO | Tung, Tzu-Hsien | – | – | – | – |
| Director & Assistant CEO | Lu, Jing | Resignation at 2016.10.31 | | Resignation at 2016.10.31 | |
| Director (major shareholder) | Hua Xu Investment Co., Ltd. Corporate, rep: Su, Yan-Xue | – | – | – | – |
| | Su, Yan-Xue | – | – | – | – |
| Director (major shareholder) | Hua Yu Investment Co., Ltd. Corporate, rep.: Wu, Xiang-Xiang | – | – | – | – |
| | Wu, Xiang-Xiang | – | – | – | – |
| Director | Cheng, Zhong-Ren | – | – | – | – |
| Independent Director | Huang, Chun-Bao | – | – | – | – |
| Independent Director | Chen, Jin-Cai | – | – | – | – |
| Independent Director | Wu, Hui-Huang | – | – | – | – |
| Major Shareholder | Hua Wei Investment Co., Ltd. | – | – | – | – |
| Technical Director | Chang, Chien-Wei | – | – | – | – |
| General manager | Chen, He-Xu | – | – | – | – |
| COO | Hu, Gui-Qin | Inauguration at 2016.09.01 | | – | – |
| Senior assistant GM | Huang, Geng-Fang | – | – | – | – |
| Senior assistant GM | Yang, De-Sheng | Resignation at 2016.12.31 | | Resignation at 2016.12.31 | |
| Assistant GM | Lin, Zhi-Wei | – | – | (14,000) | – |
| Assistant GM | Huang, Sheng-Chuan | – | – | – | – |
| Assistant GM | Wu, Wei-Wen | Inauguration at 2016.09.01 | | – | – |
| Chief FIN/ACC manager | Liu, Su-Zhen | – | – | – | – |

(B)Where the counterparty in any transfer or pledge of equity is a related party, disclose the counterparty's name, its relationship with the Company as well as the Company's directors, supervisors, and greater-than-10-percent shareholders, and the number of shares acquired or pledged: None

(8) Relationship information, if among the Company's 10 largest shareholders any one is a related party or a relative within the second degree of kinship of another:

| Name | Shares Held | | Shares Held by Spouse or Minor Children | | Total Shares Held in the Name of Others | | Title or Name of Its Related Party, Spouse, or Relative Within the Second Degree of Kinship That Is Among Ten Largest Shareholders and Their Relationship | | Note |
|---|---|---|---|---|---|---|---|---|---|
| | # of Shares | Shareholding Percentage | # of Shares | Shareholding Percentage | # of Shares | Shareholding Percentage | Title (or Name) | Relationship | |
| Hua Wei Investment Co., Ltd. | 60,128,417 | 13.48% | - | - | - | - | Hua Xu Investment Co., Ltd., Hua Yu Investment Co., Ltd. | All are 100% owned by Pegatron Corp. | - |
| Hua Xu Investment Co., Ltd. (Representative: Su, Yan-Xue) | 58,233,091 | 13.06% | - | - | - | - | Hua Wei Investment Co., Ltd., Hua Yu Investment Co., Ltd. | All are 100% owned by Pegatron Corp. | - |
| Su, Yan-Xue | - | - | - | - | - | - | - | - | - |
| Hua Yu Investment Co., Ltd. (Representative: Wu, Xiang-Xiang) | 55,556,221 | 12.46% | - | - | - | - | Hua Wei Investment Co., Ltd., Hua Xu Investment Co., Ltd. | All are 100% owned by Pegatron Corp. | - |
| Wu, Xiang-Xiang | - | - | - | - | - | - | - | - | - |
| Fubon Life Assurance Co., Ltd. | 17,800,000 | 3.99% | | | | | | | |
| Nan Shan Life Insurance Company Ltd. | 15,670,000 | 3.51% | - | - | - | - | - | - | - |
| HSBC Westbury Large Enterprise Strategic Trust Fund | 7,857,000 | 1.76% | | | | | | | |
| Chunghwa Post | 7,573,000 | 1.70% | - | - | - | - | - | - | - |
| Labor Pension Fund (New Scheme) | 5,628,500 | 1.26% | | | | | | | |
| Cathay Life Insurance Co., Ltd. | 5,436,000 | 1.22% | - | - | - | - | - | - | - |
| CITI Norway Central Bank Investment Trust Account | 4,600,571 | 1.03% | - | - | - | - | - | - | - |

(9) The total number of shares and total equity stake held in any single enterprise by the company, its directors and supervisors, managers, and any companies controlled either directly or indirectly by the Company

Consolidated Shareholding Percentage

Measurement date: Dec. 31, 2016; Unit: Shares; %

| Invested Enterprise | Investment by the Company | | Investment by Directors, Supervisors, Officers, and Directly or Indirectly Controlled Companies | | Consolidated Investment | |
|---|---|---|---|---|---|---|
| | # of Shares | Shareholding Percentage | # of Shares | Shareholding Percentage | # of Shares | Shareholding Percentage |
| KINSUS CORP.(USA) | 500,000 | 100% | – | – | 500,000 | 100% |
| KINSUS HOLDING (SAMOA) LIMITED | 166,308,720 | 100% | – | – | 166,308,720 | 100% |
| KINSUS HOLDING (CAYMAN) LIMITED | – | – | 72,000,000 | 100% | 72,000,000 | 100% |
| KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP. | – | – | – | 100% | – | 100% |
| KINSUS INVESTMENT CO., LTD. | 100,000,000 | 100% | – | – | 100,000,000 | 100% |
| PEGAVISION CORP. | – | – | 37,219,339 | 62.03% | 37,219,339 | 62.03% |
| PIOTEK HOLDINGS LTD.(CAYMAN) | – | – | 187,755,000 | 100% | 187,755,000 | 100% |
| PIOTEK HOLDING LTD. | – | – | 139,840,790 | 100% | 139,840,790 | 100% |
| PIOTEK (H.K.) TRADING LIMITED. | – | – | 200,000 | 100% | 200,000 | 100% |
| PIOTEK COMPUTER (SUZHOU) CO. LTD. | – | – | – | 100% | – | 100% |
| PEGAVISION HOLDINGS CORPORATION | – | – | 2,130,000 | 100% | 2,130,000 | 100% |
| PEGAVISION CONTACT LENSES (SHANGHAI) CORPORATION | – | – | – | 100% | – | 100% |
| XIANG SHUO (SUZHOU) TRADING LIMITED | – | – | – | 100% | – | 100% |
| PEGAVISION JAPAN INC. | | – | 198 | 100% | 198 | 100% |

Kinsus Interconnect Technology Corp.
Statement on Internal Control Systems

Date: February 8th, 2017

Based on the results of self-inspection of the Company's internal control system in 2016, the Company hereby states the following:

(1) The Company is fully aware that establishing, implementing, and maintaining an internal control system are the responsibilities of its board of directors and officers. The Company has established such a system to provide reasonable assurance regarding the achievement of such objectives as effectiveness and efficiency of operations (including profits, performance, and safeguarding of assets), reliability of financial reporting, and compliance with applicable laws and regulations.

(2) There are inherent limitations to every internal control system. An effective internal control system can only provide reasonable assurance regarding the achievement of the aforesaid three objectives in spite of how well-designed it is. Moreover, the effectiveness of an internal control system may vary with changes in environments or circumstances. Nevertheless, the internal control system of the Company comes with a self-supervision mechanism. The Company will take corrective actions immediately after a deficiency is identified.

(3) The Company determines whether the design and implementation of its internal control system are effective according to the criteria for effectiveness of internal control systems as prescribed in the Regulations Governing Establishment of Internal Control Systems by Public Companies (hereinafter referred to as "the Regulations"). The internal control system criteria adopted in the Regulations divide an internal control system into five constituent elements based on the management and control processes: a. control environment; b. risk assessment; c. control activities; d. information and communications; and e. monitoring. Each constituent element also comprises several items. See the Regulations for the above-mentioned items.

(4) The Company has adopted the aforesaid internal control system criteria to inspect the effectiveness of the design and implementation of its internal control system.

(5) According to the results of the inspection mentioned above, the Company believes that its internal control system (the supervision and management of its subsidiaries are included) as of December 31, 2016, including the design and implementation of the internal control system regarding the perceived level of achievement of the objectives of operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations, is effective, and that it can reasonably assure the achievement of the aforesaid objectives.

(6)This statement will become an essential part of the Company's annual report and prospectus and be disclosed to the public. If the Company is found to make a false statement, conceal information, or violate regulations regarding the disclosed content, it will be subject to the legal liabilities of Articles 20, 32, 171, and 174 of the Securities and Exchange Act.

(7)This statement was adopted by the board of directors of the Company on February 8, 2017. None of the seven attending directors objected to this statement as all of them approved the content of this statement. Thus, a pronouncement is made herein.

Kinsus Interconnect Technology Corp.

The Chairman: Guo, Ming-Dong

The General Manager: Chen, He-Xu

# 4. Information on Capital Raising Activities

## (1) Capital and Shares

### (A)Sources of Capital Stock

#### a. Types of Shares

As of March 28, 2017; Unit: Shares

| Type of Shares | Authorized Capital Stock | | | Remark |
|---|---|---|---|---|
| | Outstanding Shares (Note) | Unissued Shares | Total | |
| Registered common stock | 446,000,000 | 104,000,000 | 550,000,000 | Note |

Note: The Company has gone public since Nov. 1, 2004. The shares outstanding are all listed.

#### b. Formation of Capital Stock

As of March 28, 2017

| Month & Year | Issue Price ($) | Authorized Capital Stock | | Paid-Up Capital Stock | | Note | | |
|---|---|---|---|---|---|---|---|---|
| | | # of Shares (Thousand Shares) | Amount (Thousand Dollars) | # of Shares (Thousand Shares) | Amount (Thousand Dollars) | Source of Capital Stock | Offsetting Payment of Shares with Properties Other Than Cash | Others |
| Sep. 2000 | 10 | 250,000 | 2,500,000 | 120,000 | 1,200,000 | Startup capital 1,200,000 | None | — |
| Dec. 2000 | 10 | 250,000 | 2,500,000 | 130,000 | 1,300,000 | Cash addition 100,000 | None | Note 1 |
| April 2001 | 10 | 250,000 | 2,500,000 | 190,000 | 1,900,000 | Cash addition 600,000 | None | Note 2 |
| Nov. 2002 | 10 | 250,000 | 2,500,000 | 200,000 | 2,000,000 | Cash addition 100,000 | None | Note 3 |
| July 2004 | 10 | 288,000 | 2,880,000 | 222,000 | 2,220,000 | Capitalization of earnings 220,000 | None | Note 4 |
| Aug. 2005 | 10 | 370,000 | 3,700,000 | 259,800 | 2,598,000 | Capitalization of earnings 378,000 | None | Note 5 |
| Sep. 2005 | 10 | 370,000 | 3,700,000 | 289,800 | 2,898,000 | Cash addition 300,000 | None | Note 6 |
| June 2006 | 10 | 550,000 | 3,700,000 | 339,800 | 3,398,000 | Cash addition 500,000 | None | Note 7 |
| Sep. 2006 | 10 | 550,000 | 5,500,000 | 389,000 | 3,890,000 | Capitalization of earnings 492,000 | None | Note 8 |
| Sep. 2007 | 10 | 550,000 | 5,500,000 | 435,400 | 4,354,000 | Capitalization of earnings 464,000 | None | Note 9 |
| Sep. 2008 | 10 | 550,000 | 5,500,000 | 446,000 | 4,460,000 | Capitalization of earnings 106,000 | None | Note 10 |

Note 1: Approved by the Ministry of Economic Affairs with the Letter of Jing-(090)-Shang No. 09001013780 dated January 15, 2001

Note 2: Approved by the Ministry of Economic Affairs with the Letter of Jing-(090)-Shang No. 09001129300 dated April 17, 2001

Note 3: Letter of (91)-Tai-Cai-Zheng-(Yi)-Zi No. 0910149830 issued by the Securities and Futures Commission, Ministry of Finance on September 11, 2002

Note 4: Letter of (93)-Tai-Cai-Zheng-(Yi)-Zi No. 0930124569 issued by the Securities and Futures Commission, Ministry of Finance on June 2, 2004

Note 5: Letter of Jin-Guan-Zheng-Yi-Zi No. 0940126584 issued by the Financial Supervisory Commission, Executive Yuan on July 1, 2005

Note 6: Letter of Jin-Guan-Zheng-Yi-Zi No. 0940130374 issued by the Financial Supervisory Commission, Executive Yuan on August 2, 2005

Note 7: Letter of Jin-Guan-Zheng-Yi-Zi No. 0950108623 issued by the Financial Supervisory Commission, Executive Yuan on March 24, 2006

Note 8: Letter of Jin-Guan-Zheng-Yi-Zi No. 0950128559 issued by the Financial Supervisory Commission, Executive Yuan on July 5, 2006

Note 9: Letter of Jin-Guan-Zheng-Yi-Zi No. 0960031093 issued by the Financial Supervisory Commission, Executive Yuan on June 21, 2007

Note 10: Letter of Jin-Guan-Zheng-Yi-Zi No. 0970030373 issued by the Financial Supervisory Commission, Executive Yuan on June 18, 2008

## (B)Shareholder Structure

As of March 28, 2017; Unit: Shares

| Shareholder Structure / Quantity | Government Agencies | Financial Institutions | Other Corporations | Individuals | Foreign Institutions & Foreigners | Total |
|---|---|---|---|---|---|---|
| # of Persons | 0 | 25 | 165 | 22,737 | 255 | 23,182 |
| # of Shares Held | 0 | 53,694,000 | 208,350,823 | 93,902,297 | 90,052,880 | 446,000,000 |
| Shareholding Percentage | 0.00% | 12.04% | 46.72% | 21.05% | 20.19% | 100% |
| Note: No shares are held by investors in Mainland China. | | | | | | |

(C)Diffusion of Ownership

Par at NT$10 per share; As of March 28, 2017

| Scale of Shareholding | | | # of Shareholders | # of Shares Held | Shareholding Percentage |
|---|---|---|---|---|---|
| 1 | to | 999 | 3,855 | 456,215 | 0.10% |
| 1,000 | to | 5,000 | 15,648 | 30,423,661 | 6.82% |
| 5,001 | to | 10,000 | 1,932 | 15,381,520 | 3.45% |
| 10,001 | to | 15,000 | 503 | 6,445,276 | 1.44% |
| 15,001 | to | 20,000 | 344 | 6,432,898 | 1.44% |
| 20,001 | to | 30,000 | 269 | 6,991,289 | 1.57% |
| 30,001 | to | 50,000 | 213 | 8,753,254 | 1.96% |
| 50,001 | to | 100,000 | 182 | 12,913,547 | 2.89% |
| 100,001 | to | 200,000 | 84 | 12,358,273 | 2.77% |
| 200,001 | to | 400,000 | 62 | 18,095,307 | 4.06% |
| 400,001 | to | 600,000 | 31 | 14,972,681 | 3.36% |
| 600,001 | to | 800,000 | 12 | 8,233,879 | 1.85% |
| 800,001 | to | 1,000,000 | 9 | 8,144,578 | 1.83% |
| 1,000,001 | to | 1,000,000,000 | 38 | 296,397,622 | 66.46% |
| Total | | | 23,182 | 446,000,000 | 100.00% |

(D)List of principal shareholders

The names, numbers of owned shares, and shareholding percentages of those who own 5% or more of the total issued shares or whose shareholding percentage is among the top ten.

As of March 28, 2017; Unit: Shares

| Shares / Name of Major Shareholders | # of Shares Held | Shareholding Percentage |
|---|---|---|
| Hua Wei Investment Co., Ltd. | 60,128,417 | 13.48% |
| Hua Xu Investment Co., Ltd. | 58,233,091 | 13.06% |
| Hua Yu Investment Co., Ltd. | 55,556,221 | 12.46% |
| Fubon Life Assurance Co., Ltd. | 17,800,000 | 3.99% |
| Nan Shan Life Insurance Company, Ltd. | 15,670,000 | 3.51% |
| HSBC Westbury Large Enterprise Strategic Trust Fund | 7,857,000 | 1.76% |
| Chunghwa Post | 7,573,000 | 1.70% |
| Labor Pension Fund (New Scheme) | 5,628,500 | 1.26% |
| Cathay Life Insurance Co., Ltd. | 5,436,000 | 1.22% |
| CITI Norway Central Bank Investment Trust Account | 4,600,571 | 1.03% |

(E)Share prices for the past 2 fiscal years, together with the company's net worth per share, earnings per share, dividends per share, and related information.

Unit: NT$

<table>
<tr><th colspan="3">Item / Year</th><th>2015</th><th>2016</th></tr>
<tr><td rowspan="3">Market Price per Share</td><td colspan="2">Highest</td><td>106.50</td><td>80.8</td></tr>
<tr><td colspan="2">Lowest</td><td>49.90</td><td>58.9</td></tr>
<tr><td colspan="2">Average</td><td>76.63</td><td>70.26</td></tr>
<tr><td rowspan="2">Net Worth per Share</td><td colspan="2">Before Distribution</td><td>63.66</td><td>64.73</td></tr>
<tr><td colspan="2">After Distribution</td><td>60.16</td><td>( Note )</td></tr>
<tr><td rowspan="3">Earnings per Share</td><td colspan="2">Weighted Average # of Shares</td><td>446,000,000</td><td>446,000,000</td></tr>
<tr><td rowspan="2">Earnings per Share</td><td>Before Adjustment</td><td>6.51</td><td>5.01</td></tr>
<tr><td>After Adjustment</td><td>6.51</td><td>( Note )</td></tr>
<tr><td rowspan="4">Dividends per Share</td><td colspan="2">Cash Dividends</td><td>3.5</td><td>( Note )</td></tr>
<tr><td rowspan="2">Stock Dividends</td><td>Stock Dividends from Retained Earnings</td><td>—</td><td>( Note )</td></tr>
<tr><td>Stock Dividends from Capital Reserves</td><td>—</td><td>( Note )</td></tr>
<tr><td colspan="2">Accumulated Unpaid Dividends</td><td>—</td><td>—</td></tr>
<tr><td rowspan="3">Analysis of Return on Investment</td><td colspan="2">Price/Earnings Ratio</td><td>11.77</td><td>14.02</td></tr>
<tr><td colspan="2">Price/Dividend Ratio</td><td>21.89</td><td>( Note )</td></tr>
<tr><td colspan="2">Cash Dividend Yield</td><td>4.57%</td><td>( Note )</td></tr>
</table>

Note: The distribution of earnings in 2016 has been approved by the board of directors, but has not been resolved at the shareholders’ meeting.

(F)The Company's dividend policy and implementation

a. The Company's Dividend Policy

The Company, if making profits in current year, shall distribute the earnings in the following order:

1. Payment of all taxes and dues;
2. Offset prior years’ operation losses;
3. Set aside 10% of the remaining amount after deducting items (a) and (b) as legal reserve;
4. Set aside or reverse special reserve in accordance with law and regulations;
5. The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders’ meeting.

The Company is in an industry with versatile environment. For long-term finance planning requirements and to meet the shareholders' demand for cash, dividend policy aims for a steady balance. Cash dividends distributed each year cannot be less than 10% of the total dividends paid.

b. Dividend Distributions to Be Proposed at the Shareholders' Meeting

In 2016, the Company had a distributable earning of NT$15,163,370,576 after taxes, and set aside 10% of the amount, that is NT$223,370,459, as legal reserve, and special reserve of NT$613,915. The following distribution is proposed in accordance with the Articles of Incorporation:

(a)Shareholder dividends: NT$1,336,350,000, all distributed in the form of cash

(b)Unappropriated retained earnings at the end of the period: NT$13,603,036,922.

Kinsus Interconnect Technology Corp.
Earnings Distribution Schedule
2016

Unit: NTD

| Item | Amount |
|---|---|
| Unappropriated retained earnings (at beginning of period) | $12,930,624,282 |
| Less:Other comprehensive income in 2016 - actuarial gains of defined benefit plans | (958,296) |
| Add: Net income in 2016 | 2,233,704,590 |
| Distributable earnings | 15,163,370,576 |
| Less: 10% legal reserve | (223,370,459) |
| Special reserve | (613,195) |
| Shareholder bonuses ($3 per share in cash) | (1,336,350,000) |
| Subtotal | (1,560,333,654) |
| Unappropriated retained earnings (at end of period) | $13,603,036,922 |

Note: the number of shares allocated 445,450,000

Calculation Description:
The current paid-up capital of NT$ 4,460,000,000 (including 550,000 shares of treasury shares)

c. Explanation of Expected Material Changes in the Dividend Policy: None

(G)Effect upon business performance and earnings per share of any stock dividend distribution proposed or adopted at the most recent shareholders' meeting

Regarding the distribution of earnings of the Company for 2016, the board of directors approved the proposal on February 8, 2017 to distribute shareholder bonuses totaling $1,336,350 thousand in the form of cash only. Thus, it is not applicable.

(H)Compensation of employees, directors, and supervisors

a. The percentages or ranges with respect to employee, director, and supervisor compensation, as set forth in the company's articles of incorporation:

   The Company, if making profits in current year, shall provide the ratio of employee compensation to “income before tax and the employee and directors’ compensation to be provided” at less than 10% and the ratio of directors’ compensation to “income before tax and the employee and directors’ compensation to be provided” at be more than 1%, provided that all accumulated deficits, if any, are fully offset.

   The employees’ compensation can be distributed in cash or stocks. The employees receiving the stock dividends may include employees in affiliated companies who met certain conditions stipulated by the Board of Directors.

   Employee and directors’ compensation is to report in the shareholders’ meeting.

b. The basis for estimating the amount of employee, director, and supervisor compensation, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period: None

c. Information on any approval by the board of directors of distribution of compensation:

   (a) Regarding the compensation to employee and directors of the Company for 2016 the board of directors approved the proposal on February 8, 2017 to distribute NT$343,533 thousand and NT$20,911 thousand for employee and director compensation respectively.

   (b) The proposed amount of employee stock bonuses to be distributed, and the size of such an amount as a percentage of the sum of the after-tax net income stated in the separate or individual financial reports for the current period and total employee bonuses: N/A

d. The actual distribution of employee, director, and supervisor compensation for the previous fiscal year (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual distribution and the recognized employee, director, or supervisor compensation, additionally the discrepancy, cause, and how it is treated.

The actual distribution of employee bonuses and director/supervisor compensation by the Company for 2015 is as follows:

| | Earnings Distribution for 2015 | | | |
|---|---|---|---|---|
| Item | Adopted at Shareholders' Meeting on May 27, 2016 | Actual Distribution | Discrepancy | Cause and Explanation of Discrepancy |
| Director/Supervisor Compensation | $26,026 thousand | $26,026 thousand | - | - |
| Employee Cash Bonuses | $442,444 thousand | $442,444 thousand | - | - |

(I)Share repurchases: The Company repurchased its own shares as below.

| | |
|---|---|
| Repurchase term | Second time |
| Purpose | Transfer to employee |
| Duration | 7/28/2015~9/27/2015 |
| Price interval | NT$50~100 |
| Shares and quantity brought back | Common share |
| Amount | NT$32,884,993 |
| Shares eliminated or transferred | 0 |
| Share quantity accumulated | 550,000 shares |
| Share quantity accumulated to total shares outstanding | 0.12% |

(2)Issuance of corporate bonds: None

(3)Issuance of preferred shares: None

(4)Issuance of global depository receipts: None

(5)Issuance of employee share subscription warrants: None

(6)New restricted employee Shares: None

(7)Mergers, acquisitions, and issuance of new shares due to acquisition of shares of other companies

(A)Where the Company completed a merger, acquisition, or issuance of new shares due to acquisition of shares of other companies in the most recent year and during the current period up to the date of printing of the annual report, the following matters shall be disclosed: None

(B)Where, in the most recent year and during the current period up to the date of printing of the annual report, the board of directors adopted a resolution approving a merger, acquisition, or issuance of new shares due to acquisition of shares of other companies, the state of the plan's implementation together with the basic information of the company (or companies) to be merged, acquired, or purchased through acquisition of shares shall be disclosed. Where a merger, acquisition, or issuance of new shares due to acquisition of shares of other companies is currently in progress, the state of the plan's implementation and its effect on shareholders' equity shall be disclosed: None

(8)Implementation of the Company's capital allocation plans

(A)Description of the plans: Each uncompleted public issue or private placement of securities, and issues or placements that were completed in the most recent three years but have not yet fully yielded the planned benefits: N/A

(B)Status of implementation: N/A

# 5. An Overview of Operations

(1)A description of the business

(A)Scope of Business

a. Primary Business Areas

(a)CC01080 Manufacturing of electronic components.
(b)CC01990 Manufacturing of other electrical and electronic mechanical equipment.
(c)CB01990 Manufacturing of other machinery.
(d)CQ01010 Manufacturing of dies.
(e)F401010 International trade.

b. Sale Percentages of Primary Products

Unit: NT$’000

| Percentage / Primary product | 2016 | |
|---|---|---|
| | Sales | Percentage |
| Division of substrates | 17,922,696 | 77.37% |
| Division of PCBs | 5,242,370 | 22.63% |
| Total | 23,165,066 | 100.00% |

c. Current Products

(a) Manufacturing & sales of PBGA (Plastic Ball Grid Array) substrates.
(b) Manufacturing & sales of MCM (Multi-Chip-Module) BGA substrates.
(c) Manufacturing & sales of CSP (Chip Scale Package) mini-BGA substrates.
(d) Manufacturing & sales of High Dissipation Cavity Down substrates and TEBGA (Thermal Enhanced-BGA) substrates.
(e) Manufacturing & sales of Flip Chip substrates and Flip Chip CSP substrates.
(f) Manufacturing & sales of Flip Chip Film COF (Chip on Flex).
(g) Manufacturing & sales of Core-less substrates.
(h) Manufacturing & sales of All Layer Build Up substrates.
(i) Manufacturing & sales of Embedded Pattern substrates.
(j) Manufacturing & sales of Embedded Passive substrates.
(k) Manufacturing & sales of High Density Copper Bump substrates.
(l) Manufacturing & sales of High Band Width Package-On-Package substrates.
(m) Manufacturing & sales of Core-less Embedded Passive substrates.

d. New Products to Be Developed

Since the founding of the company, we have always maintained the principle of "Satisfy customers; pursue excellence.” Furthermore, we also positioned our R&D to achieve technology leadership and satisfy market demands. We always strive to increase the profitability of our products by entering the market early, as well as plan future investments of engineering resources by fully grasping the requirements of new generation products. Listed below are new products that we plan to develop in the future:

(a) Introduction of Ultra-low Expansion/Shrinkage, High Tg, High Young's Modulus base materials
(b) Development of Fine Pitch Copper Pillar and Solder Bump substrate technology.
(c) Development of High Layer Count Core-less substrate manufacturing technology.
(d) Development of Embedded Passive substrate technology.
(e) Cooperative project of 20~14 nanometer chip packaging.
(f) Development of automatic production technology for ultra-thin boards.
(g) Development of integration technology of Embedded Active and Embedded Passive components.
(h) Development of ultra-fine circuit (<8um), and high contact density products (<30um pitch)
(i) Development of ultra-micropore (diameter<=30um) technology.
(j) Development of low-cost fine circuit (<=20um) technology.
(k) Development of Via Filling technology.

(B)Overview of the Industry

a. Overview and Development of the Industry

In the whole electronic products market, the most prospective trends during the recent two years include personal computer significantly replaced by portable devices, personal mobile platform expanded from cellphone to automobile, and speedy increases in the content of telecommunication leading to huge increase on demand of bandwidth. These trends result in a rapid growth on the demand of server/information center and telecom infrastructure. Memory and the memory capacity also are significantly expanded.

Among computer related products, the applications on server and information center are the most prospective with the compounded growth rate of 5.3%. The related products include CPU, GPU, Data reroute device and all kind of memory. There are slight growth in other computer-related products, mainly including applications on IPC and Robot, whose long-term growth will be enhanced year by year due to the broader applications in Robot in spite of the short-term growth being not blooming yet.

Telecommunication products, whose production value represents 30% of the whole electronic products, have been the most rapid. However, the annual compounded growth rate of cellphone has reduced to 2.3% from a double-digit growth in prior years because the development of smartphone is reaching the maturity stage, innovated functions became less than before, and the consumers tend to purchase more in lack of new stimulation. The most rapid growth among telecommunication products has turned to wireless infrastructure because the fact of the content of telecommunication becoming the multi-media data is driving the enhancement of telecom agreement, providing the higher bandwidth and resulting in higher demand on all kind of electronic products related to information center.

Video & Sound equipment is the most prospective among consumer products. For example, the rapid expansion of AR/VR results in an annual compounded growth rate of 5.6%. The business opportunities related include family/personal video & sound equipment and related automobile electronic products.

Automobile electronic product is one of rapid developing applications in the future. Its applications include all kind of devices for assisting autopilot and related RADAR, LIDAR and sensors. Its annual compounded growth rate has been reached 5.6%.

The probable rapid-developing area is the applications on industrial and automotive ROBOT. With the mature development of Industry 4.0, this is a good business opportunity deserving our attention and pursue.

During the period from 2015 to 2020, the growth rate for whole electronic products reaches 2.7% as the different products have been acting as a major role in term and the good business opportunities are abundant. A good growth in 2017 and 2018 is expecting as the global economy recovery is getting stable.

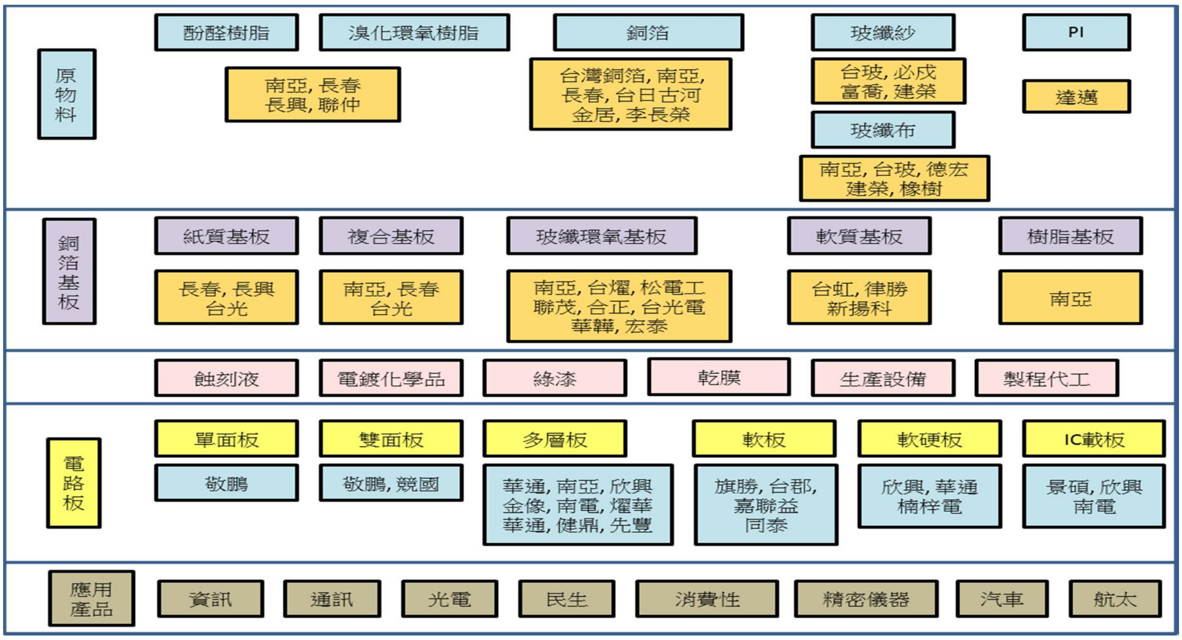
Forecast for electronic system market

| | | 2015 | 2016(F) | 2020(F) | CAAGR 15 ~ 20 |
|---|---|---|---|---|---|
| Computer | Personal computer | 240 | 221 | 200 | -3.6 |
| | Server / Data storage | 118 | 125 | 153 | 5.3 |
| | Other computer | 104 | 102 | 113 | 1.7 |
| Communication | Mobile phone | 377 | 359 | 423 | 2.3 |
| | Wired infrastructure | 118 | 121 | 134 | 2.6 |
| | Wireless infrastructure | 70 | 70 | 83 | 3.5 |
| Consumer | TV | 103 | 107 | 112 | 1.7 |
| | Home audio / personal equipment | 70 | 72 | 92 | 5.6 |
| | Other consumer products | 48 | 49 | 58 | 3.9 |
| Car | | 177 | 184 | 232 | 5.6 |
| Industry | Automation / control | 48 | 50 | 58 | 3.9 |
| | Other industrial products | 116 | 115 | 144 | 4.4 |
| | Solar energy | 35 | 37 | 49 | 7.0 |
| Medical | | 102 | 104 | 118 | 3.0 |
| Military / aerospace | | 139 | 142 | 166 | 3.6 |
| Total (billions of dollars) | | $1,865 | $1,858 | $2,135 | 2.7% |

Source: Prismark 2017

b. Interrelationships between the Upstream, Midstream and Downstream of the Industry

The relative relationships between the upstream and downstream sectors of the industrial chain of PCB and IC substrate are shown in the figure below. Our company is positioned in the sector of "Circuit board." Upstream suppliers include Epoxy CCL (Copper Clad Laminate), copper foil, and various specialty chemicals suppliers. Downstream clients include IC packaging industry, and electronic product assembly EMS companies. Taiwan's companies control a significant portion of this supply chain while facing the challenge of competitors from Korea and China. Through upstream-downstream integration and cooperation, Taiwan's companies have always had strong a competitive advantage.




| | |
|---|---|
| 原物料: Raw materials | 酚醛樹脂: Phenolic resin；溴化環氧樹脂: Brominated epoxy resin；銅箔: Copper foil; 玻纖紗: Fiberglass yarn；PI (Polymide)；玻纖布: Fiberglass cloth<br><br>南亞: Nan Ya Plastics Corporation；長春: Chang Chun Group; 長興: Eternal Materials Co., Ltd.；聯仲: UPC Group；台灣銅箔: Taiwan Copper Foil Corporation, Ltd.；台日古河；FCFT (Furukawa Circuit Foil Taiwan) Corporation；金居: Co-Tech Development Corporation；李長榮: LCY Chemical Corporation；台玻: Taiwan Glass Group；必成: PFG Fiber Glass Corporation；富喬: Fulltech Fiber Glass Corporation；建榮: Baotek Inc.；德宏: Glotech Industrial Corp.；橡樹: Asahi-Schwebel Taiwan；達邁: Taimide Technology, Ltd. |
| 銅箔基板: Copper clad laminate | 紙質基板: Paper-based substrate；複合基板: Composite substrate；玻纖環氧基板: Fiberglass epoxy substrate；軟質基板: Flexible substrate；樹脂基板: Resin substrate<br><br>台光: Elite Material Co., Ltd.；台燿: Taiwan Union Technology Corporation；松電工: Song Dian Gong/Taiwan Song Electrical Multi-layer Materials Co., Ltd.；聯茂: ITEQ Corporation；合正: Uniplus Electronics Co., Ltd.；台光電: Elite Material Co., Ltd.；華韡: Hwa Woei Laminate Corporation；宏泰: Hong Tai Electric Industrial Co., Ltd.；台虹: Taiflex Scientific Co., Ltd.；律勝: Microcosm Technology Co., Ltd.；新揚科: ThinFlex |
| | 蝕刻液: Etching solution；電鍍化學品: Electroplating chemicals；綠漆: Green paint；乾膜: Dry film；生產設備: Production equipment；製程代工: Process OEM |
| 電路板: Circuit boards | 單面板: Single sided boards；雙面板: Double sided boards；多層板: Multi-layer boards；軟板: Flexible boards；軟硬板: Rigid-flex boards；IC載板: IC substrates<br><br>敬鵬: Chin Poon Industrial Co., Ltd.；競國: APCB Group；華通: Compeq Manufacturing Co., Ltd.；欣興: Unimicron Technology Corporation；金像: Gold Circuit Electronics Co., Ltd.；南電: Nan Ya Printed Circuit Board Corporation；燿華: Uniteh Printed Circuit Board Corporation；健鼎: Tripod Technology Corporation；先豐: BoardTek Chemical Engineering Corporation；旗勝: Mektek Industrial |

| | |
|---|---|
| | Corporation, Ltd.；台郡: Flexium Interconnect, Inc.；嘉聯益: Career Technology Co., Ltd.；同泰: Uniflex Technology Inc.；楠梓電: WUS Printed Circuit Co., Ltd.； 景碩: Kinsus Interconnect Technology Corporation |
| 應用產品: Application products | 資訊: Information； 通訊: Communication；光電: Photoelectric；民生: Daily necessities；消費性: Consumer products；精密儀器: Precision instruments；汽車: Automobiles；航太: Aerospace |

c. Various Product Development Trends

The growth rates of PCB-related products, including IC substrates, are shown in table below. The 2016 recession from 2015 is attributed to the slowing sales trend in smartphone markets, including USA, Korea, and China. The performance in 2016 was reduced because of slowing innovation in cellphone function and being lack of product differentiation resulting reduction in price for competition. The smartphone related products reduced significantly, such as HDI, IC Substrate and FPI reducing by 5.9%, 6.3% and 6.6% respectively. While, in 2017, market demands for these products will be enhanced as we expect that smartphones in USA brand will grow significantly, Korean products will rally from bottom, and Chinese cellphone will recover into growing trend. Those computer or consumer related products, such as single, double or multi-layer boards, will maintain a slight, stable annual compounded growth rate at 1.3% to 2.3%. Conclusively, the production value of all PCB products will keep at an annual compounded growth rate at 2.0%.

PCB production forecast by product type

Unit: Millions of US dollars

| Product type | 2015 | 16E/15 | 2016(E) | 2020(F) | CAAGR 15 ~ 20 |
|---|---|---|---|---|---|
| Single-Layer PCB | 7,905 | -2.0% | 7,745 | 8,432 | 1.30% |
| Multi-Layer PCB | 20,689 | -2.3% | 20,204 | 23,180 | 2.30% |
| HDI | 8,011 | -5.9% | 7,539 | 8,885 | 2.10% |
| IC substrate | 6,922 | -6.3% | 6,487 | 6,946 | 0.10% |
| FPC | 11,798 | -6.6% | 11,017 | 13,545 | 2.80% |
| Total | 55,325 | -4.2% | 52,992 | 60,988 | 2.00% |

Source: Prismark 2017

There are several strategic concerns regarding the development of PCB industry.

(a) In order to meet the reduction in size and distance of IC PIN, the specification of IC substrate also is reformed for SLP (Substrate-like PCB) from HDI. The demand is the most urgent for smartphone design and will, in some aspects, change the relation of supply chain to make the substrate manufacturers have the advantages of winning the clients' order in comparing to HDI manufacturers.

(b) As the shrinkage in semiconductor process technology continuously develops, the wiring density of IC substrate also is enhanced. The demand for fine-wiring and low-layer & low-unit price also continuously grows. The demand for for SiP substrate is growing too.

(c) The development for cellphone, portable device and personal video-sound equipment is toward miniaturization and low power consumption. Also more AR/VR functions are designed into devices. FPC module will grow rapidly to meet these mechanic designing demand and related products growth.

Regarding competitive technology, there were concerns about the development of InFO wafer level packaging process technique threatening the growth of IC substrate. Now it comes out that the yield rate improvement and the speed of cost down was not as good as the improvement in IC substrate competitiveness. However, on the other hand the packaging technique of Leadless-Leadframe used in low-pin IC, including the development of QFN/DFN, FO-WLP and MIS, is faster than expected. The substrate-manufacturing companies therefore shall continuously watch its development and speed up the efforts on process capacity for FC-CSP and Core-less in order to maintain their competitive advantages.

As to the sub-area of IC substrate, the future development trend for substrate products is shown as table 3. Generally, module, particularly the SiP product, will be the most growing and its annual compounded growth rate would reach 7.9% because of the driver from the growth of portable products and personal video & sound equipment as well as the trend of miniaturization of electronics.

The FCCSP substrate products have declined in 2016 though grew very fast during past 2 or 3 years. Its expected annual compounded growth rate for future is also a negative number. This is attributed to the price dropped down by intensive price-competition in cellphone core application processor. The demand of substrate for FCBOC did not increase although memory capacity grew year by year. The content of growth came from the increase of single memory chip capacity, chip stacked, and multi-layer memory semiconductor process technology, which did not increase the demand for memory substrates. Therefore the production value was reduced. However, the Flip-chip packaging substrate used in Hi-speed/Hi-bandwidth memory will still have the potential for huge growth, which is different from the general traditional memory packaging substrate market situation.

Change in Component of substrate from 2015 to 2020

Unit: Millions of US dollars

| | 2015 | 2016(E) | 2020(F) | CAAGR 15 ~ 20 |
|---|---|---|---|---|
| FC PGA/LGA/BGA | 2,467 | 2,272 | 2,313 | -1.3% |
| FCCSP/FCBOC | 1,750 | 1,560 | 1,543 | -2.5% |
| WB PBGA/CSP | 1,897 | 1,845 | 1,909 | 0.1% |
| Module | 809 | 810 | 1,182 | 7.9% |
| Total | 6,922 | 6,487 | 6,947 | 0.1% |

Source: Prismark 2017

Conclusively, there are several area in electronic products market, including PCB, IC substrate and FPC, that deserve more investments.

1. Server/Information Center/Data storage
2. Personal Video-Sound system/AR/VR
3. Automobile electronics
4. Industrial/Automation/Robot
5. SLP Substrate
6. SiP Packaging Substrate

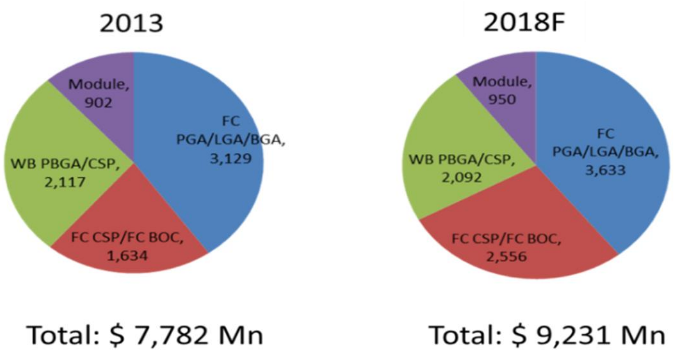
The Company will continuously invests in the growth area and watches out the impacts from competitive technology in order to innovate and manufacture the new products that can meet with the demand of market and clients.

d. Product Competitions

As shown in the table below, PCB products, especially IC substrates, have significantly different trends of growth and declines. As the IC wafer technology moves towards 20 nanometers, or even 16/14 nanometers, FC CSP products commonly used for smart phone chips also grow rapidly and could reach a compound growth rate of 11.6% in 2012-2017. Not only does it show a brilliant growth, but it also suppresses conventional WB PBGA/CSP products. The growth and declines of products subsequently cause the rise and fall of suppliers with different technical proficiency levels. Since FC PGA/LGA/BGA products are used primarily in PC products, it also causes the decline of this type of products.

Products in the category of Module will have more connectivity, wireless access functions after 2014, including 2015 and 2016, such as WiFi, Bluetooth, and other basic features necessary for hand-held devices. These functions are already being integrated into a smaller, in both surface area and volume, common module by the chip or module designers, in order to compete for the opportunity of wearable product application. Its annual growth rate has already risen to 12%. There will be many opportunities for the development of this type of products. We should be able to find another drive for growth in the future, with the new development of diversified wearable devices.

| Product Category | 2014 | 2018F | 2013-2018 Compound Growth Rate |
| --- | --- | --- | --- |
| FC PGA/LGA/BGA | $3,113 | $3,615 | -0.5% |
| FC CSP/FC BOC | $1,824 | $2,852 | 11.6% |
| WB PBGA/CSP | $2,091 | $2,046 | -2.2% |
| Module | $914 | $1,850 | 12.0% |
| Total | $7,945 | $9,231 | 2.1% |




Source: Prismark 2015

(C)Overview of Technology and R&D

a.R&D expenses during recent years and up to the publication date of this annual report

Unit: NT$'000; %

| Item / Year | 2016 | As of March 31, 2017 |
|---|---|---|
| R&D expenses | 1,438,082 | 323,775 |
| Net income | 23,165,066 | 4,970,344 |
| Percentage of R&D expenses (%) | 6.21% | 6.51% |

b. Successfully developed technology or products

(a) Manufacturing technology and products of PBGA (Plastic Ball Grid Array) substrates.
(b) Manufacturing technology and products of MCM (Multi-chip-Module) BGA substrates.
(c) Manufacturing technology and products of CSP (Chip Scale Package) substrates.
(d) Manufacturing technology and products of High Dissipation Cavity Down substrates, and TEBGA (TEBGA-Thermal Enhanced BGA) substrates.
(e) Manufacturing technology and products of Flip Chip substrates, and Flip Chip CSP substrates.
(f) Manufacturing technology and products of Flip Chip film COF (Chip on Flex).
(g) Manufacturing technology and products of Core-less substrates.
(h) Peripheral and array wire type Copper Bump Packaging substrates.
(i) Miniature Heatsink Packaging substrates.
(j) Manufacturing technology and products of Embedded Pattern substrates.
(k) Technology and design specifications of Embedded Thin capacitors.
(l) Technology of No-wiring Bump Ni/Au electroplating.
(m) Manufacturing technology of Copper Bump.
(n) Anisotropic Etching technology.
(o) Asymmetric structural board technology and odd-numbered-layer board technology.
(p) High Band Width Package-On-Package substrates technology.

(q) Electroless Nickel/Electroless Palladium/Immersion Gold (EPIG) surface treatment technology.

(r) Embedded Thermal Bar technology.

(D)Long & Short Term Business Development Plans

a. Short Term Plan

(a)Marketing Strategies

• Maintain close cooperation with key clients; stay up-to-date with the new products updates and customer needs.

, Multi-directional product development strategy; be attentive to the development of small and mid-sized clients, as well as product changes.

ƒ Develop business opportunities in new application fields; introduce different product design concepts and achieve technology-preparedness early.

„ Establish rapid prototyping unit, and enhance new product development services.

…Increase R&D capacity and shorten design time; provide timely introduction of new products in order to satisfy customer demands.

† Continue to promote the TS16949 quality assurance certification system; ensure product quality; establish worldwide quality reputation by receiving certifications from major international manufacturers.

(b)Production Strategy

In response to the continuously expanding business scale, we will strive to simplify the technologies, improve manufacturing processes, implement automation & unattended operations, and conduct enhancements & maintenance, in order to increase productivity, reduce defective ratio, and lower costs.

(c)Directions of Product Development

• Increase R&D capabilities; actively invest in product R&D, design, and improvements; shorten product development time and try to lower costs; continue to simplify and accelerate processes, as well as improve quality.

, Reinforce product development and communication with potential customers, in order to fully grasp the market trends and maintain technical leadership.

(d)Operation Scale and Finance

• Continue to expand facility, invest in technologies, and increase utilization rate in order to expand the scale of operation.

, Establish sound, complete fundraising channels; establish close cooperative and mutually beneficial relationships with financial institutions; identify long-term low-interest loans, in order to supply the capitals needed for expanding the operation of the company.

b. Long Term Plan

(a)Marketing Strategies

• Train marketing professionals on a long-term basis; gather information about other companies in the same industry as well as future development trends; stay informed about the status of current and new competitors; gain insights into market opportunities and establish operational bases widely; adjust individual product strategies immediately following changes in the market; increase market share.

, Maintain partnership relations with advanced chip develop and design companies; always be in possession of first-hand information; achieve process technology and production capacity preparedness, in order to maintain the company's long-term competitiveness.

(b)Production Strategies

• Continue to increase production quality, technical strength, product yield, and lower production cost.

, Actively invest in automatic production equipment; bring in professional talents and advanced production technology; and improve process efficiency, in order to achieve the goal of increase the company's profitability.

ƒ Increase flexibility in production, in order to be able to respond to rapid market changes and unexpected urgent demands.

(c)Directions of Product Development

• Bring together related manufacturers in the nation to form R&D alliance, in order to actively and collaboratively develop and integrate advanced products, to create high added-value and head-start opportunities.

, In fields of high technical difficulties, adopt the strategies of technology transfer and authorization, as well as international cooperation; or commission domestic or foreign research institutes to conduct R&D projects, in order to lower the risks, shorten development time, exert the combined results of R&D, and increase R&D strength.

(d)Operation Scale and Finance

• Cultivate operational strength; expand quickly the operational scale; move towards the goal of diversified product development.

, As the company continues to expand its business, in the future, we will establish marketing and production bases around the world, and actively build worldwide operation management and R&D centers.

ƒ Raise long/mid-term funds and build up long-term development strength, in order to expand the operation scale of the company.

(2)An analysis of the market as well as the production and marketing situation

(A)Analysis of the Market

a. Sales (available) areas of primary products (services)

Unit: NT$'000

| Sales area | 2016 Sales Value | Percentage |
|---|---|---|
| Taiwan | 9,092,912 | 39.25% |
| Mainland China | 9,077,967 | 39.19% |
| United States | 4,388,426 | 18.94% |
| Europe | 197,030 | 0.85% |
| Others | 408,731 | 1.77% |
| Total | 23,165,066 | 100.00% |

Our company's primary product is the spherical array (BGA) substrates for IC. It is used as the chip carrier for semi-conductor packaging and acts as the connecting channel to external circuit. It is categorized as a raw material for the packaging industry or a carrier component. Its main sales targets are domestic and foreign IC packaging, design and system businesses.

b. Market Share

Currently, Japan remains to be the leading country of IC substrates production. It is the priority choice of the majority of packaging companies. This is mainly because of the overall strength of Japan's electronics industry, its certification numbers, excellent process capabilities, peripheral materials, and the support capability of its equipment industry. These factors enable Japan's substrates manufacturers to outperform others.

Our nation ranks as the second largest producing country. We have complete industrial chain and world's largest IC OEM manufacturing scale, which successfully drives the demands for substrates and packaging. Through technology authorization, along with their own process control technology, integrated industry environment & peripheral resources, etc., our IC substrates industry made our nation to become the second largest producer; second only to Japan, Currently, the industry has moved the production of substrates products with lower technical levels to mainland China. In the future, the local production scale will grow significantly, as the electronics industrial chain expands.

In recent years, Japan, Korea, and Taiwan's IC substrates manufacturers have been engaged in fierce competition. Looking at the numbers from 2014 and 2015, Taiwan's IC substrate manufacturers grabbed a significant market share of 30%.

c. Future Demand and Supply Condition, and Growth Potential of the Market

Currently, IC substrates are used 100% in the packaging market. They are categorized as one of the high-end electronic packaging materials. In addition to the drive from the global electronics market, as the complexity of the products and the speed of signals increase, IC substrate industry has become an important factor in elevating the level of packaging. According to data published by Prismark, the production value of IC substrate was about $6.922 billion dollars in 2015, which was about 11.76% of the overall PCB production value. It is estimated that by 2017, as the global market continues to grow moderately, the global PCB production value could reach $61.6 billion. The annual production value of IC substrates is estimated to reach $6.947 billion in 2020; which is slightly above the industrial level. Among them, Module products grew strongly by a compound rate of 7.9% for the period from 2015 to 2020 driven by the speed growth of portable products, personal video & sound systems and the trend of electronic products to be miniaturized. As the functions of electronic products continuously become more complicated and the types of corresponding packaging also are made progressively, the portion of high-end packaging will continuously grows.

d. Competitive Niche

Our technical team is primarily consisted of research institutes, well-known professionals, related industries, and foreign and domestic experts. Both the quality of our products and the production capacity meet the international standards. Systems manufacturers from various countries are also gradually affirming our production technology and price competitiveness, and are starting to use substrates produced by our domestic manufacturers.

Our company is a Full Process Workshop. We are capable of providing our customers with the full manufacturing process service from circuit design, photomask manufacturing, substrates production, to automatic electric testing. Customers can access our computer system through the Internet and query relevant real-time information. This can help to maintain good and stable cooperative relations with our customers.

e. Favorable and Unfavorable Factors for Development Perspectives, and the Responding Measures

(a) Favorable factors

- IDM factory releases production capacity to system chipset manufacturers, which gives domestic system chipset manufacturers and packaging factories more space to grow as well as more business opportunities. Furthermore, packaging technology is moving towards the direction of high pin count and small pin pitch to achieve the goals of light, thin, short, and small; BGA substrates are certainly the right technology that is in line with such a product trend.

, Since the founding of our company thirteen years ago, our R&D and manufacturing technology teams have already accumulated rich experiences and acquired excellent skills. Their capabilities in continued innovation and rapid development have also grown to a level that allow them to compete with other nations. The packaging factories are adopting broader and diversified certification systems to allow them to work closely with domestic substrate manufacturers in order to lower costs and shorten delivery times. Such practice of local procurement has become a trend and can facilitate the continuous development of the industry in the future.

ƒ Professional Full Process Workshop can provide customers with technical services and consultation in areas of circuit design, photomask manufacturing, substrate production, automatic inspection, and others. Customers can receive all the services they need at the same time, thus saving them time, effort, and money.

(b)Unfavorable factors

• Because BGA substrate and packaging technologies change as the chip design companies' products change, therefore, the life cycles of these technologies often are shorter. When the chip design companies change the specifications of their products, the substrate design of BGA and packaging technologies will have to be modified in sync with the market.

Responding measures:

In order to keep up with the market trends, our company actively strives to increase R&D capacity, as well as strengthen our design and manufacturing abilities in multi-layer boards and thin boards. In the future, the company will continue to develop various types of Flip Chip substrates, ultra-thin boards, and high-density substrates needed, and at the same time extend patented technologies that we currently own in order to compete for market opportunities.

, Since BT base material are Mitsubishi's proprietary material, therefore, if Mitsubishi's production capacity tightens, it will definitely affect our product delivery and consequently cause us to lose customers.

Responding measures:

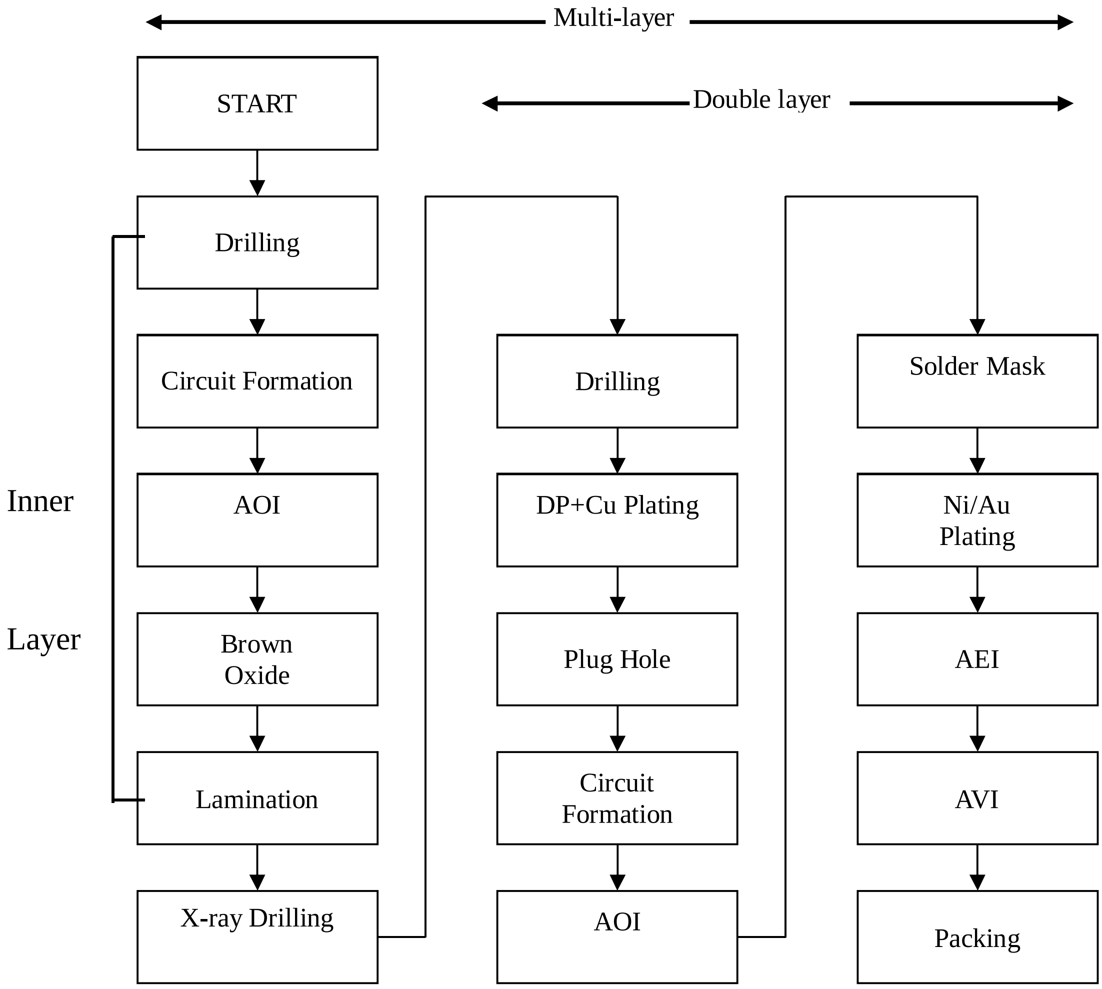
In addition to maintain good relations with current BT base material manufacturer, we will conduct development testing of related substitute materials at the same time, in order to prevent the risk of material shortage; thus allowing us to have multiple sources of suppliers and maintain a stable supply of the primary raw material. (For instance, material from Hitachi and others.)

## (B) Major Applications and Manufacturing Processes of the Primary Products

### a. Major applications of the primary products

| Primary Product | Major Application |
|---|---|
| PBGA Substrates | BGA packaging; application products include chipsets and graphics chips. |
| MCM（Multi chip Module）Substrates | MCM packaging; application products include IC that combines analog, digital, power control circuit, as well as memory and logical IC control. |
| CSP Substrates | CSP packaging; application products include Flash, high-speed DRAM, and logical chips. |
| Flip chip | Application products include chipsets, graphics chips, Flash memory, and logical IC. |
| FC CSP | High-end hand-held devices' system chips, communication chips, and chipsets. |
| Embedded Substrates | Embedded substrates can shorten spacing between components, in order to improve products' electrical properties. |

### b. Manufacturing Process of the Primary Products



(C)Supply Condition of the Primary Raw Materials

The Company's primary materials include BT substrates, gold potassium cyanide, films, copper sheets, etc. Among them, BT substrates and films are purchased from major foreign manufacturers. In order to ensure a stable supply of the materials and their quality, the Company does not easily change suppliers once they have been rated and gone through the trial production. In addition, we actively seek to maintain good long-term relationships with our suppliers. Through the long-term cooperative relationships, lowered costs, fast and flexible delivery schedules, we strive to increase the competitive power of our products and create the maximum profits.

Supply Areas (Manufacturers) of the Primary Raw Materials

| Primary Raw aterial | Supply Area | Supplier |
|---|---|---|
| Substrates | Japan | Mitsubishi、Hitachi、Ajinomoto fine |
| Gold potassium | Taiwan | Hon Hai |
| Copper sheets | Japan | OFUNA |
| Films | Japan | Mitsubishi、Hitachi |

(D)Major Suppliers in the Last Two Calendar Years

a. Major Clients in the Last Two Calendar Years

Unit: NT$'000

| | 2015 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| Item | Client name | Amount | % to annual net sale〔%〕 | Relation with issuer | Client name | Amount | % to annual net sale〔%〕 | Relation with issuer |
| 1 | C | 1,449,489 | 6.29 | Parent company | A | 1,722,711 | 7.44 | None |
| 2 | B | 1,435,632 | 6.22 | None | B | 1,513,503 | 6.53 | None |
| 3 | D | 1,417,507 | 6.15 | None | C | 1,391,182 | 6.01 | Parent company |
| | Others | 18,758,683 | 81.34 | | Others | 18,537,670 | 80.02 | |
| | Net sale | 23,061,311 | 100 | | Net sale | 23,165,066 | 100 | |

Due to continued upgrading product packaging from Lead Frame to BGA, even flip chip, IC substrate market demand continues. The main customers of the sales amount do not change much.

b. Major Suppliers in the Last Two Calendar Years

Unit: NT$’000

| | 2015 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| Item | Supplier | Amount | % to annual purchase 〔%〕 | Relation with issuer | Supplier | Amount | % to annual purchase 〔%〕 | Relation with issuer |
| 1 | A | 941,428 | 11.50 | None | A | 1,081,825 | 12.44 | None |
| 2 | C | 919,129 | 11.23 | None | B | 946,425 | 10.88 | None |
| 3 | B | 861,591 | 10.52 | None | C | 923,174 | 10.62 | None |
| | Others | 5,465,589 | 66.75 | | Others | 5,743,601 | 66.06 | |
| | Net purchase | 8,187,737 | 100 | | Net purchase | 8,695,025 | 100 | |

The Company’s principal raw materials including gold potassium cyanide, base material, film, copper sheets, drills, milling cutters, dry film and chemicals. Since established, our exposure in the market goes higher, and sales continues to grow under market demand. The cost of raw materials such as copper and gold prices go up which caused the purchasing value continues to rise too.

As to the major raw material supplier, customers require high quality control in Substrate base. Due to long attestation and short life cycles, the major material would not be easily replaced. Therefore, we only use 1 to 2 suppliers as the main supplier. The major suppliers don’t change much respectively in 2015 and 2016.

(E)Production in the Last Two Years

Unit: NT$’000

| Year / Output / Major Products (or by department) | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Capacity | Quantity | Amount | Capacity | Quantity | Amount |
| Support plate | 6,873,834 | 6,310,940 | 18,766,676 | 5,890,357 | 5,407,999 | 19,808,056 |

(F)Sales in the Last Two Years

Unit: NT$'000

| Year / Shipments & Sales / Major Products (or by departments) | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Local | | Export | | Local | | Export | |
| | Quantity | Amount | Quantity | Amount | Quantity | Amount | Quantity | Amount |
| Support plate | 1,588,088 | 5,506,489 | 4,671,473 | 12,425,371 | 1,119,524 | 4,712,384 | 4,309,806 | 13,114,867 |
| Others | - | 3,586,423 | - | 1,646,783 | - | 4,472,230 | - | 761,830 |
| Total | - | 9,092,912 | - | 14,072,154 | - | 9,184,614 | - | 13,876,697 |

(3)The number of employees employed for the 2 most recent fiscal years, and during the current fiscal year up to the date of printing of the annual report, their average years of service, average age, and education levels (including the percentage of employees at each level)

| Year | | 2015 | 2016 | Data as of in 2017/03/31 |
|---|---|---|---|---|
| Number of Employees | Management | 250 | 251 | 267 |
| | R&D/Technician | 603 | 572 | 593 |
| | operating personnel | 2,964 | 2,861 | 3,022 |
| | Total | 3,817 | 3,684 | 3,882 |
| Average Age | | 32.5 | 33 | 33 |
| Average Years of Service | | 4.7 | 5.02 | 4.82 |
| Education | Ph.D. | 0.11% | 0.11% | 0.10% |
| | Masters | 9.51% | 9.42% | 8.89% |
| | Bachelor's Degree | 50.14% | 56.19% | 59.61% |
| | Senior High School | 37.28% | 31.43% | 28.75% |
| | Below Senior High School | 2.96% | 2.85% | 2.65% |

(4)Disbursements for environmental protection

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

Lately, due to high awareness of environmental protection, requirements of environmental quality are growing continuously. Concurrently with the discharge standard of pollutants are gradually improving, we spent hundreds of millions of dollars investment in pollution prevention equipment in order to make every effort to prevent pollution even though we are only a 16 years old company. As of the date of annual report published, there is no pollution disputes found.

(5)Labor relations

(A)Companies of various welfare measures, further education, training, retirement systems and their implementation status, as well as the agreement between labor and employee rights protection measures.

(a)Benefits and their implementation

a. Employee Bonus
b. Group Insurance
c. Festival Prizes: the Dragon Boat Festival, Mid-Autumn Festival bonus
d. Year-End Bonus
e. SSA benefits: marriages, births, deaths, serious injuries, disasters, major accidents
f. On-the-JobTraining
g. Employee benefits Committee provides:
   i) Travelling
   ii) Club
   iii) Birthday Voucher

(b)Continuing education and training and its implementation status

For the purpose of enhancing staff quality and job skills, we stipulate "Administrative Measures on Education and Training" in orientation training, and for all employees to implement general training and professional training on schedule to become outstanding professionals, and improve the operating performance and effective utilization of human resources.

(c)Situation of Retirement System and Its Implementation

The Company established Retirement Oversight Committee in 2001 under the approval of House of labor of Taoyuan County Government letter of No 126197. Total monthly salaries to be made 2% of the labor pension fund to the Central Trust Bureau Accounts in the same year. Exercising Labor Pension Act on 2005/07/01. After practice, employees can either adopt in "Labor Standards Law" provisions relating to pension, or adopt new Act to the pension system and retain the application of the regulations before the length. To those who apply the Act, the employee pension contribution will be made monthly, which shall not be less than 6% of monthly salary.

(d)Agreement between labor and employee rights protection measures

We have always been treasured the spirit of labor integration, coexistence and common prosperity dealing with the labor relations. We take preciously of employee comments and employees' comments are welcomed at any time through the Company's formal and informal channels of communication to reflect their problems of life and work. Through the opportunities for two-way communication between the company and employees, we are able to have greater mutual understanding and awareness to build consensus and success in the long run.

a. Labor Coordination Meeting

Labor coordination meetings held on a regular basis, pushed by the employers represented, promoted mainly focus on the Company's system of communication with employees on the Company's orders, work environment, safety and health issues for two-way communication. The communication through this consultation between employers and business owner enhances not only the mutual trust but also the mutual understanding.

b. Employee benefit Committee

Members of the Employee benefit Committee are elected by employees directly and openly who are good at communication. At the Welfare Committee meeting, both employers and employees are able to reach adequate communication to the Company's various welfare measures.

(B)Losses due to labor disputes, and current and future estimated amount of responses may occur as of the date of annual report published:

The Company's labor agreements are entered into based on the Labor Standards Law. Humanization is applied in operational management. There was no loss caused by labor disputes.

(6)Important contracts: None

# 6. An Overview of the Company's Financial Status

(1)Condensed balance sheets and statements of comprehensive income for the past 5 fiscal years

(A)Brief Balance Sheet and Statements of Comprehensive Income

a. Brief Consolidated Balance Sheets - under IFRSs

Unit: NT$'000

| Item \ Year | | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Current Assets | | 21,018,448 | 21,812,172 | 23,471,268 | 23,471,368 | 21,615,555 |
| Property, Plant & Equipment | | 14,136,096 | 14,756,743 | 15,429,778 | 16,150,904 | 16,578,663 |
| Intangible Assets | | 8,098 | 14,159 | 19,982 | 30,280 | 18,820 |
| Other Assets | | 1,027,392 | 1,529,268 | 2,130,646 | 2,986,180 | 3,040,677 |
| Total Assets | | 36,190,034 | 38,112,342 | 41,051,674 | 42,638,732 | 41,253,715 |
| Current liabilities | Before Appropriation | 8,167,617 | 9,003,298 | 10,103,181 | 10,318,448 | 8,639,797 |
| | After Appropriation | 9,505,617 | 10,341,298 | 11,887,181 | 11,877,523 | (Note2) |
| Non-Current Liabilities | | 2,689,899 | 1,579,904 | 895,719 | 1,492,483 | 1,599,149 |
| Total liabilities | Before Appropriation | 10,857,516 | 10,583,202 | 10,998,900 | 11,810,931 | 10,238,946 |
| | After Appropriation | 12,195,516 | 11,921,202 | 12,782,900 | 13,370,006 | (Note2) |
| Equity Attributable to Shareholders of the Parent | | | | | | |
| Capital | | 4,460,000 | 4,460,000 | 4,460,000 | 4,460,000 | 4,460,000 |
| Capital Surplus | | 5,853,673 | 5,863,612 | 5,939,819 | 5,939,819 | 5,939,819 |
| Retained earnings | Before Appropriation | 12,746,962 | 14,646,450 | 16,718,487 | 17,829,718 | 18,503,389 |
| | After Appropriation | 11,408,962 | 13,308,450 | 14,934,487 | 16,270,643 | (Note2) |
| Other Components of Equity | | (74,424) | 108,879 | 279,703 | 194,484 | (613) |
| Treasury Stock | | - | - | - | (32,885) | (32,885) |
| Non-controlling Interests | | 2,346,307 | 2,450,199 | 2,654,765 | 2,436,665 | 2,145,059 |
| Total Equity | Before Appropriation | 25,332,518 | 27,529,140 | 30,052,774 | 30,827,801 | 31,014,769 |
| | After appropriation | 23,994,518 | 26,191,140 | 28,268,774 | 29,268,726 | (Note2) |

Note 1: As IFRSs have been adopted since 2013, these statements were prepared under IFRS and audited.

Note 2: Earning appropriation of 2016 has not been approved by the shareholders.

b. Brief Parent-Company-Only Balance Sheet –under IFRSs

Unit: NT$'000

| Item \ Year | | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Current Assets | | 16,954,391 | 17,879,353 | 19,880,887 | 19,685,035 | 17,625,515 |
| Property, Plant & Equipment | | 7,370,315 | 7,970,375 | 8,914,836 | 10,309,220 | 11,947,782 |
| Intangible Assets | | 2,298 | 7,408 | 11,927 | 9,869 | 5,208 |
| Other Assets | | 4,253,720 | 5,114,118 | 5,453,133 | 6,075,014 | 5,924,904 |
| Total Assets | | 28,580,724 | 30,971,254 | 34,260,783 | 36,079,138 | 35,503,409 |
| Current Assets | Before Appropriation | 4,999,895 | 5,391,312 | 6,311,775 | 7,325,160 | 5,811,639 |
| | After Appropriation | 6,337,895 | 6,729,312 | 8,095,775 | 8,884,235 | (Note 2) |
| Non-Current Liabilities | | 594,618 | 501,001 | 550,999 | 362,842 | 822,060 |
| Total Liabilities | Before Appropriation | 5,594,513 | 5,892,313 | 6,862,774 | 7,688,002 | 6,633,699 |
| | After Appropriation | 6,932,513 | 7,230,313 | 8,646,774 | 9,247,077 | (Note 2) |
| Equity Attributable to Shareholders of the Parent | | | | | | |
| Capital | | 4,460,000 | 4,460,000 | 4,460,000 | 4,460,000 | 4,460,000 |
| Capital Surplus | | 5,853,673 | 5,863,612 | 5,939,819 | 5,939,819 | 5,939,819 |
| Retained Earning | Before Appropriation | 12,746,962 | 14,646,450 | 16,718,487 | 17,829,718 | 18,503,389 |
| | After Appropriation | 11,408,962 | 13,308,450 | 14,934,487 | 16,270,643 | (Note 2) |
| Other Components of Equity | | (74,424) | 108,879 | 279,703 | 194,484 | (613) |
| Treasury Stock | | - | - | - | (32,885) | (32,885) |
| Non-controlling Interests | | - | - | - | - | - |
| Total Equity | Before Appropriation | 22,986,211 | 25,078,941 | 27,398,009 | 28,391,136 | 28,869,710 |
| | After Appropriation | 21,648,211 | 23,740,941 | 25,614,009 | 26,832,061 | (Note 2) |

Note 1: As IFRSs have been adopted since 2013, these statements were prepared under IFRS and audited.

Note 2: Earning appropriation of 2016 has not been approved by the shareholders.

c. Brief Consolidated Statements of Comprehensive Income -under IFRSs

Unit: NT$'000

| Item \ Year | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Operating Revenues | 22,034,283 | 23,102,827 | 24,943,834 | 23,061,311 | 23,165,066 |
| Gross Profit | 5,224,055 | 6,204,434 | 6,946,880 | 5,961,602 | 5,750,545 |
| Operating Income | 2,801,424 | 3,435,401 | 4,009,159 | 3,063,724 | 2,589,772 |
| Non-Operating Income & Expense | 70,552 | 227,947 | 141,913 | 141,524 | (20,314) |
| Income Before Income Tax | 2,871,976 | 3,663,348 | 4,151,072 | 3,205,248 | 2,569,458 |
| Net Income of Continuing Operation | 2,375,672 | 3,116,254 | 3,490,233 | 2,729,526 | 2,073,028 |
| Income (Loss) from Discontinued Operation | - | - | - | - | - |
| Net income | 2,375,672 | 3,116,254 | 3,490,233 | 2,729,526 | 2,073,028 |
| Other Comprehensive Income | (266,968) | 317,234 | 301,864 | (137,614) | (326,985) |
| Total Comprehensive Income | 2,108,704 | 3,433,488 | 3,792,097 | 2,591,912 | 1,746,043 |
| Net income (loss) Attributable to Shareholders of the Parent | 2,790,562 | 3,224,093 | 3,617,327 | 2,903,952 | 2,233,705 |
| Net income (loss) Attributable to Non-Controlling Interests | (414,890) | (107,839) | (127,094) | (174,426) | (160,677) |
| Comprehensive Income Attributable to Shareholders of the Parent | 2,619,178 | 3,420,791 | 3,803,861 | 2,810,012 | 2,037,649 |
| Comprehensive Income Attributable to Non-Controlling Interests | (510,474) | 12,697 | (11,764) | (218,100) | (291,606) |
| Earnings Per Share (in NT$) | 6.26 | 7.23 | 8.11 | 6.51 | 5.01 |

Note: As IFRSs have been adopted since 2013, these statements were prepared under IFRS and audited.

d. Brief Parent-Company-Only Statements of Comprehensive Income -under IFRSs

Unit: NT$'000

| Item \ Year | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Operating Revenues | 17,651,784 | 18,026,999 | 19,290,237 | 17,827,251 | 17,931,850 |
| Gross profit | 5,767,213 | 6,038,599 | 6,273,087 | 5,313,503 | 4,709,722 |
| Operating Income | 4,029,648 | 4,100,235 | 4,300,134 | 3,509,636 | 2,691,712 |
| Non-Operating Income & Expense | (744,794) | (331,174) | (150,430) | (162,134) | (63,780) |
| Profit (loss) from continuing operations before tax | 3,284,854 | 3,769,061 | 4,149,704 | 3,347,502 | 2,627,932 |
| Net Income of Continuing Operation | 2,790,562 | 3,224,093 | 3,617,327 | 2,903,952 | 2,233,705 |
| Income (Loss) from Discontinued Operation | - | - | - | - | - |
| Net income | 2,790,562 | 3,224,093 | 3,617,327 | 2,903,952 | 2,233,705 |
| Other Comprehensive Income | (171,384) | 196,698 | 186,534 | (93,940) | (196,056) |
| Total Comprehensive Income | 2,619,178 | 3,420,791 | 3,803,861 | 2,810,012 | 2,037,649 |
| Earnings per share(in NT$) | 6.26 | 7.23 | 8.11 | 6.51 | 5.01 |

Note: As IFRSs have been adopted since 2013, these statements were prepared under IFRS and audited.

(B) Brief Balance Sheet and Income Statement-adopting ROC GAAP

a. Brief Balance Sheet –under ROC GAAP

Unit: NT$'000

| Item \ Year | | Partial financial data from last five years (Note ) 2012 |
|---|---|---|
| Current Assets | | 16,978,716 |
| Mutual Fund and Investment | | 3,671,070 |
| Fixed Assets | | 7,906,248 |
| Intangible Assets | | 2,298 |
| Other Assets | | 35,349 |
| Total Assets | | 28,593,681 |
| Current Liabilities | Before Appropriation | 4,962,645 |
| | After Appropriation | 6,300,645 |
| Long Term Liabilities | | 514,292 |
| Other Liabilities | | — |
| Total Liabilities | Before Appropriation | 5,476,937 |
| | After Appropriation | 6,814,937 |
| Capital | | 4,460,000 |
| Capital Surplus | | 5,853,673 |
| Retained Earnings | Before Appropriation | 12,877,495 |
| | After Appropriation | 11,539,495 |
| Unrealized Gain or Loss on Financial Instrument | | 15,646 |
| Cumulative Translation Adjustment | | (90,070) |
| Net Loss Not Recognized as Pension Cost | | — |
| Shareholder's Equity | Before Appropriation | 23,116,744 |
| Total Amount | After Appropriation | 21,778,744 |

Note: The statement for 2012 were audited and also presented under IFRSs since 2013.

a. Brief Income Statement- under ROC GAAP

Unit: NT$'000

| Item / Year | Partial financial data from last five year (Note1) 2012 |
|---|---|
| Operating Gross | 17,651,784 |
| Gross profit | 5,772,776 |
| Operating Income | 4,037,328 |
| Non-operating Income | 114,600 |
| Non-operating Expense. | (859,942) |
| Continuing Operating Income Before Tax | 3,291,986 |
| Continuing Operating Income | 2,797,694 |
| Discontinued Operation Income(Loss) | — |
| Extraordinary Gain(Loss) | — |
| Cumulative Effect of Changes in Accounting Principles | — |
| Net Income(Loss) | 2,797,694 |
| Earnings Per Share (in NT$) (Note 2) | 6.27 |

Note1: The statement for 2012 were audited and also presented under IFRSs since 2013.

Note 2: Earning per share would have been retroactively adjusted if deemed necessary.

(C) Certified Accountants' Names in Past Five Years

| Year | Name of Accountant | Firm | Opinion | Reason for Changing |
|---|---|---|---|---|
| 2012 | Guo, Shao Bin<br>Xu, Xin Min | Ernst & Young | Unmodified | Internal rotation |
| 2013 | Huang, Yi Hui<br>Zhang, Zhi Ming | Ernst & Young | Unmodified | Internal rotation |
| 2014 | Huang, Yi Hui<br>Zhang, Zhi Ming | Ernst & Young | Unmodified | None |
| 2015 | Huang, Yi Hui<br>Zhang, Zhi Ming | Ernst & Young | Unmodified | None |
| 2016 | Huang, Yi Hui<br>Zhang, Zhi Ming | Ernst & Young | Unmodified with on explanatory paragrapl | None |

(2) Financial analyses for the past 5 fiscal years

(A)Adopting IFRSs-Consolidated

In NT$'000

| Analysis Items (Note 2) | | Year( Note 1) | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Capital Structure Analysis (%) | Debt Ratio | | 30.00 | 27.77 | 26.79 | 27.70 | 24.82 |
| | Long Term Funds to Fixed Assets | | 189.14 | 182.31 | 180.16 | 172.30 | 173.19 |
| Liquidity Analysis (%) | Current Ratio | | 257.34 | 242.27 | 232.32 | 227.47 | 250.19 |
| | Quick Ratio | | 232.08 | 218.74 | 209.93 | 203.78 | 222.49 |
| | Interest Coverage | | 41.10 | 66.90 | 74.49 | 57.26 | 37.03 |
| Operation Performance Analysis | Average Collection Turnover (times) | | 5.81 | 6.19 | 6.89 | 6.20 | 6.14 |
| | Average Collection Days | | 63 | 59 | 53 | 59 | 59 |
| | Inventory Turnover (times) | | 6.86 | 7.46 | 7.26 | 6.38 | 6.45 |
| | Average Payable Turnover (times) | | 8.77 | 8.71 | 9.10 | 8.38 | 8.21 |
| | Average Inventory Turnover Days | | 53 | 49 | 50 | 57 | 57 |
| | Fixed Assets Turnover (times) | | 1.45 | 1.50 | 1.56 | 1.28 | 1.23 |
| | Total Assets Turnover (times) | | 0.62 | 0.62 | 0.63 | 0.55 | 0.55 |
| Return On Investment Analysis | Return on Total Assets (%) | | 6.82 | 8.51 | 8.92 | 6.63 | 5.08 |
| | Return on equity (%) | | 9.55 | 11.79 | 12.12 | 8.97 | 6.70 |
| | Income to Capital (%) | Operating Income | 62.81 | 77.03 | 89.89 | 68.69 | 58.07 |
| | | Pre-Tax Income | 64.39 | 82.14 | 93.07 | 71.87 | 57.61 |
| | Net Income to Sales | | 10.78 | 13.49 | 13.99 | 11.84 | 8.95 |
| | Earnings Per Share (NT$) | | 6.26 | 7.23 | 8.11 | 6.51 | 5.01 |
| Cash Flow | Cash Flow Ratio (%) | | 66.59 | 67.50 | 68.17 | 67.24 | 66.58 |
| | Cash Flow Adequacy Ratio (%) | | 95.09 | 94.87 | 107.97 | 108.92 | 113.68 |
| | Cash Flow Re-investment Ratio | | 10.61 | 11.80 | 11.81 | 11.03 | 8.73 |
| Leverage | Operation Leverage | | 2.47 | 2.29 | 2.17 | 2.84 | 3.02 |
| | Financial Leverage | | 1.03 | 1.02 | 1.01 | 1.02 | 1.03 |

Please explain why financial ratio has changed up to 20 % for the most recent two years.
The over 20% changes in Interest coverage, Return on assets, Return on equity, the ratio of operating profits to paid-in capital, the ratio of IBIT to paid-in capital and operation leverage are mainly attributed to decreases in gross profit and increases in operating expenses.

Note 1: IFRSs have been adopted since 2013 and the above ratios are calculated based on the audited FS.

Note 2: Calculation formula will be stated below.

## (B)Adopting IFRSs-Parent-Company-Only

| Item (Note 2) \ Year (Note1) | | | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Capital Structure Analysis (%) | Debt Ratio | | 19.57 | 19.03 | 20.03 | 21.31 | 18.68 |
| | Long Term Funds to Fixed Assets | | 297.10 | 283.55 | 269.96 | 225.32 | 210.68 |
| Liquidity Analysis (%) | Current Ratio | | 339.09 | 331.63 | 314.98 | 268.73 | 303.28 |
| | Quick Ratio | | 311.75 | 308.32 | 292.83 | 249.17 | 279.32 |
| | Interest Coverage | | 164.11 | 222.16 | 211.52 | 157.72 | 95.61 |
| Operation Performance Analysis | Average Collection Turnover (times) | | 6.72 | 6.75 | 7.60 | 6.52 | 6.41 |
| | Average Collection Days | | 54 | 54 | 48 | 56 | 57 |
| | Inventory Turnover (times) | | 7.22 | 8.48 | 8.56 | 7.73 | 8.60 |
| | Average Payable Turnover (times) | | 12.17 | 12.58 | 11.79 | 9.13 | 9.26 |
| | Average Inventory Turnover Days | | 51 | 43 | 43 | 47 | 42 |
| | Fixed Assets Turnover (times) | | 2.19 | 2.13 | 1.99 | 1.54 | 1.34 |
| | Total Assets Turnover (times) | | 0.63 | 0.61 | 0.59 | 0.51 | 0.50 |
| Return On Investment Analysis | Return on Total Assets (%) | | 10.04 | 10.88 | 11.14 | 8.31 | 6.31 |
| | Return on Equity (%) | | 12.49 | 13.42 | 13.79 | 10.41 | 7.80 |
| | Income to Capital (%) | Operating Income | 90.35 | 91.93 | 96.42 | 78.69 | 60.35 |
| | | Pre-Tax Income | 73.65 | 84.51 | 93.04 | 75.06 | 58.92 |
| | Net Income to Sales (%) | | 15.81 | 17.88 | 18.75 | 16.29 | 12.46 |
| | Earnings Per Share (NT$) | | 6.26 | 7.23 | 8.11 | 6.51 | 5.01 |
| Cash Flow | Cash Flow Ratio (%) | | 100.45 | 110.42 | 96.28 | 83.58 | 87.42 |
| | Cash Flow Adequacy Ratio (%) | | 138.54 | 139.63 | 146.63 | 126.83 | 119.52 |
| | Cash Flow Re-investment Ratio | | 12.03 | 14.47 | 12.52 | 11.84 | 9.26 |
| Leverage | Operation Leverage | | 1.50 | 1.49 | 1.50 | 1.64 | 1.96 |
| | Financial Leverage | | 1.01 | 1.00 | 1.00 | 1.01 | 1.01 |

Please explain why financial ratio has changed up to 20 % for the most recent two years.

The over 20% changes in Interest coverage, Turnover of AP, turnover of property, plants and equipment, return on assets, return on equity are mainly attributed to decreases in gross profit and increases in operating expenses.

Note 1: IFRSs have been adopted since 2013 and the above ratios are calculated based on the audited FS.

Note 2: Calculation formula will be stated below.

a. Capital Structure Analysis

(a)Debt Ratio= Total Liabilities/ Total Assets

(b) Long Term Funds to Fixed Assets= (Total Equity + non-current liabilities)/ Net value of fixed capital

b.Liquidity

(a) Current Ratio= Current Assets/ Current Liabilities

(b) Quick Ratio= (Current Assets-Inventory-Prepaid Expense)/ Current Liabilities

(c) Interest Coverage=Net Profit before Income Tax and Interest Expense/ Interest Expense

c.Operation Performance Analysis

(a) Account Receivable (including account receivable and note receivable that derived from operation activities) Turnover Rate= Next Sales/ Average Account Receivable (including account receivable and note receivable that derived from operation activities) remaining amount.

(b) Average Collection Days= 365/ Account Receivable Turnover Ratio

(c) Inventory Turnover= Cost of Sales/ Average Inventory

(d) Account Payable (including account payable and note payable result from business operation) Turnover rate= Cost of Sales/ Average Account Payable (including account payable and note payable that derived from operation activities) remaining amount.

(e) Average Inventory Turnover Days= 365/ Inventory Turnover

(f) Fixed Assets (Land, Equipment Turnover) = Net Sales/ Average Fixed Assets.

(g) Total Assets Turnover= Net Sales/ Average Total Assets

d.Return on Investment

(a) Return on Total Assets=〔Profit(Loss) after tax + Interest Expense×（１－Interest Rate）〕/Average Total Assets.

(b) Return on Equity= Profit (Loss) after tax/Average Total Equity

(c) Net Income to Sales= Profit (Loss) after tax/ Net Sales

(d) Earning per Share= (attributed to parents profit (loss)-Preferred dividend)/weight average stock share issue. (Note 4)

e.Cash Flow

(a) Cash Flow Ratio=Operation Activities Cash Flow/Current Liabilities

(b) Cash Flow Adequacy Ratio (%) =Last five years Operation Activities Cash Flow/last five annual years (Cash Expenditure + Increase in Inventory+ Cash Dividends)

(c) Cash Flow Re-investment Ratio= (Operation Activities Cash Flow-Cash Dividends)/ (Gross Fixed Assets + Long Term Investment + Other Non-Current Assets + Operation Capital) (Note 5)

f.Leverage

(a) Operation Leverage = (Net Operating Income-Variable Cost and Expense)/ Operating Income (Note 6)

(b) Financial Leverage = Operating Income / (Operating Income- Interest Expense)

(C)Adopting ROC GAAP-Consolidated

| Analysis Items (Note 2) \ Year (Note 1) | | | Last Five Years Financial Analysis |
|---|---|---|---|
| | | | 2012 |
| Capital Structure Analysis (%) | Debt Ratio | | 29.66 |
| | Long Term Funds to Fixed Assets | | 189.21 |
| Liquidity Analysis (%) | Current Ratio | | 258.75 |
| | Quick Ratio | | 232.98 |
| | Interest Coverage | | 41.2 |
| Operation Performance Analysis | Average Collection Turnover (times) | | 5.81 |
| | Average Collection Days | | 63 |
| | Inventory Turnover (times) | | 7.75 |
| | Average Payable Turnover (times) | | 8.76 |
| | Average Inventory Turnover Days | | 47 |
| | Fixed Assets Turnover (times) | | 1.45 |
| | Total Assets Turnover (times) | | 0.62 |
| Return On Investment Analysis | Return on Total Assets | | 6.82 |
| | Return on equity | | 9.54 |
| | Income to Capital (%) | Operating Income | 62.97 |
| | | Pre-Tax Income | 64.55 |
| | Net Income to Sales (%) | | 10.81 |
| | Earnings Per Share (NT$) | | 6.27 |
| Cash Flow | Cash Flow Ratio (%) | | 66.79 |
| | Cash Flow Adequacy Ratio (%) | | 97.06 |
| | Cash Flow Re-investment Ratio (%) | | 10.64 |
| Leverage | Operation Leverage | | 2.46 |
| | Financial Leverage | | 1.03 |

Note 1: The statement for 2012 were audited and also presented under IFRSs since 2013.

Note 2: Calculation formula will be stated below.

(D)Adopting ROC GAAP- Parent-Company-Only

| Item (Note 2) \ Year (Note1) | | | Last Five Years Financial Analysis |
|---|---|---|---|
| | | | 2012 |
| Capital Structure Analysis (%) | Debt Ratio | | 19.16 |
| | Long Term Funds to Fixed Assets | | 298.89 |
| Liquidity Analysis (%) | Current Ratio | | 342.13 |
| | Quick Ratio | | 314.09 |
| | Interest Coverage | | 164.46 |
| Operation Performance Analysis | Average Collection Turnover (times) | | 6.72 |
| | Average Collection Days | | 54 |
| | Inventory Turnover (times) | | 8.21 |
| | Average Payable Turnover (times) | | 12.17 |
| | Average Inventory Turnover Days | | 44 |
| | Fixed Assets Turnover (times) | | 2.2 |
| | Total Assets Turnover (times) | | 0.63 |
| Return On Investment Analysis | Return on Total Assets | | 10.06 |
| | Return on Equity | | 12.46 |
| | Income to Capital (%) | Operating Income | 90.52 |
| | | Pre-Tax Income | 73.81 |
| | Net Income to Sales (%) | | 15.85 |
| | Net Income to Sales (%) | | 6.27 |
| Cash Flow | Earnings Per Share (NT$) | | 101.21 |
| | Cash Flow Ratio (%) | | 141.38 |
| | Cash Flow Adequacy Ratio (%) | | 12 |
| Leverage (%) | Cash Flow Re-investment Ratio (%) | | 1.5 |
| | Operation Leverage | | 1.01 |

Note 1: The statement for 2012 were audited and also presented under IFRSs since 2013.

Note 2: Calculation formula will be stated below.

a.Capital Structure Analysis
(a)Debt Ratio= Total Liabilities/ Total Assets
(b) Long Term Funds to Fixed Assets= (Total Equity + non-current liabilities)/ Net value of fixed capital

b.Liquidity
(a) Current Ratio= Current Assets/ Current Liabilities
(b) Quick Ratio= (Current Assets-Inventory-Prepaid Expense)/ Current Liabilities
(c) Interest Coverage=Net Profit before Income Tax and Interest Expense/ Interest Expense

c.Operation Performance Analysis
(a) Account Receivable (including account receivable and note receivable that derived from operation activities) Turnover Rate= Next Sales/ Average Account Receivable (including account receivable and note receivable that derived from operation activities) remaining amount.
(b) Average Collection Days= 365/ Account Receivable Turnover Ratio
(c) Inventory Turnover= Cost of Sales/ Average Inventory
(d) Account Payable (including account payable and note payable result from business operation) Turnover rate= Cost of Sales/ Average Account Payable (including account payable and note payable that derived from operation activities) remaining amount.
(e) Average Inventory Turnover Days= 365/ Inventory Turnover
(f) Fixed Assets (Land, Equipment Turnover) = Net Sales/ Average Fixed Assets.
(g) Total Assets Turnover= Net Sales/ Average Total Assets

d.Return on Investment
(a) Return on Total Assets=〔Profit(Loss) after tax + Interest Expense×（1－Interest Rate）〕/Average Total Assets.
(b) Return on Equity= Profit (Loss) after tax/Average Total Equity
(c) Net Income to Sales= Profit (Loss) after tax/ Net Sales
(d) Earning per Share= (attributed to parents profit (loss)-Preferred dividend)/weight average stock share issue. (Note 4)

e.Cash Flow
(a) Cash Flow Ratio=Operation Activities Cash Flow/Current Liabilities
(b) Cash Flow Adequacy Ratio (%) =Last five years Operation Activities Cash Flow/last five annual years (Cash Expenditure + Increase in Inventory+ Cash Dividends)
(c) Cash Flow Re-investment Ratio= (Operation Activities Cash Flow-Cash Dividends)/ (Gross Fixed Assets + Long Term Investment + Other Non-Current Assets + Operation Capital) (Note 5)

f.Leverage
(a) Operation Leverage = (Net Operating Income-Variable Cost and Expense)/ Operating Income (Note 6)
(b) Financial Leverage = Operating Income / (Operating Income- Interest Expense)

(3) Audit committee's report on the financial statements for the most recent year.

KINSUS INTERCONNECT TECHNOLOGY CORP.
EXAMINATION REPORT APPROVED BY THE AUDIT COMMITTEE

The Board of Directors has prepared and submitted the Company's Business Operation Report, Parent-Company-Only Financial Statements, Consolidated Financial Statements and Profit Appropriation Proposal for the period from January $1^{st}$ to December $31^{st}$, 2016. The Parent-Company-Only Financial Statements and Consolidated Financial Statements have been audited by Ernst & Young and accompanied with the auditors' reports. These reports mentioned above have been examined by the audit committee and hereby reported in accordance with the requirements of Securities and Exchange Act Article 14- 4 and Company Act Article 219.

Please kindly review and approve it.

KINSUS INTERCONNECT TECHNOLOGY CORP.
Audit Committee Convener: Chen, Jin-Cai

(4) For financial statement for the most recent fiscal year please refers to page 196 to 303.

(5) For a parent-company-only financial statement for the most recent fiscal year, certified by a CPA please refer to page 100 to 195.

(6) If the Company or its affiliates have experienced financial difficulties in the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report, the annual report shall explain how said difficulties will affect the company's financial situation: None.

## 7. A Review and Analysis of the Company's Financial Position and Financial Performance and a Listing of Risks

(1) Financial position

Financial Status Review and Analysis Chart

Unit: NT$'000

| Item \ Year | 2016 | 2015 | Differences | | Note |
|---|---|---|---|---|---|
| | | | Amount | % | |
| Current Assets | 21,615,555 | 23,471,368 | (1,855,813) | (7.91) | |
| Property, Plant and Equipment | 16,578,663 | 16,150,904 | 427,759 | 2.65 | |
| Prepayment for Equip. | 2,252,721 | 2,607,515 | (354,794) | (13.61) | |
| Other Assets | 806,776 | 408,945 | 397,831 | 97.28 | Note |
| Total Assets | 41,253,715 | 42,638,732 | (1,385,017) | (3.25) | |
| Current Liabilities | 8,639,797 | 10,318,448 | (1,678,651) | (16.27) | |
| Non-Current Liabilities | 1,599,149 | 1,492,483 | 106,666 | 7.15 | |
| Total Liabilities | 10,238,946 | 11,810,931 | (1,571,985) | (13.31) | |
| Capital | 4,460,000 | 4,460,000 | 0 | 0.00 | |
| Capital Surplus | 5,939,819 | 5,939,819 | 0 | 0.00 | |
| Retained Earning | 18,503,389 | 17,829,718 | 673,671 | 3.78 | |
| Other Shareholder Equity | 2,111,561 | 2,598,264 | (486,703) | (18.73) | |
| Total Shareholder Equity | 31,014,769 | 30,827,801 | 186,968 | 0.61 | |
| Analysis on ratio changes:<br>Note: Due to increases in investment accounted for under equity method. | | | | | |

(2) Financial performance

Financial Performance Comparison Analysis

Unit: NT$'000

| Item / Year | 2016 | 2015 | plus(minus) Amount | plus (minus) Variation ratio (%) | Note |
|---|---|---|---|---|---|
| Operating Revenues | 23,165,066 | 23,061,311 | 103,755 | 0.45 | |
| Cost Of Goods Sold | 17,414,521 | 17,099,709 | 314,812 | 1.84 | |
| Gross Profit | 5,750,545 | 5,961,602 | (211,057) | (3.54) | |
| Operating Expenses | 3,160,773 | 2,897,878 | 262,895 | 9.07 | |
| Operating Income | 2,589,772 | 3,063,724 | (473,952) | (15.47) | |
| Other Non-Operate Inc. and exp. | (20,314) | 141,524 | (161,838) | (114.35) | Note 1 |
| Pre-Tax Income | 2,569,458 | 3,205,248 | (635,790) | (19.84) | |
| Income Tax Expense | 496,430 | 475,722 | 20,708 | 4.35 | |
| Net Income | 2,073,028 | 2,729,526 | (656,498) | (24.05) | Note 2 |
| Other comprehensive income (loss) | (326,985) | (137,614) | (189,371) | 137.61 | Note 3 |
| Total comprehensive income | 1,746,043 | 2,591,912 | (845,869) | (32.63) | Note 4 |

Analysis on ratio changes:

Note 1: Due to decrease in other income.

Note 2: Due to increase in cost of goods sold and operating expenses.

Note 3: Due to the translation adjustments from currency exchange differences of foreign operational institutes/investees.

Note 4: Please refer to Note 2 and Note 3.

The reason for changes in the Company's core business: None.

(3) Cash flow: Cash Flow Analysis for the Coming Year

Unit: NT$'000

| Beginning cash balance • | Cash flow expecting from whole year operation activities , | Estimate whole year cash outflow amount *f* | Estimate available cash balance (insufficient) amount • + , - *f* | Remedies for Insufficient cash | |
|---|---|---|---|---|---|
| | | | | Investment Plan | Financial Management Plan |
| $12,672,783 | $18,921,240 | $(23,421,454) | $8,172,569 | - | - |

a. Cash flows variation analysis:

The expected cash balance will be NT$8,172,569 thousand because of the continuing operational cash flows and the expected significant cash flows from investing and financing activities.

b. Estimate cash insufficient remedies and liquidity analysis: no cash liquidity concerns.

(4)The effect upon financial operations of any major capital expenditures during the most recent fiscal year:

Our company has established a new production facility in Shin-Feng for the purpose of business operation expansion. This facility will be the production base for high end products in the coming years.

(5)The Company's reinvestment policy for the most recent fiscal year, the main reasons for the profits/losses generated thereby, the plan for improving re-investment profitability, and investment plans for the coming year:

The Company's main investments are all of long-term strategic investments. In year 2016, the parent company annual investment loss was NT$199,580 thousand, decreased from NT$325,786 thousand in 2015. For certain investee companies, the scale economy of investments was not yet reached and their short-term profitability needs to be improved. The Company's board has authority to refine the investment organization, if deemed necessary, in order to sustain the long-term investment strategy and to continuously generate the value for the Company to a maximum extent.

(6)The matters that the risks section shall analyze and assess during the most recent fiscal year and as they stood on the date of printing of the annual report

(A) Impacts on Company's Income and Future Counter Measures for Interest rate, Exchange rate Fluctuation and Inflation. Our company's 2016 interest rate and exchange gain or loss is list as below:

Unit: NT$1,000

| Item \ Year | 2016 |
|---|---|
| Net Exchange Gain (loss) | (48,989) |
| Net Sales | 23,165,066 |
| Income before Tax | 2,569,458 |
| Net Exchange Gain (loss) | (0.21%) |
| Net Exhange Gain (Loss) to Net Pre-Tax Profit Ratio | (1.91%) |
| Interest Revenue | 72,471 |
| Interest Revenue to Net Sales Income | 0.31% |
| Interest Income to Pre-Tax Net Profit Ratio | 2.82% |
| Interest Expense | 71,306 |
| Interest Expense to Net Sales Interest Ratio | 0.31% |
| Interest Expense to Net Pre-Tax Profit Ratio | 2.78% |
| Interest Income (Expense) to Net Pre-Tax Profit Ratio | 0.05% |

Sources: financial reports certified by CPA.

a. Impacts on Interest Rate Fluctuation

Our company always has been in a financial health status. We have assigned financial specialty personnel to cooperate with banks closely and obtain preferred mid to long term fund for our automatic equipment. Recently, annual interests gain (loss) only was accounted for 0.05% of our company's pre-tax profit. Thus, interest fluctuation doesn't impose serious effects on our company.

b. Impacts of Exchange Rate Fluctuation

(a) We use US dollars as main quotation currency for exporting business. Our long term borrowing and major importing items are also denominated in US dollars currency. For these reasons, impact of exchange rate change between the New Taiwan Dollar (NTD) vs. US. Dollars (USD) is minimal to our company. In 2016, annual foreign exchange gain (loss) was only accounted for (0.21%) of net sales.

(b) Counter-Measures for Exchange Rate Fluctuation

i. The Company opens foreign currency accounts in banks for collecting the money from sales. To exchange USD into NTD will be depending on the actual capital needs or the fluctuation of exchange rate. Payment for importing raw materials depends on the exchange rate. We can choose to use foreign currency acquired from exporting or to buy foreign currency in advance to reduce the effect of exchange rate fluctuation.

ii. We try to use USD as major currency when importing raw materials or machinery. Also we borrow loan in USD to balance the ratio of USD assets vs. liabilities for reducing the impact resulted from exchange rate fluctuation.

(c) Impacts of Inflation

We keep close look on market price fluctuation and maintain good interaction with suppliers and clients. Thus, in 2016, there is no serious incident caused by inflation.

(B) Reasons for company policy, gain or loss and future counter measures for engaging in high risk, highly leveraged investments, loans to others, endorsement and financial derivatives.

Latest years our company has not engaged in high risk, highly leveraged investments, loans to others and endorsement. Please refer to this report page 185 and 292. Moreover, our company established rules to regulate financial derivatives transaction and loan with others, endorsement risk management. For these reasons, those activities will not induce serious impacts on our company.

(C) Future R&D plans and Fund Estimated to Invest

Our company benefit from expertise in R&D and production experiences that accumulated for many years which allows us to meet product safety and diversity by launching “Modularized Product Design” production method to promote R&D capabilities, speed up new product development in order to satisfy variety product specifications that requested by different customers.

In the latest years, we have purchased new machines and equipment in order to reach the best production practice and to rejuvenate current products. We expect to invest about NT$851,583 thousand in R&D related field in 2017.

(D) Changes in domestic and foreign policy and legal impact on the company's financial operations and counter measures

Lately, our company’s financial operations haven’t affected by critical policy or legal changes in domestic and oversea because our main target market is in domestic, legal and critical policies are relatively stable also there is no military or political risks in the short term in the domestic. Conclude above reasons, we estimate our company will not suffer from negative effects due to major policy and legal changes in domestic and oversea.

(E) Influence and Counter-Measures for Technology and Industry Shift Company’s Financial Operation

We pay attention on technology shifting in the industry and assigned specialist to evaluate and research certain changes might influence company’s financial operation and found its counter-measures. In recent years, there is no critical technology shifting that will impose threat on company’s financial operation.

(F) Crisis Management and Counter Measures Result from Company’s Image Change Impact.

Our company’s image is always being good; in the recent years there is no significant incidents that would require corporation crisis management.

(G) Expected income from merger and potential risk counter-measures: Not Applicable.

(H) Expected income from production facilities expansion and potential risk counter-measures: please refer to this report section “7” point (4).

(I) Potential risk and counter-measures derived from buying and selling products:

The major raw materials that our company purchased are potassium gold, substrate, transparent film, and copper sheet, drill bit, milling cutter, dry film and chemical substances. Once those materials were approved, changing materials is less likely. Thus, we only maintain 1~2 suppliers. Meanwhile, we keep good cooperation with other supplies in order to spread risk. Besides, for one of our key product- IC BGA substrate, mostly we sell it to leading IC design companies in domestic and oversea. Their applications rages are broad and therefore we are free from centralized sales risk.

(J) Risk counter-measures for directors, supervisors, shareholders owns more ten percent of company’s shares, bulk share transfer or redemption: Our company’s directors and shareholders owning more than 10% of company’s share do not engage bulk share transfer.

(K) The impact of the change on the company's right to operate, risks and counter-measures: None

(L) Litigation or non-litigation case, should list the company and its directors, supervisors, general manager, the sustainable person in charge of, shareholders own more than ten percent of company’s shares and the company has the judgment or the slave system is still in the case of significant litigation non-litigation or administrative contentious event, the results could affect shareholders' equity or securities, should disclose its disputed fact, the subject of money, lawsuits start date, the major parties and deal with the case of the suit before the published this annual report: None.

(M) Other Risk and Counter-Measure: None.

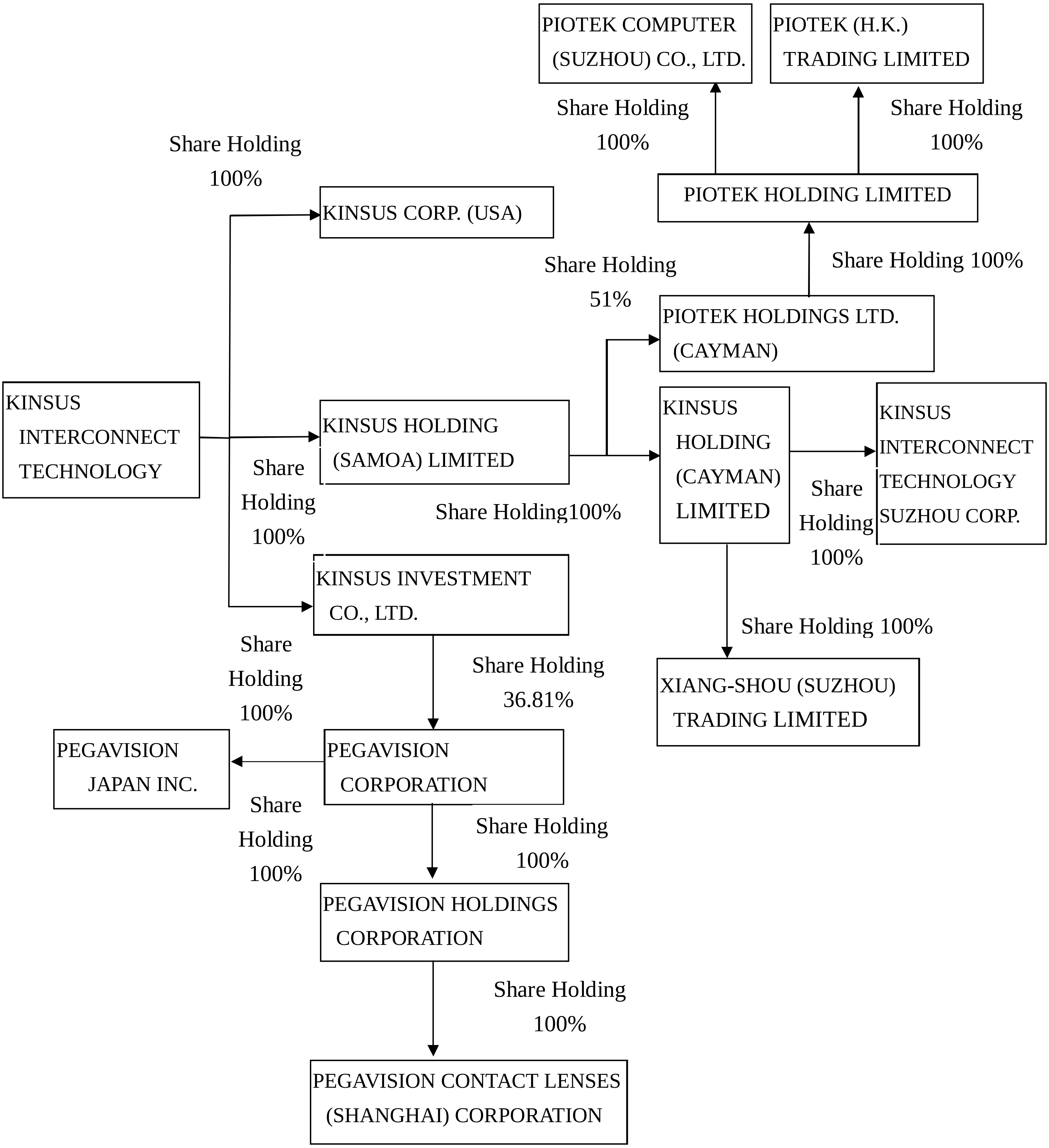
(7) Other important matters: None

# 8. Other Items Deserving Special Mention

(1) Information related to the Company's affiliates

(A)Associates Consolidated Business Operation Report:

a. As of December 31, 2016, our company organization chart as shown below:



b. The name, incorporation date, address, paid-in capital, and main business items of each affiliate:

| Company Name | Date of establishment | address | Paid-up capital (NT$ thousand) | Main businesses |
|---|---|---|---|---|
| KINSUS INTERCONNECT TECHNOLOGY CORP. | 2000.09.11 | Taoyuan City | 4,460,000 | Electronic Parts and Components Manufacturing, Electronic materials wholesale and retail |
| KINSUS CORP. (USA) | 2000.10.11 | CA U.S.A. | 16,125 | Designing substrates, formulating marketing strategy analysis, developing new customers, researching and development new product technology |
| KINSUS HOLDING (SAMOA) LIMITED | 2006.12.04 | Samoa | 5,363,465 | Investing activities |
| KINSUS INVESTMENT CO., LTD. | 2009.08.12 | Taoyuan City | 1,000,000 | Investing activities |
| PEGAVISION CORPORATION | 2009.08.26 | Taoyuan City | 600,000 | Manufacturing medical equipment |
| KINSUS HOLDING (CAYMAN) LIMITED | 2006.12.06 | Cayman Islands | 2,322,000 | Investing activities |
| PIOTEK HOLDING LTD.(CAYMAN) | 2009.12.16 | Cayman Islands | 6,055,099 | Investing activities |
| PIOTEK HOLDING LIMITED | 1999.08.13 | Cayman Islands | 4,509,872 | Investing activities |
| PIOTEK (HK) TRADING LIMITED | 2009.12.12 | Hong Kong | 839 | Trading activities |
| PEGAVISION HOLDINGS CORPORATION | 2011.11.28 | Samoa | 68,693 | Investing activities |
| PEGAVISION JAPAN INC. | 2015.05.15 | Japan | 2,728 | Manufacturing medical equipment |
| KINSUS INTERCONNECT TECHNOLOGY SUZHOU CORP. | 2007.04.09 | China, Suzhou | 2,257,500 | Manufacturing and selling printed circuit board (PCB) (not high-density fine-line) |
| PIOTEK COMPUTER (SUZHOU) CO., LTD. | 2000.02.17 | China, Suzhou | 5,376,075 | Researching, developing, producing and selling electronic components, PCBs and related products and providing after-sale services |
| PEGAVISION CONTACT LENSES (SHANGHAI) CORPORATION | 2012.11.27 | China, Shanghai | 65,062 | Manufacturing medical equipment |
| XIANG-SHOU (SUZHOU) TRADING LIMITED | 2013.05.02 | China, Suzhou | 64,500 | Manufacturing and selling printed circuit board (PCB) (not high-density fine-line) |

c. For companies presumed to have a relationship of control and subordination under Article 369-3 of the Company Act: None.

d. The industries covered by the business operated by the affiliates overall: Please refer to the table on above.

e. The names of the directors, supervisors, and general manager of each affiliate and the details of their shareholding or capital contribution in such affiliate:

| Company Name | Title | Name or Representative person | Shares Held | |
|---|---|---|---|---|
| | | | # of Shares | Shareholding Percentage |
| KINSUS INTERCONNECT TECHNOLOGY CORP. | Director (Honorary Chairman) | Tong, Zi-Xian | 200,000 | 0.04% |
| | Director | Hua Yu Investment Co., Ltd. (Representative:Wu, Xiang-Xiang) | 55,556,221 | 12.46% |
| | Director | Hua Xu Investment Co., Ltd. (Representative:Su, Yan-Xue) | 58,233,091 | 13.06% |
| | Chairman | Guo, Ming-Dong | 1,069,795 | 0.24% |
| | Director | Lu, Jing (Resignation at 2016.10.31.) | Stop declare | |
| | Director | Cheng, Chung-Jen | — | — |
| | Independent Director | Chen, Jin-Cai | — | — |
| | Independent Director | Wu, Hui-Huang | — | — |
| | Independent Director | Huang, Chun-Bao | — | — |
| PIOTEK HOLDING LTD.(CAYMAN) | Director | Kinsus Holding (SAMOA) Limited (Representative: Guo, Ming-Dong) | 95,755,000 | 51% |
| PIOTEK HOLDING LIMITED | Director | Piotek Holdings Ltd (Cayman) (Representative: Guo, Ming-Dong) | 139,840,790 | 100% |
| PIOTEK (HK) TRADING LIMITED | Director | Piotek Holdings Ltd. (Representative: Guo, Ming-Dong) | 200,000 | 100% |
| PIOTEK COMPUTER (SUZHOU) CO., LTD. | Director | Piotek Holding Limited (Representative: Cheng, Ching-Feng ) | — | 100% |
| | Supervisors | Piotek Holding Limited (Representative: Chen, Ji-Liang) | | |
| KINSUS CORPORATION (USA) | Chairman | KINSUS INTERCONNECT TECHNOLOGY CORP. (Representative: Guo, Ming-Dong) | 500,000 | 100% |
| | Director | Tong, Zi-Xian | — | — |
| | Director | He, Ming-Sen | — | — |
| KINSUS HOLDING (SAMOA) LIMITED | Chairman | KINSUS INTERCONNECT TECHNOLOGY CORP. (Representative: Guo, Ming-Dong) | 166,308,720 | 100% |
| KINSUS HOLDING (CAYMAN) LIMITED | Chairman | KINSUS HOLDING(SAMOA) LIMITED (Representative: Guo, Ming-Dong) | 72,000,000 | 100% |
| KINSUS INTERCONNECT TECHNOLOGY SUZHOU CORP. | General manager | KINSUS HOLDING(CAYMAN) LIMITED (Representative: Cheng, Ching-Feng ) | — | 100% |

| | | | | |
|---|---|---|---|---|
| | Supervisor | KINSUS HOLDING (CAYMAN) LIMITED (Representative: Liu, Su-Zhen ) | | |
| XIANG-SHOU (SUZHOU) TRADING LIMITED | legal representative and executive director | KINSUS HOLDING (CAYMAN) LIMITED (Representative: Cheng, Ching-Feng ) | — | 100% |
| | Supervisor | KINSUS HOLDING (CAYMAN) LIMITED (Representative: Liu, Su-Zhen ) | | |
| KINSUS INVESTMENT CO., LTD. | Chairman | KINSUS INTERCONNECT TECHNOLOGY CORP. (Representative: Tong, Zi-Xian) | 100,000,000 | 100% |
| | Director | KINSUS INTERCONNECT TECHNOLOGY CORP. (Representative: Guo, Ming-Dong) | | |
| | Director | KINSUS INTERCONNECT TECHNOLOGY CORP. (Representative: Wu, Xiang-Xiang) | | |
| | Supervisor | KINSUS INTERCONNECT TECHNOLOGY CORP. (Representative: Shen, Yi-Zhong) | | |
| PEGAVISION CORPORATION | Chairman | Tong, Zi-Xian | 645,729 | 1.08% |
| | Director | KINSUS INVESTMENT CO., LTD. (Representative: Guo, Ming-Dong) | 22,088,736 | 36.81% |
| | Director | KINSUS INVESTMENT CO., LTD. (Representative: Wen, Mu-Rong) | | |
| | Director | Hua Yu Investment Co., Ltd. (Representative: Chen, He-Xu) | 5,701,121 | 9.50% |
| | Director | Hua Yu Investment Co., Ltd. (Representative: Hou, Wen-Yong) | | |
| | Director | Xu, Liang-Rong | 1,798,409 | 3.00% |
| | Independent Director | Yao, Ren-Lu | | |
| | Independent Director | Huang, Da-Fu | | |
| PEGAVISION HOLDINGS CORPORATION | Director | PEGAVISION CORPORATION (Representative: Chen, Ji-Liang) | 2,130,000 | 100% |
| PEGAVISION CONTACT LENSES (SHANGHAI) CORPORATION | Director | Pegavision Holdings Corporation (Representative: Cheng, Ching-Feng ) | — | 100% |
| | Supervisor | Pegavision Holdings Corporation (Representative: Chen, Ji-Liang) | | |
| PEGAVISION JAPAN INC. | President | PEGAVISION CORPORATION (Representative: Lin, Yan-Ren) | 198 | 100% |

f. The overview of the operations of affiliates:

Unit: NT$'000

| Company Name | Capital | Total assets | Total liabilities | Net Value | Revenue | Operating income | Net income | Earnings per share |
|---|---|---|---|---|---|---|---|---|
| KINSUS INTERCONNECT TECHNOLOGY CORP. | 4,460,000 | 35,503,409 | 6,633,699 | 28,869,710 | 17,931,850 | 2,691,712 | 2,233,705 | 5.01 |
| KINSUS CORP. (USA) | 16,125 | 39,361 | 2,699 | 36,662 | 41,889 | 8,287 | 4,769 | 9.54 |
| KINSUS HOLDING (SAMOA) LIMITED | 5,363,465 | 2,526,740 | 0 | 2,526,740 | 5,605,257 | (364,193) | (256,869) | (1.54) |
| KINSUS INVESTMENT CO., LTD. | 1,000,000 | 1,218,869 | 3,986 | 1,214,883 | 0 | (409) | 52,520 | 0.53 |
| PEGAVISION CORPORATION | 600,000 | 1,922,844 | 697,393 | 1,225,451 | 1,644,396 | 231,230 | 186,891 | 3.11 |
| PEGAVISION HOLDINGS CORPORATION | 68,693 | 46,640 | 0 | 46,640 | 0 | (25) | 5,769 | 2.71 |
| PEGAVISION CONTACT LENSES (SHANGHAI) CORPORATION | 65,062 | 51,477 | 5,464 | 46,013 | 57,255 | 5,132 | 5,832 | Note 1 |
| KINSUS HOLDING (CAYMAN) LIMITED | 2,322,000 | 1,100,038 | 0 | 1,100,038 | 2,217,394 | 91,282 | 33,282 | 0.46 |
| PIOTEK HOLDING LTD. (CAYMAN) | 6,055,099 | 2,797,455 | 0 | 2,797,455 | 3,597,142 | (464,816) | (568,922) | (5.94) |
| KINSUS INTERCONNECT TECHNOLOGY SUZHOU CORP. | 2,257,500 | 2,300,143 | 1,265,250 | 1,034,893 | 2,008,697 | 92,360 | 31,763 | Note 1 |
| XIANG-SHOU (SUZHOU) TRADING LIMITED | 64,500 | 146,301 | 81,152 | 65,149 | 231,388 | (1,021) | 1,511 | Note 1 |
| PIOTEK HOLDING LIMITED | 4,509,872 | 2,797,455 | 0 | 2,797,455 | 3,597,142 | (464,816) | (568,922) | (4.07) |
| PIOTEK (HK) TRADING LIMITED | 839 | 152,709 | 79,791 | 72,918 | 631,276 | 9,975 | 15,351 | 76.76 |
| PIOTEK COMPUTER (SUZHOU) CO., LTD. | 5,376,075 | 4,525,682 | 1,802,025 | 2,723,657 | 3,561,481 | (481,489) | (584,054) | Note 1 |
| PEGAVISION JAPAN INC. | 2,728 | 4,617 | 1,515 | 3,102 | 11,267 | 526 | 354 | 1,787.13 |

Note 1：The companies have no shares available for EPS calculation.

Note 2：If the related-party is a foreign company, the relevant figures are converted to NT dollar at the exchange rate at the reporting date.

(B)Associates Consolidated Financial Report: please refer to page 196 to 303.

(C)Associates Report: Not applicable.

(2)The status of the Company carrying out a private placement of securities during the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report. None.

(3)Holding or disposal of shares in the Company by the company's subsidiaries during the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report: None.

(4)Other matters that require additional description: None.

(5)Any of the situations listed in Article 36, paragraph 3, subparagraph 2 of the Securities and Exchange Act, which might materially affect shareholders' equity or the price of the Company's securities, occurring during the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report: None.

English Translation of an Audit Report Originally Issued in Chinese

REPORT OF INDEPENDENT AUDITORS

To: the Board of Directors and Shareholders of
Kinsus Interconnect Technology Corp.

**Opinion**

We have audited the accompanying parent-company-only balance sheets of Kinsus Interconnect Technology Corp. (the "Company") as of December 31, 2016 and 2015, and the related parent-company-only statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the parent-company-only financial statements, including the summary of significant accounting policies (together "the parent-company-only financial statements").

In our opinion, based on the results of our audits and the report of other auditors (please refer to the Other Matter－Making Reference to the Audit of a Component Auditor section of our report), the parent-company-only financial statements referred to above present fairly, in all material respects, the parent-company-only financial position of the Company as of December 31, 2016 and 2015, and their parent-company-only financial performance and cash flows for the years then ended, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

**Basis for Opinion**

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

**Key Audit Matters**

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

Revenue Recognition

We determine that revenue recognition is one of the key audit matters. The Company's revenue amounting to NT$17,931,850 thousand for the year ended December 31, 2016 is a significant account to the Company's financial statements. The Company has conducted these sale activities in multi-marketplace, including Taiwan, China, USA, etc. Among these locations, it has established hub-warehouse for certain foreign customers' convenience. Furthermore, variety of sale terms and conditions enacted in its main sale contracts or sale orders contributed to the complexity for the Company to decide the appropriate timing of transfer the risk of ownership and return of goods to the buyers. We therefore conclude that there are significant risks with respect to the topic of revenue recognition.

Our audit procedures therefore include, but not limit to, evaluating the properness of accounting policy for revenue recognition, assessing and testing the effectiveness of relevant internal controls related to revenue recognition, particularly those controls for sipment to or from foreign warehouses, obtaining major sale orders or agreements to inspect the terms and conditions, checking the consistency of the accounting for revenue recognition with sale agreement or orders, performing analytical review procedures on monthly sale revenues, and executing sale cut-off tests, etc.

We have also evaluated the appropriateness of the related disclosure in Note 6 to the financial statements.

Related Party Transactions

The Company, to implement a plan of group operation, sold part of its operating equipment and machinery to FuYang Technology Corp., an associate investee accounted for under equity method indirectly, in amount of NT$241,776 thousand. This transaction was accunted for as a significant, non-routine related party transaction during the year ended December 31, 2016. We therefore conclude that the transaction is one of the key audit matters.

Our audit procedures therefore include, but not limit to, obtaining the related mutual agreements in order to clarify the purpose, pricing and collection term of the transaction, evaluating and testing the effectiveness of the internal controls related to related party transactions established by the Company's management, including the approval flow authorized by board of directors or proper management and examination on the Company's compliance with the "Process Guidance for Acquiring or Disposing Assets".

We have also evaluated the appropriateness of the related disclosure in Note 7 to the financial statements.

## Other Matter – Making Reference to the Audit of a Component Auditor

We did not audit the financial statements of FuYang Technology Corp., an indirectly invested associate accounted for under the equity method by the Company. The financial statements of FuYang Technology Corp. as of December 31, 2016 and for the year then ended were audited by other auditors, whose report thereon has been furnished to us. Our audit, insofar as it related to the investment in the associate accounted for under the equity method amounting to NT$432,689 thousand as of December 31, 2016 representing 1.22% of the Company's total assets, the related shares of income before tax from the associate under the equity method for the year then ended amounting to NT$(12,783) thousand representing (0.49)% of the Company's income before tax, and the related shares of other comprehensive income from the associate under the equity method for the year then ended amounting to NT$(4,528) thousand representing 2.31% of the other comprehensive income, are based solely on the audit reports of other auditors.

## Responsibilities of Management and Those Charged with Governance for the Parent-Company-Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent-company-only financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and for such internal control as management determines is necessary to enable the preparation of parent-company-only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of the Company.

## Auditor's Responsibilities for the Audit of the Parent-Company-Only Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the parent-company-only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent-company-only financial statements, including the accompanying notes, and whether the parent-company-only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent-company-only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Ernst & Young
February 8, 2017
Taipei, Taiwan,
Republic of China

*Notice to Readers*

*The accompanying parent-company-only financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China on Taiwan and not those of any other jurisdictions. The standards, procedures and practice to audit such financial statements are those generally accepted and applied in the Republic of China on Taiwan.*

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Parent-Company-Only Balance Sheets

As of December 31, 2016 and 2015

(Amounts Expressed in Thousands of New Taiwan Dollars)

| Assets | | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Code | Accounts | Notes | Amount | % | Amount | % |
| | Current assets | | | | | |
| 1100 | Cash and cash equivalents | 4, 6(1) | $9,833,450 | 28 | $10,998,903 | 30 |
| 1110 | Financial assets at fair value through profit or loss | 4, 6(2) | 2,839,333 | 8 | 3,524,742 | 10 |
| 1147 | Bond investments with no active market | 4, 6(3) | 423,057 | 1 | 423,057 | 1 |
| 1150 | Notes receivable, net | 4, 6(4) | 3,030 | - | 1,835 | - |
| 1170 | Accounts receivable, net | 4, 6(5) | 2,513,446 | 7 | 2,920,639 | 8 |
| 1180 | Accounts receivable - related parties, net | 4, 6(5), 7 | 33,730 | - | 21,759 | - |
| 1200 | Other receivables | | 243,431 | 1 | 281,480 | 1 |
| 1210 | Other receivables - related parties | 7 | 314,027 | 1 | 7,489 | - |
| 1310 | Inventories, net | 4, 6(6) | 1,318,258 | 4 | 1,317,749 | 4 |
| 1410 | Prepayments | | 73,942 | - | 115,144 | - |
| 1470 | Other current assets | | 29,811 | - | 72,238 | - |
| 11XX | Total current assets | | 17,625,515 | 50 | 19,685,035 | 54 |
| | Non-current assets | | | | | |
| 1550 | Investment accounted for under equity method | 4, 6(7) | 3,778,285 | 10 | 3,610,796 | 10 |
| 1600 | Property, plant and equipment, net | 4, 6(8), 8, 9 | 11,947,782 | 34 | 10,309,220 | 29 |
| 1780 | Intangible assets, net | 4, 6(9) | 5,208 | - | 9,869 | - |
| 1840 | Deferred tax assets | 4, 6(22) | 9,593 | - | 9,593 | - |
| 1915 | Prepayment for equipment | 4, 6(8), 9 | 2,133,188 | 6 | 2,452,423 | 7 |
| 1995 | Other non-current assets | 6(10) | 3,838 | - | 2,202 | - |
| 15XX | Total non-current assets | | 17,877,894 | 50 | 16,394,103 | 46 |
| 1XXX | Total Assets | | $35,503,409 | 100 | $36,079,138 | 100 |

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

Chairman: Ming-Dong Guo CEO: Ho-Shu Chen Head of Accounting: Su-Zhen Liu

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Parent-Company-Only Balance Sheets (Continued)

As of December 31, 2016 and 2015

(Amounts Expressed in Thousands of New Taiwan Dollars)

| Liabilities and Equity | | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Code | Accounts | Notes | Amount | % | Amount | % |
| | Current liabilities | | | | | |
| 2100 | Short-term loans | 6(11) | $1,277,100 | 4 | $1,831,266 | 5 |
| 2150 | Notes payable | | 43,498 | - | 49,834 | - |
| 2170 | Accounts payable | | 1,074,861 | 3 | 1,049,302 | 3 |
| 2180 | Accounts payable - related parties | 7 | 207,877 | 1 | 428,877 | 1 |
| 2200 | Other payables | 6(12), 7 | 2,414,819 | 7 | 3,094,451 | 9 |
| 2230 | Current income tax liabilities | 4, 6(22) | 469,126 | 1 | 541,841 | 2 |
| 2300 | Other current liabilities | 6(13) | 324,358 | 1 | 329,589 | 1 |
| 21XX | Total current liabilities | | 5,811,639 | 17 | 7,325,160 | 21 |
| | Non-current liabilities | | | | | |
| 2540 | Long-term loans | 6(14), 8 | 788,700 | 2 | 288,860 | 1 |
| 2570 | Deferred tax liabilities | 4, 6(22) | 351 | - | 39,834 | - |
| 2600 | Other non-current liabilities | 4, 6(15), 6(16) | 33,009 | - | 34,148 | - |
| 25XX | Total non-current liabilities | | 822,060 | 2 | 362,842 | 1 |
| 2XXX | Total liabilities | | 6,633,699 | 19 | 7,688,002 | 22 |
| 3100 | Capital | 6(17) | | | | |
| 3110 | Common stock | | 4,460,000 | 12 | 4,460,000 | 12 |
| 3200 | Capital surplus | 6(17) | 5,939,819 | 17 | 5,939,819 | 16 |
| 3300 | Retained earnings | 6(17) | | | | |
| 3310 | Legal capital reserve | | 3,340,018 | 9 | 3,049,623 | 8 |
| 3350 | Unappropriated earnings | | 15,163,371 | 43 | 14,780,095 | 41 |
| 3400 | Other components of equity | | (613) | - | 194,484 | 1 |
| 3500 | Treasury Stock | 6(17) | (32,885) | - | (32,885) | - |
| 3XXX | Total equity | | 28,869,710 | 81 | 28,391,136 | 78 |
| | Total liabilities and equity | | $35,503,409 | 100 | $36,079,138 | 100 |

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

Chairman: Ming-Dong Guo CEO: Ho-Shu Chen Head of Accounting: Su-Zhen Liu

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Parent-Company-Only Statements of Comprehenstve Income

For the Years Ended December 31, 2016 and 2015

(Amounts Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)

| Code | Accounts | Notes | 2016 Amount | 2016 % | 2015 Amount | 2015 % |
|---|---|---|---|---|---|---|
| 4000 | Operating revenues | 4, 6(18), 7 | $17,931,850 | 100 | $17,827,251 | 100 |
| 5000 | Operating costs | 7 | (13,222,128) | (74) | (12,513,748) | (70) |
| 5900 | Gross profit | | 4,709,722 | 26 | 5,313,503 | 30 |
| 6000 | Operating expenses | 7 | | | | |
| 6100 | Selling | | (204,559) | (1) | (170,374) | (1) |
| 6200 | General and administrative | | (859,383) | (5) | (620,887) | (3) |
| 6300 | Research and development | | (954,068) | (5) | (1,012,606) | (6) |
| | Operating expenses total | | (2,018,010) | (11) | (1,803,867) | (10) |
| 6900 | Operating income | | 2,691,712 | 15 | 3,509,636 | 20 |
| 7000 | Non-operating income and expenses | | | | | |
| 7010 | Other income | 6(20), 7 | 155,185 | 1 | 118,580 | 1 |
| 7020 | Other gains and losses | 6(20), 7 | 8,391 | - | 66,432 | - |
| 7050 | Finance costs | 6(20) | (27,776) | - | (21,360) | - |
| 7070 | Share of profit or loss of subsidiaries, associates and joint ventures | | (199,580) | (1) | (325,786) | (2) |
| | Non-operating income and expense total | | (63,780) | - | (162,134) | (1) |
| 7900 | Income from continuing operations before income tax | | 2,627,932 | 15 | 3,347,502 | 19 |
| 7950 | Income tax | 4, 6(22) | (394,227) | (3) | (443,550) | (3) |
| 8200 | Net income | | 2,233,705 | 12 | 2,903,952 | 16 |
| 8300 | Other comprehensive income (loss) | 6(21) | | | | |
| 8310 | Item that may not be reclassified subsequently to profit or loss | | | | | |
| 8311 | Actuarial gain (loss) on defined benefit plains | | (959) | - | (8,721) | - |
| 8360 | Items that may be reclassified subsequently to profit or loss | | | | | |
| 8362 | Unrealized gain (loss) on available-for-sale security | | - | - | (24,694) | - |
| 8370 | Share of other comprehensive income (loss) of subsidiaries, associates and joint ventures | | (234,931) | (1) | (72,922) | - |
| 8399 | Income tax related to items that may be reclassified subsequently to profit or loss | | 39,834 | - | 12,397 | - |
| | Total other comprehensive income, net of tax | | (196,056) | (1) | (93,940) | - |
| 8500 | Total comprehensive income | | $2,037,649 | 11 | $2,810,012 | 16 |
| 9750 | Earnings per share - basic (in NT$) | 6(23) | $5.01 | | $6.51 | |
| 9850 | Earnings per share - diluted (in NT$) | 6(23) | $4.95 | | $6.38 | |

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

Chairman: Ming-Dong Guo CEO: Ho-Shu Chen Head of Accounting: Su-Zhen Liu

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Parent-Company-Only Statements of Changes in Equity

For the Years Ended December 31, 2016 and 2015

(Amounts Expressed in Thousands of New Taiwan Dollars)

| | Items | Capital | Capital Surplus | Retained Earnings | | Other Components of equity | | Treasury Stock | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Legal Reserve | Unappropriated Earnings | Exchange differences arising on translation of foreign operations | Unrealized valuation gain (loss) on available-for-sale financial assets | | |
| Code | | 3100 | 3200 | 3310 | 3350 | 3410 | 3425 | 3500 | 3XXX |
| A1 | Balance as of January 1, 2015 | $4,460,000 | $5,939,819 | $2,687,890 | $14,030,597 | $255,009 | $24,694 | $- | $27,398,009 |
| | Appropriation and distribution of 2014 earnings: | | | | | | | | |
| B1 | Legal reserve | | | 361,733 | (361,733) | | | | - |
| B5 | Cash dividends - common shares | | | | (1,784,000) | | | | (1,784,000) |
| D1 | Net income (loss) for 2015 | | | | 2,903,952 | | | | 2,903,952 |
| D3 | Other comprehensive income (loss) for 2015 | | | | (8,721) | (60,525) | (24,694) | | (93,940) |
| D5 | Total comprehensive income | - | - | - | 2,895,231 | (60,525) | (24,694) | - | 2,810,012 |
| L1 | Treasury stock repurchased | | | | | | | (32,885) | (32,885) |
| A1 | Balance as of December 31, 2015 | 4,460,000 | 5,939,819 | 3,049,623 | 14,780,095 | 194,484 | - | (32,885) | 28,391,136 |
| | Appropriation and distribution of 2015 earnings: | | | | | | | | |
| B1 | Legal reserve | | | 290,395 | (290,395) | | | | - |
| B5 | Cash dividends - common shares | | | | (1,559,075) | | | | (1,559,075) |
| D1 | Net income (loss) for 2016 | | | | 2,233,705 | | | | 2,233,705 |
| D3 | Other comprehensive income (loss) for 2016 | | | | (959) | (195,097) | - | | (196,056) |
| D5 | Total comprehensive income | - | - | - | 2,232,746 | (195,097) | - | - | 2,037,649 |
| Z1 | Balance as of December 31, 2016 | $4,460,000 | $5,939,819 | $3,340,018 | $15,163,371 | $(613) | $- | $(32,885) | $28,869,710 |

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

NOTE: The employees' bonuses of NT$343,533 and the directors' and supervisors' remuneration of NT$20,911 thousand for the year ended December 31, 2016 had been deducted from comprehensive income for the year ended December 31, 2016.

The employees' bonuses of NT$442,444 and the directors' and supervisors' remuneration of NT$26,026 thousand for the year ended December 31, 2015 had been deducted from comprehensive income for the year ended December 31, 2015.

Chairman: Ming-Dong Guo CEO: Ho-Shu Chen Head of Accounting: Su-Zhen Liu

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Parent-Company-Only Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

(Amounts Expressed in Thousands of New Taiwan Dollars)

| Code | Items | 2016 | 2015 |
|---|---|---|---|
| AAAA | Cash flows from operating activities: | | |
| A10000 | Net income before tax | $2,627,932 | $3,347,502 |
| A20000 | Adjustments: | | |
| A20010 | Profit or loss not effecting cash flows: | | |
| A20100 | Depreciation | 2,259,944 | 1,953,230 |
| A20200 | Amortization | 19,197 | 26,086 |
| A20300 | Bad debt expense (gain on recovery) | 4,289 | (17,179) |
| A20400 | Net loss (gain) of financial assets (liabilities) at fair value through profit or loss | (10,159) | (24,447) |
| A20900 | Interest expense | 27,776 | 21,360 |
| A21200 | Interest income | (62,885) | (76,970) |
| A22300 | Share of profit or loss of subsidiaries, associates and joint ventures | 199,580 | 325,786 |
| A22500 | Gain on disposal of property, plant and equipment | 451 | (5) |
| A22500 | Loss on disposal of property, plant and equipment | - | 725 |
| A23100 | Gain on disposal of investment | - | (30,845) |
| A23700 | Impairment loss of non-financial asset | 17,100 | - |
| A30000 | Changes in operating assets and liabilities: | | |
| A31110 | Financial Assets at fair value through profit or loss | 695,568 | 1,581,283 |
| A31130 | Notes receivable | (1,195) | 2,523 |
| A31150 | Accounts receivable | 402,904 | (499,791) |
| A31160 | Accounts receivable - related parties | (11,971) | (20,751) |
| A31180 | Other receivable | 37,350 | 110,843 |
| A31190 | Other receivable - related parties | (306,538) | 1,708 |
| A31200 | Inventories | (509) | 4,075 |
| A31230 | Prepayment | 41,202 | (38,824) |
| A31240 | Other current assets | 42,427 | (24,680) |
| A32130 | Notes payable | (6,336) | 9,970 |
| A32150 | Accounts payable | 25,559 | 122,233 |
| A32160 | Accounts payable - related parties | (221,000) | 181,562 |
| A32180 | Other payable | (262,715) | (77,360) |
| A32210 | Advance receipts | 760 | (1,126) |
| A32230 | Other current liabilities | (3,040) | 254 |
| A32240 | Net pension liability under defined benefit plan | (4,098) | (4,241) |
| A33000 | Cash generated from operations | 5,511,593 | 6,872,921 |
| A33100 | Interest received | 63,584 | 77,349 |
| A33300 | Interest paid | (27,984) | (21,073) |
| A33500 | Income tax paid | (466,591) | (806,858) |
| AAAA | Net cash provided by (used in) operating activities | 5,080,602 | 6,122,339 |

| Code | Items | 2016 | 2015 |
|---|---|---|---|
| BBBB | Cash flows from investing activities: | | |
| B00400 | Disposal of available-for-sale financial assets | - | 46,520 |
| B00600 | Acquisition of bond investments for which no active market exists | - | (3,057) |
| B01800 | Acquisition of investment accounted for under equity method | (602,000) | - |
| B02700 | Acquisition of property, plant and equipment | (4,255,307) | (4,172,476) |
| B02800 | Proceeds from disposal of property, plant and equipment | 241,776 | 5 |
| B03800 | Decrease (increase) in refundable deposits | (1,636) | 3,145 |
| B04500 | Acquisition of intangible assets | (14,536) | (24,028) |
| BBBB | Net cash provided by (used in) investing activities | (4,631,703) | (4,149,891) |
| CCCC | Cash flows from financing activities: | | |
| C00100 | Increase in (repayment of) short-term loans | (554,166) | 1,100,468 |
| C01600 | Increase in long-term loans | 800,000 | - |
| C01700 | Repayment of long-term loans | (303,111) | (339,432) |
| C03000 | Increase in guarantee deposits received | 2,000 | - |
| C04500 | Payment of cash dividends | (1,559,075) | (1,784,000) |
| C04900 | Treasury stock purchased | - | (32,885) |
| CCCC | Net cash provided by (used in) financing activities | (1,614,352) | (1,055,849) |
| EEEE | Net Increase (decrease) in cash and cash equivalents | (1,165,453) | 916,599 |
| E00100 | Cash and cash equivalents at beginning of period | 10,998,903 | 10,082,304 |
| E00200 | Cash and cash equivalents at end of period | $9,833,450 | $10,998,903 |

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

Chairman: Ming-Dong Guo CEO: Ho-Shu Chen Head of Accounting: Su-Zhen Liu

1. HISTORY AND ORGANIZATION

Kinsus Interconnect Technology Corp. (referred to "the Company") was established on September 11, 2000. Its main business activities include the manufacture of electronic products, the whole-sale and retail-sale of electronic materials, and the consultation services of business operation and management. The Company's stocks have been governmentally approved on May 20, 2004 to be listed and traded in Taiwan Stock Exchange starting November 1, 2004.The registered business premise and main operation address is at No. 1245, Chung Hua Rd., Hsinwu District, Taoyuan City, Taiwan 32747.

2. DATE AND PROCEDURE OF AUTHORIZATION FOR FINANCIAL STATEMENTS ISSUANCE

The financial statements of the Company were authorized to be issued in accordance with a resolution of the Board of Directors'meeting held on February 8, 2017.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

(1)Standards or interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission ("FSC"), but not yet adopted by the Group at the date of issuance of the Group's financial statements are listed below:

(a) IAS 36 "Impairment of Assets" (Amendment)

These amendments relate to those issued in May 2011 and require entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendments also require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement. The amendments are effective for annual periods beginning on or after January 1, 2014.

(b) IFRIC 21 "Levies"

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain). The interpretation is effective for annual periods beginning on or after January 1, 2014.

(c) IAS 39 “Financial Instruments: Recognition and Measurement” (Amendment)

Under the amendments, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The interpretation is effective for annual periods beginning on or after January 1, 2014.

(d) IAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)

The amendments apply to contributions from employees or third parties to define benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective for annual periods beginning on or after July 1, 2014.

(e) Improvements to International Financial Reporting Standards (2010-2012 cycle):

IFRS 2 “Share-based Payment”

The annual improvements amend the definitions of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). The amendments prospectively apply to share-based payment transactions for which the grant date is on or after July 1, 2014.

IFRS 3 “Business Combinations”

The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) deleting the reference to "IAS 37 Provisions, Contingent Liabilities and Contingent Assets or other IFRSs as appropriate", other contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in profit or loss; (3) amending the classification requirements of IFRS 9 Financial Instruments to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after July 1, 2014.

IFRS 8 “Operating Segments”

The amendments require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendments are effective for annual periods beginning on or after July 1, 2014.

IFRS 13 “Fair Value Measurement”

The amendments to the Basis for Conclusions of IFRS 13 clarify that when deleting paragraph B5.4.12 of IFRS 9 Financial Instruments and paragraph AG79 of IAS 39 Financial Instruments: Recognition and Measurement as consequential amendments from IFRS 13 Fair Value Measurement, the IASB did not intend to change the measurement requirements for short-term receivables and payables.

IAS 16 “Property, Plant and Equipment”

The amendments clarify that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendments are effective for annual periods beginning on or after July 1, 2014.

IAS 24 “Related Party Disclosures”

The amendments clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The amendments are effective for annual periods beginning on or after July 1, 2014.

IAS 38 “Intangible Assets”

The amendments clarify that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendments are effective for annual periods beginning on or after July 1, 2014.

(f) Improvements to International Financial Reporting Standards (2011-2013 cycle):

IFRS 1 “First-time Adoption of International Financial Reporting Standards”

The amendments clarify that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

IFRS 3 “Business Combinations”

These amendments clarify that paragraph 2(a) of IFRS 3 Business Combinations excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendments are effective for annual periods beginning on or after July 1, 2014.

IFRS 13 “Fair Value Measurement”

The amendments clarify that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of the amendments is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. The amendments are effective for annual periods beginning on or after July 1, 2014.

IAS 40 “Investment Property”

The amendments clarify the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property, separate application of both standards independently of each other is required. The amendments are effective for annual periods beginning on or after July 1, 2014.

(g) IFRS 14 “Regulatory Deferral Accounts”

IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods beginning on or after January 1, 2016.

(h) IFRS 11 “Joint Arrangements” (Accounting for Acquisitions of Interests in Joint Operations)

The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments require the entity to apply all of the principles on business combinations accounting in IFRS 3 “Business Combinations”, and other IFRS (that do not conflict with the guidance in IFRS 11), to the extent of its share in a joint operation acquired. The amendments also require certain disclosure. The amendments are effective for annual periods beginning on or after January 1, 2016.

(i) IAS 16 “Property, Plant and Equipment and IAS 38 “Intangible Assets” — Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify that the use of revenue-based methods to calculate depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, such as selling activities and change in sales volumes or prices. The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendments are effective for annual periods beginning on or after January 1, 2016.

(j) IAS 16 “Property, Plant and Equipment and IAS 41 “Agriculture” — Agriculture: Bearer Plants

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 Property, Plant and Equipment, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, and the produce growing on bearer plants will remain within the scope of IAS 41. The amendments are effective for annual period beginning on or after January 1, 2016.

(k) IAS 27 “Separate Financial Statements” — Equity Method in Separate Financial Statements

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity’s separate financial statements. In 2003, the equity method was removed from the options. These amendments remove the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions. The amendments are effective for annual periods beginning on or after January 1, 2016.

(l) Improvements to International Financial Reporting Standards (2012-2014 cycle):

IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”

The amendments clarify that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendments also require identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendments are effective for annual periods beginning on or after January 1, 2016.

IFRS 7 “Financial Instruments: Disclosures”

The amendments clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety under IFRS 7 Financial Instruments: Disclosures is required. The amendments also clarify that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities are required to be included in the condensed interim financial report would depend on the requirements under IAS 34 Interim Financial Reporting. The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 19 “Employee Benefits”

The amendments clarify the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 34 “Interim Financial Reporting”

The amendments clarify what is meant by “elsewhere in the interim financial report” under IAS 34; the amendments state that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendments are effective for annual periods beginning on or after January 1, 2016.

(m) Disclosure Initiative — Amendment to IAS 1 “Presentation of Financial Statements”:

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, (2) clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2016.

(n) IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities”, and IAS 28“Investments in Associates and Joint Ventures” — Investment Entities: Applying the Consolidation Exception

The amendments contain (1) clarifying that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity when the investment entity measures all of its subsidiary at fair value, (2) clarifying that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated when all other subsidiaries of an investment entity are measured at fair value, and (3) allowing the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2016.

The abovementioned standards and interpretations issued by IASB and recognized by FSC are applicable for annual periods beginning on or after January 1, 2017. The Company assesses that there will be no significant impact on the Campany’s financial statements then.

(2)Standards or interpretations issued, revised or amended, by IASB but not yet recognized by FSC at the date of issuance of the Company’s financial statements are listed below:

(a) IFRS 15 “Revenue from Contracts with Customers”

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The new Standard includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Standard is effective for annual periods beginning on or after January 1, 2018.

(b) IFRS 9 “Financial Instruments”

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9 Financial Instruments (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity’s business model for managing the financial assets and the financial asset’s contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that ‘own credit risk’ adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

The new standard is effective for annual periods beginning on or after January 1, 2018.

(c) IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture.

The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

(d) IFRS 16“Leases”

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease. The Standard is effective for annual periods beginning on or after January 1, 2019.

(e) IAS 12“Income Taxes” — Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify how to account for deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017.

(f) Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”

The amendments relate to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period. The amendments are effective for annual periods beginning on or after January 1, 2017.

(g) IFRS 15 “Revenue from Contracts with Customers” — Clarifications to IFRS 15

The amendments clarify how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time. The amendments are effective for annual periods beginning on or after January 1, 2018.

(h) IFRS 2 “Shared-Based Payment” — Amendments to IFRS 2

The amendments contain (1) clarifying that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, (2) clarifying if tax laws or regulations require the employer to withhold a certain amount in order to meet the employee’s tax obligation associated with the share-based payment, such transactions will be classified in their entirety as equity-settled share-based payment transactions if they would have been so classified in the absence of the net share settlement feature, and (3) clarifying that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognised in equity, on the modification date, to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date. Any difference between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2018.

(i) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts — Amendments to IFRS 4

The amendments help to resolve issues arising from the different effective dates for IFRS 9 “Financial Instruments” (January 1, 2018) and the new insurance contracts standard about to be issued by the IASB (still to be decided, but not before January 1, 2020). The amendments allow entity issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 “Financial Instruments” before the IASB’s new insurance contracts standard becomes effective. The amendments introduce two approaches: an overlay approach and a temporary exemption. The overlay approach allows an entity applying IFRS 9 to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before the new insurance contracts standard is applied. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until 2021 (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

(j) Transfers of Investment Property — Amendments to IAS 40

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after January 1, 2018.

(k) Improvements to International Financial Reporting Standards (2014-2016 cycle):

IFRS 1 “First-time Adoption of International Financial Reporting Standards”

The amendments revise and amend transition requirements relating to certain standards and delete short-term exemptions under Appendix E for first-time adopter. The amendments are effective for annual periods beginning on or after January 1, 2018.

IFRS 12 “Disclosure of Interests in Other Entities”

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity’s interests that are classified as held for sale or discontinued operations. The amendments are effective for annual periods beginning on or after January 1, 2017.

IAS 28 “Investments in Associates and Joint Ventures”

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 “Financial Instruments” on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after January 1, 2018.

(l) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 “The Effects of Changes in Foreign Exchange Rates”, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after January 1, 2018.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company’s financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Company is still currently determining the potential impact of the standards and interpretations listed under (1) to (2), it is not practicable to estimate their impact on the Company at this point in time. All other standards and interpretations have no material impact on the Company.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1)Statement of compliance

The parent-company-only financial statements of the Company for the years ended December 31, 2016 and 2015 were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations").

### (2) Basis of preparation

The Company prepared parent-company-only financial statements in accordance with Article 21 of the Regulations, which provided that the profit or loss and other comprehensive income for the period presented in the parent-company-only financial statements shall be the same as the profit or loss and other comprehensive income attributable to stockholders of the parent presented in the consolidated financial statements for the period, and the total equity presented in the parent-company-only financial statements shall be the same as the equity attributable to the parent company presented in the consolidated financial statements. Therefore, the Company accounted for its investments in subsidiaries using equity method and, accordingly, made necessary adjustments.

The parent-company-only financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The parent-company-only financial statements are expressed in thousands of New Taiwan Dollars ("NT$") unless otherwise stated.

### (3)Foreign currency transactions

The Company's parent-company-only financial statements are presented in its functional currency, New Taiwan Dollars (NTD). Items included in the parent-company-only financial statements are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Company at functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

(a) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

(b) Foreign currency items within the scope of IAS 39 Financial Instruments: Recognition and Measurement are accounted for based on the accounting policy for financial instruments.

(c) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(4) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NTD at the closing rate of exchange prevailing at the reporting date and the income and expenses are translated at an average exchange rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following are accounted for as disposals even if an interest in the foreign operation is retained by the Company: the loss of control over a foreign operation, the loss of significant influence over a foreign operation, or the loss of joint control over a foreign operation.

On partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(5)Current and non-current distinction

An asset is classified as current when:

(a) The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
(b) The Company holds the asset primarily for the purpose of trading.
(c) The Company expects to realize the asset within twelve months after the reporting period.
(d) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

(a) The Company expects to settle the liability in its normal operating cycle.
(b) The Company holds the liability primarily for the purpose of trading.
(c) The liability is due to be settled within twelve months after the reporting period.
(d) The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(6)Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (include fixed-term deposits that have matures of 3 months from the date of acquisition).

(7)Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A.Financial assets

The Company accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Company are classified as financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables. The Company determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

A financial asset is classified as held for trading if:

i. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

ii. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

iii. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

i. it eliminates or significantly reduces a measurement or recognition inconsistency; or

ii. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If financial assets don't have quoted prices in an active market and their far value cannot be reliably measured, they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, at the reporting date.

Available-for-sale financial assets

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

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is reclassified to profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company upon initial recognition designates as available-for-sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or bond investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

(a)significant financial difficulty of the issuer or obligor; or
(b)breach of contract, such as a default or delinquency in interest or principal payments; or
(c)it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(d)the disappearance of an active market for that financial asset due to financial difficulties of the issuer.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a Company of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the amount recorded for impairment is the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. The impairment amount is reclassified from equity to profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in their fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount of assets and calculated using the effective interest rate which is the discount rate for measuring impairment loss. Interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

Derecognition of financial assets

A financial asset is derecognized when:

(a)The ights to receive cash flows from the asset have expired
(b)The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
(c)The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

B.Financial liabilities and equity instruments

Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract of the Company that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

A financial liability is classified as held for trading if:

(a) it is acquired principally for the purpose of selling it in short term;
(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated upon initial recognition as at fair value through profit or loss when doing so results in more relevant information, because either:

(a) it eliminates or significantly reduces measurement or recognition inconsistency; or
(b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss, including interests, are recognized in profit or loss.

If financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their far value cannot be reliably measured, they are classified as financial liabilities measured at cost on balance sheet and carried at cost as of the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include payables and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Relevant gains or losses and amortization amounts are recognized in profit or loss when the liabilities are derecognized and amortized through the effective interest rate method.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(8)Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(a) In the principal market for the asset or liability, or
(b) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(9)Inventories

Inventories are valued at lower of cost or net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials - At actual purchase cost, using weighted average method
Finished goods and work in progress - Including cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity, using weighted average method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(10)Investments accounted for using the equity method

The Company accounted for its investments in subsidiaries using equity method and made necessary adjustments in accordance with Article 21 of the Regulations. Such adjustments were made after the Company considered the different accounting treatments to account for its investments in subsidiaries in the consolidated financial statements under IFRS 10 "Consolidated Financial Statements" and the different IFRSs adopted from different reporting entity's perspectives, and the Company recorded such adjustments by crediting or debiting to investments accounted for under the equity method, share of profit or loss of subsidiaries, associates and joint ventures and share of other comprehensive income of subsidiaries, associates and joint ventures.

The Company's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company has significant influence.

Under the equity method, the investment in the associate or joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the associate. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the Company's related interest in the associate.

When changes in the net assets of an associate or joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affects the Company's percentage of ownership interests in the associate or joint venture, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate on a prorate basis.

When the associate or joint venture issues new stocks, and the Company's interest in an associate is reduced or increased as the Company fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate is recognized in Additional Paid in Capital and Investment in associate. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate or joint venture' in the statement of comprehensive income in accordance with IAS 36 Impairment of Assets. In determining the value in use of the investment, the Company estimates:

(a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows form the operations of the associate or joint venture and the proceeds on the ultimate disposal of the investment; or
(b) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*.

Upon loss of significant influence over the associate or jointly controlled entity of joint venture, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or jointly controlled entity and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

(11)Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 “Property, plant and equipment”. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

| | |
|---|---|
| Buildings | 10 to 25 years |
| Machinery | 4 to 5 years |
| Transportation | 5 years |
| Office equipment | 3 to 5 years |
| Other equipment | 3 to 25 years |

An item of property, plant and equipment or any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The property, plant and equipment's residual values, useful lives and methods of depreciation are reviewed at each financial year. If the expected values differ from the estimates, the differences are recorded as a change in accounting estimate.

(12)Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, not meeting the recognition criteria, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss.

The Company's accounting policies for intangible assets are as follows:

| | Cost of Computer Software |
|---|---|
| Useful economic life | 1 year |
| Amortization method | Straight-line method during the contract term |
| Internally generated or acquired externally | Acquired externally |

(13)Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 "Impairment of Assets" may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company would conduct impairment tests at individual or CGU level. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired. An asset's recoverable amount is the higher of an asset's net fair value or its value in use.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

Impairment loss or reversals of continuing operations are recognized in profit or loss.

(14)Treasury Stock

The Company's own equity instruments repurchased (treasury shares) are recognized at repurchase cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

(15)Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. Conditions and methods for the recognition of various types of revenue are listed below:

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied: significant risks and rewards of ownership of the goods have passed to the buyer; neither continuing managerial involvement nor effective control over the goods sold have been retained; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred in respect of the transaction can be measured reliably.

Interest income

Interest incomes from financial assets at amortized costs (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets are estimated using the effective interest method and recognized in profit or loss.

Dividend income

Dividend incomes are recognized only when the Company has the right to receive the dividends.

(16)Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(17)Post-employment benefits

All regular employees of the Company are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee’s name in the specific bank account and hence, not associated with the Company. Therefore, fund assets are not included in the Company’s parent-company-only financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions.Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

(a) the date of the plan amendment or curtailment, and
(b) the date that the Company recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

(18)Income tax

Income tax expense (benefit) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The 10% income tax for undistributed earnings of the Company is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred income tax

Deferred income tax is a temporary difference between the tax bases of assets and liabilities and their carrying amounts in balance sheet at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

(a) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (loss);

(b) In respect of taxable temporary differences associated with investments in subsidiaries, and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, any unused tax losses and carry forward of unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

(a) Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

(b) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed and recognized at each reporting date.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that would have a significant risk for a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

(1)Post-employment benefits

The cost of post-employment benefit pension plan and the present value of the defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the change in the discount rate and expected salary level. The assumptions used for measuring pension cost and defined benefit obligation are disclosed in Note 6.

(2)Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax benefit and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provision is based on various factors, such as past experience in tax audit and different interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. As of December 31, 2016, the un-recognized portion of the Company's defferred tax assets was disclosed in Note 6.

## 6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1)Cash and cash equivalents

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Cash and petty cash | 200 | 200 |
| Checkings and savings | 2,153,840 | 2,373,292 |
| Time deposit | 7,679,410 | 8,625,411 |
| Total | 9,833,450 | 10,998,903 |

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

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Held for trading: | | |
| Money market fund | 2,769,911 | 3,442,558 |
| Valuation adjustments | 69,422 | 82,184 |
| Total | 2,839,333 | 3,524,742 |

No financial asset at fair value through profit or loss was pledged as collateral.

(3)Bond investments with no active market

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Time deposits | 423,057 | 423,057 |
| Current | 423,057 | 423,057 |

There was no bond investments with no active market pledged as collateral.

(4)Notes receivable

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Notes receivable – from operations | 3,030 | 1,835 |
| Less: allowance for doubtful accounts | - | - |
| Net | 3,030 | 1,835 |

No notes receivable was pledged by the Company as collateral.

(5)Accounts receivable and accounts receivable - related parties, net

A. Accounts receivable, net

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Accounts receivable, gross | 2,589,202 | 2,968,030 |
| Less: allowance for doubtful accounts | (51,680) | (47,391) |
| allowance for sales returns and discounts | (24,076) | - |
| Net of allowances | 2,513,446 | 2,920,639 |
| Accounts receivable - related parties, gross | 33,730 | 21,759 |
| Less: allowance for doubtful accounts | - | - |
| Net of allowances | 33,730 | 21,759 |
| Total accounts receivable, net | 2,547,176 | 2,942,398 |

B. The Company estimates the sales returns and discounts based on historical experience and other known reasons, as a reduction of operating income at sale of goods.

C. The Company entered into factoring agreements with banks. Accounts receivables from selected customers are transferred to banks without recourse. Details of the agreed credit limits and accounts receivables transferred as of December 31, 2016 and 2015 were as follows:

| | Financial Institution | Accounts receivable de-recognized (NT$'000) | Advance received (NT$'000) | Collateral | Credit Limit |
|---|---|---|---|---|---|
| 12/31/2016 | Mega International Commercial Bank - LanYa Branch | 249,402 | 49,298 | None | Note |
| 12/31/2015 | Mega International Commercial Bank - LanYa Branch | 251,600 | - | None | Note |

Note: The credit limits were US$30,000 thousand as of December 31, 2016 and 2015.

D. The collection term of accounts receivables are generally on 60 to 120 day after monthly closing. The movement schedule of the impairment provision for accounts receivable, including related parties, was presented as below. (Please also refer to Note 12 for credit risk disclosure)

| | Impaired Individually (NT$'000) | Impaired Collectively (NT$'000) | Total (NT$'000) |
|---|---|---|---|
| As of January 1, 2016 | - | 47,391 | 47,391 |
| Provision (reversal) | - | 4,289 | 4,289 |
| Effect of exchange rate changes | - | - | - |
| As of December 31, 2016 | - | 51,680 | 51,680 |
| | | | |
| As of January 1, 2015 | - | 64,570 | 64,570 |
| Provision (reversal) | - | (17,179) | (17,179) |
| Effect of exchange rate changes | - | - | - |
| As of December 31, 2015 | - | 47,391 | 47,391 |

Aging analysis for the net accounts receivable, including related parties, were as follows.

| | | Accounts receivable – past due, but not impaired | | | | |
|---|---|---|---|---|---|---|
| | Neither past due nor impaired (NT$'000) | Less than 61 days (NT$'000) | 61 to 90 days (NT$'000) | 91 to 120 days (NT$'000) | Longer than 120 days (NT$'000) | Total (NT$'000) |
| 12/31/2016 | 2,369,493 | 177,683 | - | - | - | 2,547,176 |
| 12/31/2015 | 2,776,357 | 166,041 | - | - | - | 2,942,398 |

(6)Inventory

A. Details of inventory:

| | As of December 31, 2016 (NT$'000) | As of December 31, 2015 (NT$'000) |
|---|---|---|
| Raw material | 368,051 | 349,620 |
| Supplies | 40,165 | 40,460 |
| Work in process | 523,069 | 563,882 |
| Finished goods | 332,253 | 336,273 |
| Merchandises | 54,720 | 27,514 |
| Total | 1,318,258 | 1,317,749 |

B. For the years ended December 31, 2016 and 2015, the Company recognized NT$13,222,128 thousand and NT$12,513,748 thousand under the caption of costs of sale, respectively. The following items were also included in cost.

| Item | For the year ended December 31, 2016 (NT$'000) | For the year ended December 31, 2015 (NT$'000) |
|---|---|---|
| Loss from (Gains on recovery of) inventory market decline | (20,268) | (136,990) |
| Loss (gain) from physical | 29,935 | (1,853) |
| Loss in inventory written-off and obselencense | 1,366,931 | 1,191,343 |
| Total | 1,376,598 | 1,052,500 |

The Company recognized gains on recovery of inventory market decline because some of the inventories previously provided with market loss or obsolescence were disposed.

C. The inventories were not pledged.

(7)Investments Accounted For Under the Equity Method

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| Investee companies | Amount (NT$'000) | Percentage of Ownership | Amount (NT$'000) | Percentage of Ownership |
| Investments in subsidiaries: | | | | |
| KINSUS CORP. (USA) | 36,663 | 100.00% | 32,462 | 100.00% |
| KINSUS HOLDING (SAMOA) LIMITED | 2,526,740 | 100.00% | 3,011,949 | 100.00% |
| KINSUS INVESTMENT CO., LTD. | 1,214,882 | 100.00% | 566,385 | 100.00% |
| Total | 3,778,285 | | 3,610,796 | |

A. Investments in subsidiaries

Investments in subsidiaries were present in the parent-company-only financial statements under the caption of investments accounted for under equity method. Valuation adjustment is made if deemed necessary.

B. The Company's investments accounted for under the equity method were not pledged.

(8)Property, plant and equipment

| | Land (NT$'000) | Buildings (NT$'000) | Machinery (NT$'000) | Office Equipment (NT$'000) | Transportation (NT$'000) | Other Equipment (NT$'000) | Construction in progress and equipment awaiting inspection (including prepaid equipment) (NT$'000) | Total (NT$'000) |
|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | |
| As of 1/1/2016 | 1,557,800 | 2,546,735 | 9,147,835 | 37,056 | 4,090 | 2,304,567 | 5,061,609 | 20,659,692 |
| Addition | - | 1,940 | 8,905 | 5,590 | 1,805 | 161,701 | 3,658,657 | 3,838,598 |
| Disposals | - | (10,510) | (1,653,554) | (7,231) | (1,355) | (393,889) | - | (2,066,539) |
| Effect of EXrate | - | - | - | - | - | - | - | - |
| Reclassification | 4,642 | 1,030,743 | 2,879,980 | 850 | - | 562,702 | (4,478,917) | - |
| As of 2/31/2016 | 1,562,442 | 3,568,908 | 10,383,166 | 36,265 | 4,540 | 2,635,081 | 4,241,349 | 22,431,751 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| As of 1/1/2015 | 1,366,426 | 2,472,080 | 9,676,936 | 23,626 | 2,735 | 2,194,275 | 2,761,524 | 18,497,602 |
| Addition | - | - | 441 | 6,121 | 1,355 | 58,051 | 4,296,512 | 4,362,480 |
| Disposals | - | - | (2,049,861) | - | - | (150,529) | - | (2,200,390) |
| Effect of EXrate | - | - | - | - | - | - | - | - |
| Reclassification | 191,374 | 74,655 | 1,520,319 | 7,309 | - | 202,770 | (1,996,427) | - |
| As of 2/31/2015 | 1,557,800 | 2,546,735 | 9,147,835 | 37,056 | 4,090 | 2,304,567 | 5,061,609 | 20,659,692 |
| Depreciation and impairment: | | | | | | | | |
| As of 1/1/2016 | - | 891,996 | 5,442,776 | 16,603 | 1,462 | 1,545,212 | - | 7,898,049 |
| Depreciation | - | 152,661 | 1,718,269 | 11,473 | 1,003 | 376,538 | - | 2,259,944 |
| Impairment loss | - | - | 17,100 | - | - | - | - | 17,100 |
| Disposal | - | (10,510) | (1,417,196) | (7,231) | (418) | (388,957) | - | (1,824,312) |
| Effect of EXrate | - | - | - | - | - | - | - | - |
| Reclassification | - | - | - | - | - | - | - | - |
| As of 12/31/2016 | - | 1,034,147 | 5,760,949 | 20,845 | 2,047 | 1,532,793 | - | 8,350,781 |
| As of 1/1/2015 | - | 766,015 | 5,925,647 | 7,992 | 723 | 1,444,107 | - | 8,144,484 |
| Depreciation | - | 125,981 | 1,557,893 | 8,611 | 739 | 260,006 | - | 1,953,230 |
| Impairme loss | - | - | - | - | - | - | - | - |
| Disposal | - | - | (2,049,501) | - | - | (150,164) | - | (2,199,665) |
| Effect of EXrate | - | - | - | - | - | - | - | - |
| Reclassification | - | - | 8,737 | - | - | (8,737) | - | - |
| As of 12/31/2015 | - | 891,996 | 5,442,776 | 16,603 | 1,462 | 1,545,212 | - | 7,898,049 |
| Net carrying amount: | | | | | | | | |
| As of 12/31/2016 | 1,562,442 | 2,534,761 | 4,622,217 | 15,420 | 2,493 | 1,102,288 | 4,241,349 | 14,080,970 |
| As of 12/31/2015 | 1,557,800 | 1,654,739 | 3,705,059 | 20,453 | 2,628 | 759,355 | 5,061,609 | 12,761,643 |

A. " Significant components " of buildings primarily comprised the main buildings and the facilities, which are depreciated based on their respective useful economic life of 20 to 25 years and 10 to 20 years.

B. Details of property, plant & equipment and prepayment for machinery is as follows:

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Property, plant and equipment | 11,947,782 | 10,309,220 |
| Prepaid equipment | 2,133,188 | 2,452,423 |
| Total | 14,080,970 | 12,761,643 |

C. Please refer to Note 8 for details on property, plant and equipment pledged as collaterals.

D. The Company purchased 40 parcels of land with a total area of 36,287.15 square meters. Lands are located at the addresses of No. 1113, 1114, 1438 to 1443,1479,1486 to 1487 at ShiLeiZi Sub-section, ShiLeiZi Section, No. 1044, 1047 to 1049 at QingHua Section, and No. 0001, 697 to 700 and 712 to 726 at RongHua Section, XinFeng Village. Due to regulatory restrictions, land cannot be registered under the Company's name while it has been temporarily registered under the general manager's name and, to secure the Company's right to the land, mortgage registration has been set aside with the Company being the obligee.

(9)Intangible assets

| | Computer software (NT$'000) |
|---|---|
| Cost: | |
| As of January 1, 2016 | 24,028 |
| Additions – acquired separately | 14,536 |
| Derecognized upon retirement | (26,478) |
| Effect of exchange rate changes | - |
| As of December 31, 2016 | 12,086 |
| | |
| As of January 1, 2015 | 23,080 |
| Additions – acquired separately | 24,028 |
| Derecognized upon retirement | (23,080) |
| Effect of exchange rate changes | - |
| As of December 31, 2015 | 24,028 |

| | |
|---|---|
| Amortization and Impairment: | |
| As of January 1, 2016 | 14,159 |
| Amortization | 19,197 |
| Derecognized upon retirement | (26,478) |
| Effect of exchange rate changes | - |
| As of December 31, 2016 | 6,878 |
| | |
| As of January 1, 2015 | 11,153 |
| Amortization | 26,086 |
| Derecognized upon retirement | (23,080) |
| Effect of exchange rate changes | - |
| As of December 31, 2015 | 14,159 |
| | |
| Carrying amount, net: | |
| As of December 31, 2016 | 5,208 |
| As of December 31, 2015 | 9,869 |

Amounts of amortization recognized for intangible assets are as follows:

| | For the year ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (NT$'000) | (NT$'000) |
| Operating expense | 19,197 | 26,086 |

(10) Other non-current assets

| | As of December 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (NT$'000) | (NT$'000) |
| Refundable deposits | 3,838 | 2,202 |

(11) Short-term loans

| | Interest interval (%) | As of December 31, 2016 (NT$'000) | As of December 31, 2015 (NT$'000) |
|---|---|---|---|
| Unsecured bank loans | 0.88~1.33 | 1,277,100 | 1,831,266 |

As of December 31, 2016 and 2015, the line of unused short-term loan credit for the Company amounted to NT$5,360,400 thousand and NT$2,907,734 thousand, respectively.

(12) Other payable

| | As of December 31, 2016 (NT$'000) | As of December 31, 2015 (NT$'000) |
|---|---|---|
| Accrued expense | 1,744,694 | 2,007,409 |
| Equipment payable | 669,227 | 1,085,936 |
| Accrued interest | 898 | 1,106 |
| Total | 2,414,819 | 3,094,451 |

(13) Other current liabilities

| | As of December 31, 2016 (NT$'000) | As of December 31, 2015 (NT$'000) |
|---|---|---|
| Other current liabilities | 25,365 | 28,405 |
| Unearned sales revenue | 3,893 | 3,133 |
| Current portion of long-term loans | 295,100 | 298,051 |
| Total | 324,358 | 329,589 |

(14) Long-term loans

| Debtor | Type of Loan | Maturity | Loan Balance As of 12/31/2016 (NT$'000) | Repayment |
|---|---|---|---|---|
| Mega International Commercial Bank - LanYa Branch | Credit loan | 2018.08.12-2021.09.05 | 890,300 | Note 2、4 |

| | | | | |
|---|---|---|---|---|
| Taipei Fubon Commercial Bank - BeiTou Branch | Credit loan | 2017.12.15 | 193,500 | Note 3 |
| Total | | | 1,083,800 | |
| Less: current portion | | | (295,100) | |
| Non-current portion | | | 788,700 | |

| Debtor | Type of Loan | Maturity | Loan Balance As of 12/31/2015 (NT$'000) | Repayment |
|---|---|---|---|---|
| Mega International Commercial Bank - LanYa Branch | Secured bank loan | 2015.10.27-2016.12.15 | 48,581 | Note 1 |
| Mega International Commercial Bank - LanYa Branch | Credit loan | 2015.10.27-2018.08.12 | 144,430 | Note 2 |
| Taipei Fubon Commercial Bank - BeiTou Branch | Credit loan | 2017.12.15 | 393,900 | Note 3 |
| Total | | | 586,911 | |
| Less: current portion | | | (298,051) | |
| Non-current portion | | | 288,860 | |

Note 1: A term is defined as every 3 months starting from the initial draw-down date. Grace period is 2 years (8 terms). The interest is repayable in installments of equal amount for 20 terms.

Note 2: Interest shall be paid for the first 12 months from the initial draw-down date. Starting from the 13th month, interest shall be paid monthly with principal repaid every 3 months.

Note 3: One year after the initial draw-down date is considered term one and the following terms are defined as every 6 months since then. The principal and interest are repayable in installments of equal amount for 5 terms.

Note 4: A term is defined as every 3 months starting from the initial draw-down date. Loan period is 5 years. Grace period is 1 year (4 terms). Interest shall be paid monthly with principal repaid every 3months. The rest is repayable in installments of equal amount for 16 terms.

A portion of property, plant and equipment were pledged to Mega International Commercial Bank and Shanghai Commercial & Savings Bank (the first-priority mortgagors) as collaterals for secured bank loans. Please refer to Note 8 for more details.

As of December 31, 2016 and 2015, the interest rate intervals for long-term loans were 1.076% ~1.98% and 1.02%~1.3214%, respectively.

(15) Other non-current liabilities

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Accrued pension costs | 31,009 | 34,148 |
| Guarantee deposits received | 2,000 | - |
| Total | 33,009 | 34,148 |

(16) Post-employment benefits

Defined contribution plan

The Company adopted a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Expenses under the defined contribution plan for the years ended December 31, 2016 and 2015 are NT$95,057 thousand and NT$93,793 thousand, respectively.

Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee.

The fund is operated in a potofolio basis by Goernance Committee on Labor Retirement Fund in accordance with the Rule for Custody and Operating the Labor Retirement Fund. The investment of the Fund may be executed either by the Committee itself or by outsourced other profession institutions with its investment stategy, including both active and passive management, targeting in a medium or longer term. In considering the risks of market, credit and liquidity, the Committee establishes the ceiling of fund investment and control plan, in one hand, to reduce investment risk to an affordable extent and, in the other hand, to achieve the targeted return flexibly. As of December 31, 2016, the Company plans to contribute

NT$4,969 thousand to the funds under its defined benefit scheme during the following fiscal year.

As of December 31, 2016 and 2015, the maturities of the Company's defined benefit plan were expected in 2035 and 2036 and the detail information is listed as below.

| | As of December 31, | |
|---|---|---|
| Matured in | 2016 (NT$'000) | 2015 (NT$'000) |
| Less than one year | 13,014 | 14,162 |
| More than one year but less than five years | 17,313 | 3,038 |
| More than five years | 113,555 | 22,213 |
| Total | 143,882 | 39,413 |

Pension costs recognized in profit or loss are as follows:

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Current service costs | 189 | 152 |
| Net interest of defined benefit liability (asset) | 683 | 668 |
| Past service cost | - | - |
| Settlement | - | - |
| Total | 872 | 820 |

Reconciliation of liability (asset) of the defined benefit plan is as follows:

| | As of | | |
|---|---|---|---|
| | Dec. 31, 2016 (NT$'000) | Dec. 31,2015 (NT$'000) | Jan. 1, 2015 (NT$'000) |
| Defined benefit obligation | 130,404 | 127,707 | 116,697 |
| Plan assets at fair value | (99,395) | (93,559) | (87,029) |
| Other non-current liabilities – net defined benefit liability | 31,009 | 34,148 | 29,668 |

Reconciliation of liability (asset) of the defined benefit liability is as follows:

| | Present value of defined benefit obligation (NT$'000) | Fair value of plan assets (NT$'000) | Net defined benefit liability(asset) (NT$'000) |
|---|---|---|---|
| 1/1/2015 | 116,697 | (87,029) | 29,668 |
| Current service cost | 152 | - | 152 |
| Interest cost | 2,626 | (1,958) | 668 |
| Past service cost and settlement | - | - | - |
| Total | 2,778 | (1,958) | 820 |
| *Re-measurment on defined benefit liability/assets:* | | | |
| Actuarial gain/loss due to change in population statistic assumptions | 2,453 | - | 2,453 |
| Actuarial gian/loss due to change in financial assumptions | 6,154 | - | 6,154 |
| Experience gian/loss | 474 | (360) | 114 |
| Re-measurement on defined benefit assets | - | - | - |
| Total | 9,081 | (360) | 8,721 |
| Benefits paid | (849) | 849 | - |
| Contributions by employer | - | (5,061) | (5,061) |
| Effect of exchange rate | - | - | - |
| 12/31/2015 | 127,707 | (93,559) | 34,148 |
| Current service cost | 189 | - | 189 |
| Interest cost | 2,554 | (1,871) | 683 |
| Pasts service cost and settlement | - | - | - |
| Total | 2,743 | (1,871) | 872 |
| *Re-measurment on defined benefit liability/assets:* | | | |
| Actuarial gain/loss due to change in population statistic assumptions | (726) | - | (726) |
| Actuarial gian/loss due to change in financial assumptions | 5,073 | - | 5,073 |
| Experience gian/loss | (4,393) | 1,005 | (3,388) |
| Re-measurement on defined benefit assets | - | - | - |
| Total | (46) | 1,005 | 959 |
| Benefits paid | - | - | - |
| Contributions by employer | - | (4,970) | (4,970) |
| Effect of exchange rate | - | - | - |
| 12/31/2016 | 130,404 | (99,395) | 31,009 |

The % of major categories of total plan assets at fair value was as follows:

| | Pension plan (%) as of December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Cash | 100.00% | 100.00% |

The actuarial assumptions used for the Company's defined benefit plan are shown below:

| | As of December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Discount rate | 1.80% | 2.00% |
| Expected rate of salary increases | 3.00% | 3.00% |

Sensitivity analysis:

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | 2016 (NT$'000) | | 2015 (NT$'000) | |
| | Increase in defined benefit obligation | Decrease in defined benefit obligation | Increase in defined benefit obligation | Decrease in defined benefit obligation |
| Discount rate increased by 0.5% | - | (12,157) | - | (12,150) |
| Discount rate decreased by 0.5% | 13,692 | - | 13,746 | - |
| Expected salary level increased by 0.5% | 13,454 | - | 13,534 | - |
| Expected salary level decreased by 0.5% | - | (12,080) | - | (12,095) |

For the purpose of sensitivity analysis above, the Company calculated the impact on defined benefit obligation due to a reasonable and feasible change of one singal assumption (i.e. discount rate or expected salary level) with other assumptions remaining equal. Please note that the sensitivity analysis has its limitation due to the co-relation between different actuarial assumptions and the rarity that only one assumption changes at a time. The method used in the analysis is consistent for both current and prior years.

(17) Equity

A. Common shares

As of December 31, 2016 and 2015, the Company's authorized capital and paid-in capital were NT$5,500,000 thousand and NT$4,460,000 thousand, respectively, each share at par value of NT$10, divided into 446,000 thousand shares. Each share represents a voting right and a right to receive dividends.

Treasury stocks brought back by the Company for the purpose of transfer to employee during the period from August 18, 2015 to September 25, 2015 totaled to 550 thousand shares. Please refer to Note 6(17)-C to the financial statements for more details.

B. Capital surplus

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Additional paid-in capital | 5,850,000 | 5,850,000 |
| Differences between equity purchase price and carrying amount arising from actual acquisition or disposal of subsidiaries | 50,925 | 50,925 |
| All changes in interests in subsidiaries | 38,894 | 38,894 |
| Total | 5,939,819 | 5,939,819 |

According to Taiwan Company Act, the capital surplus shall not be used except for making good the deficit of the Company. When a company incurs no loss, it may distribute the capital surplus related to the income derived from the issuance of new shares at a premium or income from endowments received by the company up to a certain percentage of paid-in capital. The said capital surplus could be distributed in cash to its shareholders in proportion to the number of shares being held by each of them. Capital surplus related to long-term equity investments cannot be used for any purpose.

C. Treasury stock

Treasury stock amounting to NT$32,885 thousand, divided into 550 thousand shares, was held by the Company as of December 31, 2016 and 2015.

For the year ended December 31, 2016, there was no change in shares of treasury stock. The movement schedule of treasury stock for the year ended December 31, 2015 was as below (in thousand shares).

| Purpose of repurchase | Beginning balance | Addition | Decrease | Endingbalance |
|---|---|---|---|---|
| For the years ended December 31, 2015 | | | | |
| To be transfered to employees | - | 550 | - | 550 |

According to the Securities and Exchange Law of the R.O.C., the total shares of treasury stock shall not exceed 10% of the Company's issued stock, and the total purchase amount shall not exceed the sum of the retained earnings, additional paid-in capital-premiums and realized additional paid-in capital. As such, the ceiling number of shares of treasury stock that the Company could hold as of December 31, 2016 were 44,600 thousand shares, with the maximum payments of NT$24,353,389 thousand.

In compliance with Securities and Exchange Law of the R.O.C., treasury stock should not be pledged, nor should it be entitled to voting rights or receiving dividends.

D. Appropriation of earnings and dividend policies

(a) Earning distribution

The Company's earnings in current year, if any, shall firstly be made to pay all taxes and dues and then to offset prior year's operation losses. 10% of the remaining amount shall be set aside as legal reserve and special reserve shall be provided pursuant to Article 41 of the Securities and Exchange Act. Any remaining earnings after the said deductions shall be appropriated as follows:

a. 1% as remuneration to directors
b. Bonues to employees cannot be less than 1% of the total bonus to employees and shareholders. Bonus to employees can be distributed in cash or stocks. The parties receiving the stock dividends shall include employees in affiliated companies who met certain conditions stipulated by the Board of Directors.
c. The Board of Directors would propose an earning distribution plan based on the remaining balance combined with the undistributed earnings accumulated during previous years to be resolved at the shareholders' meeting.

However, according to the addition of Article 235-1 of the Company Act announced on May 20, 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as "employees' compensation". The Company's shareholders' meeting held on May 27, 2016 passed the resolution of amending the Articles of Incorporation, according to the revised Articles of Incorporations, current year's earnings, if any, shall be distributed in the following order:

a. Payment of all taxes and dues;
b. Offset prior years' operation losses;
c. Set aside 10% of the remaining amount after deducting items (a) and (b) as legal reserve;
d. Set aside or reverse special reserve in accordance with law and regulations; and

e. The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting.

(b) Dividend policies

The Company is in an industry with versatile environment. For long-term finance planning requirements and to meet the shareholders' demand for cash, dividend policy aims for a steady balance. Cash dividends distributed each year cannot be less than 10% of the total dividends paid.

(c) Legal reserve

According to the Company Act, legal reserve shall be set aside until such amount equal total authorized capital. Legal reserve can be used to offset deficits. If the Company does not incur any loss, the portion of legal reserve exceeding 25% of the paid-in capital may be distributed to shareholders by issuing new shares or by cash in proportion to the number of shares held by each shareholder.

(d) Special reserve

Following the adoption of Taiwan IFRS, the Company complies with Order No. Jin-Guan-Zheng-Fa 1010012865 issued by FSC on April 6, 2012. On the Company's first-time adoption of the Taiwan IFRS, for any unrealized revaluation gains and cumulative translation adjustments recorded under shareholders' equity that the Company elects to transfer to retained earnings by application of the exemption under IFRS 1, an equal amount of special capital reserve shall be set aside. After the adoption of Taiwan IFRS for the preparation of financial statements, the Company shall set aside supplemental special reserve based on the difference between the amount already set aside according to the requirements in the preceding point and other net deductions from shareholders' equity when appropriating distributable earnings. For any subsequent reversal of other net deductions from shareholders' equity, the amount reserved may be distributed as earnings.

The Company did not incur any special reserve upon the first-time adoption of Taiwan IFRS.

(e) The appropriations of earnings for the Year 2016 and 2015 were approved through the Board of Directors' meetings and shareholders' meetings held on February 8, 2017 and May 27, 2016, respectively. The details of the distributions are as follows:

| | Appropriation of earnings | | Dividend per share (in NT$) | |
|---|---|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) | 2016 | 2015 |
| Legal reserve | 223,370 | 290,395 | | |
| Cash dividend | 1,336,350 | 1,559,075 | 3.00 | 3.50 |
| Total | 1,559,720 | 1,849,470 | | |

Please refer to Note 6(19) for details on employees' compensation and remuneration to directors and supervisors.

(18) Sale

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Sale of goods | 17,849,275 | 17,812,750 |
| Less: sales returns and allowances | (318,624) | (344,226) |
| Services revenue | 157,707 | 190,589 |
| Other operating revenue | 243,492 | 168,138 |
| Total | 17,931,850 | 17,827,251 |

(19) Summary statement of employee benefits, depreciation and amortization by function is as follows:

| Function / Nature | 2016 (NT$'000) | | | 2015 (NT$'000) | | |
|---|---|---|---|---|---|---|
| | Cost of goods sold | Operating expense | Total | Cost of goods sold | Operating expense | Total |
| Employee benefit | | | | | | |
| Salaries & wages | 2,054,934 | 548,028 | 2,602,962 | 2,173,729 | 589,420 | 2,763,149 |
| Labor and health insurance | 168,255 | 47,653 | 215,908 | 171,635 | 44,402 | 216,037 |
| Pension | 72,220 | 23,709 | 95,929 | 73,253 | 21,360 | 94,613 |
| Other employee benefit | 104,705 | 29,542 | 134,247 | 93,204 | 22,096 | 115,300 |
| Depreciation | 2,029,919 | 230,025 | 2,259,944 | 1,851,526 | 101,704 | 1,953,230 |
| Amortization | - | 19,197 | 19,197 | - | 26,086 | 26,086 |

Note: The headcounts of the Company amounted to 3,684 and 3,801 respectively on December 31, 2016 and 2015.

A resolution was passed at the shareholders' meeting of the Company held on May 27, 2016 to amend the Articles of Incorporation of the Company. According to the resolution, not lower than 10% of profit of the current year is distributable as employees' compensation and no higher than 1% of profit of the current year is distributable as remuneration to directors and supervisors. However, the company's accumulated losses shall have been covered. 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 employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of the year ended December 31, 2016, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2016 to be not lower than 10% and not higher than 1% of profit of the current year, respectively, recognized as employee benefits expense. As such, employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2016 amount to NT$343,533 thousand and NT$20,911 thousand, respectively. The Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2015 to be NT$442,444 thousand and NT$26,026 thousand, respectively. The aforementioned employees' compensation and remuneration to directors and supervisors for the years ended December 31, 2016 and 2015 were estimated based on post-tax net income of the period and recognized as salaries expense. The number of stocks distributed as employees' compensation was calculated based on the closing price one day earlier than the date of shareholders' meeting. For example, if there was different between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors and supervisors, it will recognize in profit or loss to next year.

The Company's Board has determined the employees' compensation and directors' renumeration, all in cash, to be NT$343,533 thousand and NT$20,911 thousand, respectively, in a meeting held on February 8, 2017.

No material differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors and supervisors for the year ended December 31, 2016.

The Company's Board has determined the employees' compensation and directors' renumeration, all in cash, to be NT$442,444 thousand and NT$26,026 thousand, respectively, in a meeting held on February 1, 2016.

No material differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors and supervisors for the year ended December 31, 2015.

(20) Non-operating incomes and expenses

A. Other incomes

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Interest income | 62,885 | 76,970 |
| Gain on reversal of bad debts | - | 17,179 |
| Other income－others | 92,300 | 24,431 |
| Total | 155,185 | 118,580 |

B. Other gains and losses

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Gain (loss) from disposal of property, plant and equipment | (451) | (720) |
| Foreign exchange gains, net | 18,374 | 14,237 |
| Financial assets at fair value through profit | (12,762) | 24,447 |
| Gain from disposal of investment | 22,921 | 30,845 |
| Impairment loss on property, plant and equipment | (17,100) | - |
| Other expenses | (2,591) | (2,377) |
| Total | 8,391 | 66,432 |

C. Finance costs

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Interests due to bank loans | 27,776 | 21,360 |

(21) Components of other comprehensive income (OCI)

For the year ended December 31, 2016

| | Arising during the period (NT$'000) | Reclassification during the period (NT$'000) | Subtotal (NT$'000) | Income tax benefit (expense) (NT$'000) | OCI, Net of tax (NT$'000) |
|---|---|---|---|---|---|
| *Not reclassified to profit or loss:* | | | | | |
| Actuarial gains or losses on defined benefits plan | (959) | - | (959) | - | (959) |
| *To be reclassified to profit or loss in subsequent period:* | | | | | |
| Exchange differences arising on translation of foreign operations | (234,931) | - | (234,931) | 39,834 | (195,097) |
| Total OCI | (235,890) | - | (235,890) | 39,834 | (196,056) |

For the year ended December 31, 2015

| | Arising during the period (NT$'000) | Reclassification during the period (NT$'000) | Subtotal (NT$'000) | Income tax benefit (expense) (NT$'000) | OCI, Net of tax (NT$'000) |
|---|---|---|---|---|---|
| *Not reclassified to profit or loss:* | | | | | |
| Actuarial gains or losses on defined benefits plan | (8,721) | - | (8,721) | - | (8,721) |
| *To be reclassified to profit or loss in subsequent period:* | | | | | |
| Exchange differences arising on translation of foreign operations | (72,922) | - | (72,922) | 12,397 | (60,525) |
| Unrealized valuation gain (loss) on available-for-sale financial assets | 6,151 | (30,845) | (24,694) | - | (24,694) |
| Total OCI | (75,492) | (30,845) | (106,337) | 12,397 | (93,940) |

(22) Income tax

A. The major components of income tax expense (income) are as follows:

Income tax expense (benefit) recognized in profit or loss

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Current income tax expense (benefit): | | |
| Current income tax expense | 564,778 | 658,713 |
| Reversal of uncertain tax position upon finalization | (170,902) | (213,398) |
| Deferred tax expense (benefit): | | |
| Deferred tax expense (benefit) relating to origination and reversal of temporary differences | 351 | (1,765) |
| Total income tax expense | 394,227 | 443,550 |

B. Income tax recognized in other comprehensive income

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Deferred tax expense (benefit): | | |
| Exchange differences arising on translation of foreign operations | (39,834) | (12,397) |

C. A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Accounting profit (loss) before tax from continuing operations | 2,627,932 | 3,347,502 |
| Tax payable at the enacted tax rates | 446,748 | 569,075 |
| 10% surtax on undistributed earnings | 104,576 | 148,730 |
| Tax effect of income tax-exempted | (29,413) | (101,893) |

| | | |
|---|---|---|
| Tax effect of expenses not deductible for tax purposes | - | 404 |
| Tax effect of deferred tax assets/liabilities | 43,218 | 40,632 |
| Reversal of uncertain tax position upon finalization | (170,902) | (213,398) |
| Total income tax recognized in profit or loss | 394,227 | 443,550 |

D. Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2016

| | Beginning balance as of January 1, 2016 (NT$'000) | Deferred tax income (expense) recognized in profit or loss (NT$'000) | Deferred tax income (expense) recognized in other comprehensive income (NT$'000) | Deferred tax income (expense) recognized in equity (NT$'000) | Increase from business acquisition (NT$'000) | Exchange adjustments (NT$'000) | Ending balance as of December 31, 2016 (NT$'000) |
|---|---|---|---|---|---|---|---|
| Temporary differences | | | | | | | |
| Prepaid appreciation tax on agricultural land | 9,593 | - | - | - | - | - | 9,593 |
| Unrealized exchange loss (gain) | - | (351) | - | - | - | - | (351) |
| Cumulative translation adjustment | (39,834) | - | 39,834 | - | - | - | - |
| Deferred tax income/ (expense) | | (351) | 39,834 | - | - | - | |
| Net deferred tax assets/(liabilities) | (30,241) | | | | | | 9,242 |
| Reflected in balance sheet as follows: | | | | | | | |
| Deferred tax assets | 9,593 | | | | | | 9,593 |
| Deferred tax liabilities | (39,834) | | | | | | (351) |

For the year ended December 31, 2015

| | Beginning balance as of January 1, 2015 (NT$'000) | Deferred tax income (expense) recognized in profit or loss (NT$'000) | Deferred tax income (expense) recognized in other comprehensive income (NT$'000) | Deferred tax income (expense) recognized in equity (NT$'000) | Increase from business acquisition (NT$'000) | Exchange adjustments (NT$'000) | Ending balance as of December 31, 2015 (NT$'000) |
|---|---|---|---|---|---|---|---|
| Temporary differences | | | | | | | |
| Prepaid appreciation tax on agricultural land | - | 9,593 | - | - | - | - | 9,593 |
| Unrealized exchange loss (gain) | (1,765) | 1,765 | - | - | - | - | - |
| Cumulative translation adjustment | (52,231) | - | 12,397 | - | - | - | (39,834) |
| Deferred tax income/ (expense) | | 11,358 | 12,397 | - | - | - | |
| Net deferred tax assets/(liabilities) | (53,996) | | | | | | (30,241) |
| Reflected in balance sheet as follows: | | | | | | | |
| Deferred tax assets | - | | | | | | 9,593 |
| Deferred tax liabilities | (53,996) | | | | | | (39,834) |

E. Unrecognized deferred tax assets

As of December 31, 2016 and 2015, deferred tax assets that have not been recognized as they may not be used to offset future taxable income amounted to NT$520,599 thousand and NT$447,381 thousand, respectively.

F. The Company's investments and capital additions are qualified as the investment on manufacture or technology service industry during the period from July 1, 2008 to December 31, 2009 and, therefore, entitled to a 5-year tax-exmpted holiday. The details of tax holiday enjoyed by the Company are listed as below.

| Item | Approval authority | Approval document | Exemption period |
|---|---|---|---|
| 1 | Ministry of Economic Affairs | No. 10005112010 issued at Aug. 25, 2011 | 2013.01.01~2017.12.31 |

G. Imputation credit information

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Balances of imputation credit | 2,140,790 | 1,942,384 |

The Company's expected/actual creditable ratio for 2016 and 2015 were 16.09% and 14.50%. However, effective January 1, 2015, the creditable ratio for the individual shareholders residing in the Republic of China will be half of the original creditable ratio according to the revised Article 66-6 of the Income Tax Law.

As of December 31, 2016, the Company did not have unappropriated earnings resulted in the years of 1997 and before.

H. The status of assessment of income tax return

| | The assessment of income tax returns |
|---|---|
| The Company | Assessed and approved up to 2013 |

(23) Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to the common shareholders of the parent entity by the weighted average number of common shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity (after adjusting any influences) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

A. Basic earnings per share

| | For the year ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Net income available to common shareholders of the parent (NT$'000) | 2,233,705 | 2,903,952 |
| Weighted average number of common shares outstanding (in thousand shares) | 445,450 | 445,822 |
| Basic earnings per share (in NT$) | 5.01 | 6.51 |

B. Diluted earnings per share

| | For the year ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Net income available to common shareholders of the parent (NT$'000) | 2,233,705 | 2,903,952 |
| Net income available to common shareholders of the parent after dilution (NT$'000) | 2,233,705 | 2,903,952 |
| Weighted average number of common shares outstanding (in thousand shares) | 445,450 | 445,822 |
| Effect of dilution: | | |
| Employee bonus (compensation) – stock (in thousand shares) | 5,383 | 9,611 |
| Weighted average number of common shares outstanding after dilution (in thousand shares) | 450,833 | 455,433 |
| Diluted earnings per share (in NT$) | 4.95 | 6.38 |

No other transactions that would significantly change the outstanding common shares or potential common shares incurred during the period subsequent to reporting date and up to the approval date of financial statements.

## 7. RELATED PARTY TRANSACTIONS

(1)Significant transactions with related parties

A. Sales to

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Subsidiaries | 9,323 | 6,822 |
| Other related parties | 53,438 | 62,426 |
| Total | 62,761 | 69,248 |

Selling prices and collection terms to related parties are similar to those to third party customers for the years ended December 31, 2016 and 2015. The collection terms are 30 to 60 days from the end of delivery month by telegraphic transfer.

B. Purchases

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Subsidiaries | 2,021,720 | 1,845,144 |
| Other related parties | 15,870 | - |
| Total | 2,037,590 | 1,845,144 |

The product specification of goods purchased from related parties in the year ended December 31, 2016 and 2015, differed from those purchased from other vendors. Thus, transaction prices are not comparable. The payment terms for related parties and non-related parties are 30 to 120 days from the end of delivery month by telegraphic transfer.

C. Accounts receivable - related parties

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Other related parties | 33,730 | 21,759 |
| Less: allowance for doubtful accounts | - | - |
| Net | 33,730 | 21,759 |

D. Account payable- related parties

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Subsidiaries | 191,819 | 428,877 |
| Other related parties | 16,058 | - |
| Total | 207,877 | 428,877 |

E. The Company recognized commission expenses amounting to NT$40,806 thousand and NT$40,798 thousand, respectively, for the years ended December 31, 2016 and 2015 due to delegating its subsidiaries for marketing.

F. For the years ended December 31, 2016 and 2015, the Company recognized travelling of NT$134 thousand and NT$64 thousand, respectively, for commissioning subsidiaries to handle travelling logistics.

For the years ended December 31, 2016 and 2015, the Company recognized travelling of NT$34 thousand and NT$185 thousand, respectively, for commissioning other related parties to handle travelling logistics.

G. The Company's subcontracting fees to its subsidiaries amounted to NT$6,470 thousand and NT$15,350 thousand, respectively, for the years ended December 31, 2016 and 2015.

H. The Company charged its subsidiaries for providing technology support in amount of NT$6,930 thousand and NT$3,253 thousand, recorded under the caption of other non-operating incomes, for the years ended December 31, 2016 and 2015, respectively.

I. For the years ended December 31, 2016 and 2015, the Company recognized operating expenses of NT$1,877 thousand and NT$2,968 thousand, respectively, for services provided by other related parties.

Moreover, the years ended December 31, 2015, the Company recognized operating expenses of NT$188 thousand, respectively, for services provided by the Parent.

J. The Company recognized other incomes in amount of NT$15,831 thousand and NT$16,096 thousand for the years ended December 31, 2016 and 2015, respectively, due to selling tools and spare parts to its subsidiaries.

The Company recognized other incomes in amount of NT$41,930 thousand for the years ended December 31, 2016, respectively, due to selling tools and spare parts to its related parties.

K. The Company provided bank loan garranty in total of NT$2,921,850 thousand for its subsidiaries as of December 31, 2016. The garranty amount is of contingency and not recognized at the balance sheets and the statements of comprehensive incomes yet.

L. Salaries and rewards to key management of the Company

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Short-term employee benefits | 96,019 | 86,728 |
| Post-employee benefits | 810 | 819 |
| Total | 96,829 | 87,547 |

M. Other receivables

| | As of December 31, 2016 (NT$'000) | As of December 31, 2015 (NT$'000) |
|---|---|---|
| Subsidiaries | 8,136 | 7,489 |
| Other related parties | 305,891 | - |
| Total | 314,027 | 7,489 |

N. Accrued expenses

| | As of December 31, 2016 (NT$'000) | As of December 31, 2015 (NT$'000) |
|---|---|---|
| Parent company | - | 69 |
| Subsidiaries | 4,605 | 4,431 |
| Other related parties | - | 42 |
| Total | 4,605 | 4,542 |

O. Transaction of asset

The Company did not conduct any transactions related to property, plant and equipment with related parties during the year ended December 31, 2015. For 2016, it is shown at the following table.

| Type of Assets | Related Parties | Book Value (NT$'000) | Selling price (NT$'000) | Gain (NT$'000) | Price reference |
|---|---|---|---|---|---|
| For the year ended December 31, 2016 | | | | | |
| Machinery | Other related parties | 241,776 | 241,776 | - | Negotiated |

## 8. PLEDGED ASSETS

The following assets of the Company are pledged as collaterals:

| | Carrying Amount As of December 31, | | |
|---|---|---|---|
| Item | 2016 (NT$'000) | 2015 (NT$'000) | Purpose |
| Property, plant and equipment - machinery (carrying amount) | Note | - | Long-term secured loans |

Note l: The Company has sent an application for cancellation of secured transaction for movable properties on December 30, 2016 and received a letter of approval for cancellation of registration on January 4, 2017.

## 9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) The Company's unused letters of credit (LC) as of December 31, 2016 were as follows:

| Currency | LC Amount (in thousand) | | Security (in thousand) |
|---|---|---|---|
| JPY | JPY | 1,449,732 | - |
| USD | USD | 7,893 | - |
| EURO | EUR | 53 | - |

(2) Detail of significant constructions in progress and outstanding contracts of property, plant and equipment as of December 31, 2016 was as follow:

| Nature of Contract | Contract Amount (NT$'000) | Amount Paid (NT$'000) | Outstanding Balance (NT$'000) |
|---|---|---|---|
| Machinery and contruction contracts | 3,585,623 | 2,940,999 | 644,624 |

(3) The Company provided bank loan garranty in total of NT$2,921,850 thousand for its subsidiariesas as of December 31, 2016. The garranty amount is of contingency and not recognized at the balance sheets and the statements of comprehensive incomes yet.

## 10. SIGNIFICANT DISASTER LOSS

None.

## 11. SIGNIFICANT SUBSEQUENT EVENT

None.

## 12. OTHERS

(1) Categories of financial instruments

Financial assets

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Financial assets at fair value through profit or loss: | | |
| Held for trading | 2,839,333 | 3,524,742 |
| Loans and receivable | | |
| Cash and cash equivalents (excluding cash on hand) | 9,833,250 | 10,998,703 |
| Bond investments with no active market | 423,057 | 423,057 |
| Notes receivable | 3,030 | 1,835 |
| Accounts receivable | 2,513,446 | 2,920,639 |
| Accounts receivable - related parties | 33,730 | 21,759 |
| Other receivable | 243,431 | 281,480 |
| Other receivable - related parties | 314,027 | 7,489 |
| Total | 16,203,304 | 18,179,704 |

Financial liabilities

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Financial liabilities measured at amortized cost: | | |
| Short-term loans | 1,277,100 | 1,831,266 |
| Payables | 3,741,055 | 4,622,464 |

| | | |
|---|---|---|
| Long-term loans (including current portion) | 1,083,800 | 586,911 |
| Total | 6,101,955 | 7,040,641 |

(2) Objectives and policies of financial risk management

The Company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activates. The Company identifies, measures, and manages the aforementioned risks based on its policy and risk preferences.

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market risk comprises currency risk, interest rate risk and other price risk (e.g. equity instruments).

In practice, it is rarely the case that a single risk variable will change independently from other risk variables. There are usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Company's exposure to foreign currency risk relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign operations.

The Company has certain foreign currency receivables denominated in the same foreign currency as certain foreign currency payables, therefore natural hedge is achieved. Thus, hedge accounting is not adopted.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit (loss) and equity is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Company's foreign currency risk is mainly related to the volatility in the exchange rates of US dollars. The sensitivity analysis is as follows:

If NT dollars appreciates/depreciates against US dollars by 1%, the net income (loss) for the years ended December 31, 2016 and 2015would increase/decrease by NT$80 thousand and NT$37 thousand, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk relates primarily to the Company's investments with variable interest rates and loans with fixed and variable interest rates, which are all categorized as loans and receivables.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period and presumed to be held for one accounting year, including investments and loans with variable interest rates. If interest rate increases/decreases by 0.1%, the net income (loss) for the years ended December 31, 2016 and 2015 would decrease/increase by NT$207 thousand and decrease/increase by NT$45 thousand, respectively.

(4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract and result in a financial loss. The Company is exposed to credit risk from operating activities (primarily for accounts and notes receivable) and financing activities (primarily for bank deposits and other financial instruments).

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit risk of all customers are assessed based on a comprehensive review of the customers' financial status, credit ratings from credit institutions, past transactions, current economic conditions and the Company's internal credit ratings. The Company also employs some credit enhancement instruments (e.g. prepayment or insurance) to reduce certain customers' credit risk.

As of December 31, 2016 and 2015, receivables from the top ten customers were accounted for 53.32% and 52.06% of the Company's total accounts receivable, respectively. The concentration of credit risk is relatively not significant for the remaining receivables.

Credit risk from balances with banks, fixed-income securities and other financial instruments is managed by the Company's finance division in accordance with the Company's policy. The counterparties that the Company transacts with are determined by internal control procedures. They are banks with fine credit ratings and financial institutions, corporate and government agencies with investment-grade credit ratings. Thus, there is no significant default risk. Conclusively, no significant credit risk is expected by the Company.

(5) Liquidity risk management

The Company maintains financial flexibility through the use of cash and cash equivalents, highly-liquid marketable securities, bank loans, etc. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted interest payment relating to borrowings with variable interest rates is extrapolated based on the estimated yield curve as of the end of the reporting period.

Non-derivative financial instruments

| | Less than 1 year (NT$'000) | 1 to 2 years (NT$'000) | 2 to 3 years (NT$'000) | 3 to 4 years (NT$'000) | 4 to 5 years (NT$'000) | Total (NT$'000) |
|---|---|---|---|---|---|---|
| As of December 31, 2016 | | | | | | |
| Loans | 1,597,373 | 247,536 | 205,918 | 203,766 | 151,614 | 2,406,207 |
| Payables | 3,741,055 | - | - | - | - | 3,741,055 |
| As of December 31, 2015 | | | | | | |
| Loans | 2,152,079 | 253,258 | 39,898 | - | - | 2,445,235 |
| Payables | 4,622,464 | - | - | - | - | 4,622,464 |

(6) Fair values of financial instruments

A. The evaluation methods and assumptions applied in determining the fair value

Fair value is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between willing market participants (not under coercion or liquidation). The following methods and assumptions are used by the Company in estimating the fair values of financial assets and liabilities:

(a) The carrying amount of cash and cash equivalents, receivables, payables and other current liabilities approximate their fair value due to their short maturity terms.

(b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (e.g. listed stocks and bonds).

(c) Fair value of equity instruments without active markets (including listed companies' shares from private placement, stocks of public companies not traded in an active market and unlisted stocks) are estimated using the market approach. Under the approach, factors, such as the trading prices of comparable equity instruments in an active market, and other relevant informations (i.e. discount due to lack of liquidity, stock price-to-earning ratio (PER) and price-to-book ratio (PBR) of similar companies) are input into the pricing model for its fair value.

B. Fair value of financial instruments measured at amortized cost

The carrying amount of the Company's financial assets and liabilities measure at amortized cost approximates their fair value.

C. Fair value measurement hierarchy for financial instruments

Please refer to Note 12(7) for fair value measurement hierarchy for financial instruments of the Company.

(7) Fair value measurement hierarchy

A. Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Fair value measurement hierarchy of the Company's assets and liabilities

The Company does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Company's assets and liabilities measured at fair value on a recurring basis is as follows:

As of December 31, 2016

| | Level 1 (NT$'000) | Level 2 (NT$'000) | Level 3 (NT$'000) | Total (NT$'000) |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Funds | 2,839,333 | - | - | 2,839,333 |
| Financial liabilities: | | | | |
| None | | | | |

As of December 31, 2015

| | Level 1 (NT$'000) | Level 2 (NT$'000) | Level 3 (NT$'000) | Total (NT$'000) |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Funds | 3,524,742 | - | - | 3,524,742 |
| Financial liabilities: | | | | |
| None | | | | |

Transfers between Level 1 and Level 2 during the period

For December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value hierarchy.

(8) Significant financial assets and liabilities denominated in foreign currencies

Information regarding the Company's significant financial assets and liabilities denominated in foreign currencies was listed below: (In Thousands)

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Foreign Currencies ($'000) | Exchange Rate | NTD (NT$'000) | Foreign Currencies ($'000) | Exchange Rate | NTD (NT$'000) |
| Financial assets | | | | | | |
| Monetary items: | | | | | | |
| USD | 72,124 | 32.25 | 2,326,014 | 85,167 | 32.825 | 2,795,604 |
| Non-monetary item: | | | | | | |
| USD | 79,485 | 32.25 | 2,563,403 | 92,747 | 32.825 | 3,044,411 |
| Financial liabilities | | | | | | |
| Monetary items: | | | | | | |
| USD | 72,376 | 32.25 | 2,334,096 | 85,281 | 32.825 | 2,799,338 |

The above information is disclosed based on the carrying amount of foreign currency (after being converted to functional currency).

Foreign exchange gains or losses on monetary financial assets and financial liabilities are shown as below.

| | For the year ended December 31, | |
|---|---|---|
| Foreign currency resulting in exchange gain or loss | 2016 (NT$'000) | 2015 (NT$'000) |
| USD | 15,758 | 9,393 |
| Other | 2,616 | 4,845 |

(9) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages and adjusts its capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

## 13. ADDITIONAL DISCLOSURES

(1) Information on significant transactions

A. Financing provided to others: None.

B. Endorsement/Guarantee provided to others: Please refer to attachment 1.

C. Marketable securities held as of December 31, 2016 (excluding investments in subsidiaries, associates and joint ventures): Please refer to attachment 2.

D. Individual securities acquired or disposed of with accumulated amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: Please refer to attachment 3.

E. Acquisition of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: Please refer to attachment 4.

F. Disposal of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.

G. Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital for the year ended December 31, 2016: Please refer to attachment 5.

H. Receivables from related parties of at least NT$100 million or 20 percent of the paid-in capital as of Decemer 31, 2016: Please refer to attachment 6.

I. Derivative instrument transactions: None.

(2) Information on investees

A. Investees over whom the Company exercises significant influence or control (excluding investees in Mainland China): Please refer to attachment 7.

B. Investees over which the Company exercises control shall be disclosed of information under Note 13(1):

(a) Financing provided to others: None.

(b) Endorsement/Guarantee provided to others: None.

(c) Marketable securities held as of December 31, 2016 (excluding investments in subsidiaries, associates and joint ventures): Please refer to attachment 8.

(d) Individual securities acquired or disposed of with accumulated amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: Please refer to attachment 9.

(e) Acquisition of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.

(f) Disposal of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.

(g) Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital for the year ended December 31, 2016: Please refer to attachment 10.

(h) Receivables from related parties of at least NT$100 million or 20 percent of the paid-in capital as of December 31, 2016: Please refer to attachment 11.

(i) Derivative instrument transactions: None.

(3) Information on investments in Mainland China:

A. Name of investee in China, main business, paid-in capital, method of investment, investment flows, percentage of ownership, investment gain or loss, carrying amount at the end of reporting period, inward remittance of earning or loss and the upper limit on investment in China:

(In Thousands of New Taiwan Dollars)

| Name of Investee in China | Main Business (NT$'000) | Paid-in Capital (NT$'000) | Method of Investment (NT$'000) | Accumulated Outflow of Investment from Taiwan as of January 1, 2016 (NT$'000) | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2016 (NT$'000) | Profit/ Loss of Investee (NT$'000) | Percentage of Ownership (Direct or Indirect Investment) (NT$'000) | Share of Profit/Loss (NT$'000) | Carrying Amount as of December 31, 2016 (NT$'000) | Accumulated Inward Remittance of Earnings as of December 31, 2016 (NT$'000) | Accumulated Outflow of Investment from Taiwan to Mainland China as of December 31, 2016 (NT$'000) | Investment Amounts Authorized by Investment Commission, MOEA (NT$'000) | Upper Limit on Investment in China by Investment Commission, MOEA (NT$'000) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outflow (NT$'000) | Inflow (NT$'000) | | | | | | | | | |
| Kinsus Interconnect Technology Suzhou Corp. | Manufacturing and selling PCB (not high-density fine-line) | 2,257,500 (Note 2) | (Note 1) | 2,257,500 (Note 2) | - | - | 2,257,500 (Note 2) | 31,763 (Note 2 and Note 4) | 100% | 31,763 (Note 2 and Note 4) | 1,034,889 (Note 2 and Note 4) | - | 2,257,500 (Note 2) | 2,257,500 (Note 2) | No upper limit (Note 5) |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Piotek Computer (Suzhou) Co., Ltd. | Researching, developing, producing and selling electronic components, PCBs and related products and providing after-sale services | 5,376,075 (Note 2) | (Note 1) | 3,039,683 (Note 2) | - | - | 3,039,683 (Note 2) | (584,054) (Note 2 and Note 4) | 51% | (297,868) (Note 2 and Note 4) | 2,723,648 (Note 2 and Note 4) | - | 3,039,683 (Note 2) | 3,039,683 (Note 2) | No upper limit (Note 5) |
| Xiang-Shuo (Suzhou) Trading Limited | Trading of PCB (not high-density fine-line) and material for related products | 64,500 (Note 2) | (Note 1) | 64,500 (Note 2) | - | - | 64,500 (Note 2) | 1,511 (Note 2 and Note 4) | 100% | 1,511 (Note 2 and Note 4) | 65,149 (Note 2 and Note 4) | - | 64,500 (Note 2) | 64,500 (Note 2) | No upper limit (Note 5) |
| Pegavision Contact Lenses (Shanghai) Corporation | Selling medical equipment | 65,062 (Note 3) | (Note 1) | 65,062 | - | - | 65,062 | 5,832 (Note 2 and Note 4) | 100% | 5,832 (Note 2 and Note 4) | 46,013 (Note 2 and Note 4) | - | 65,062 | 65,062 | 735,270 (Note 6) |

Note 1: Investment in Mainland China through companies in the third area.

Note 2: Amounts in foreign currencies are translated into New Taiwan dollars using the exchange rates on the balance sheet date.

Note 3: The paid-in capital is USD2,100 thousand, equivalent to NT$65,062 thousand.

Note 4: Gain/loss on investment is recognized based on the audited financial statements of the parent company in Taiwan.

Note 5: The Company meets the conditions of corporate operation headquarter in the Principle of Evaluation for Investment and Technical Cooperation in Mainland China. Thus, there is no upper limit on investment amount.

Note 6: The upper limit on investment for Pegavision Contact Lenses (Shanghai) Corporation is calculated as 60% of the net value of the financial statements audited by recent accountants of Pegavision Corporation.

B. Significant transactions with investees in China:

(a) Purchase and balances of related accounts payable as of December 31, 2016:

| | Purchases | | Accounts Payable | |
|---|---|---|---|---|
| | Amount (NT$'000) | % to Net Purchase | Amount (NT$'000) | % to Account Balance |
| The Company's purchase from Kinsus Interconnect Technology Suzhou | 2,006,751 | 27.33% | 191,819 | 14.95% |
| The Company's purchase from Piotek Computer (Suzhou) Co., Ltd. | 14,969 | 0.20% | - | -% |

The product specification of goods purchased by the Company from Kinsus Interconnect Technology Suzhou Corp. and Piotek Computer (Suzhou) Co., Ltd. in the year ended December 31, 2016 differed from goods purchased from other vendors. Thus, transaction prices are not comparable. Payment term for related parties is 30 to 60 days from the end of delivery month. The payment terms for non-related parties are 30 to 120 days from the end of delivery month by telegraphic transfer.

(b) Sales, the ending balance of related accounts receivable and their weightings:

| | Sales | | Accounts receivable | |
|---|---|---|---|---|
| | Amount | % to Net Sales | Amount | % to Account Balance |
| Sale of Piotek Computer (Suzhou) to Piotek (H.K.) Trading ($'000) | USD18,401 | 16.67% | USD2,431 | 8.70% |
| Sale of Piotek Computer (Suzhou) to Xiang-Shuo (Suzhou) Trading ($'000) | USD2,597 | 2.35% | USD825 | 2.95% |
| Sale of Xiang-Shuo (Suzhou) Trading to Piotek Computer (Suzhou) Trading ($'000) | RMB25,825 | 54.29% | RMB4,649 | 44.73% |

| | | | | |
|---|---|---|---|---|
| Sale of Xiang-Shuo (Suzhou) Trading to Kinsus Interconnect Technology Suzhou ($'000) | RMB4,380 | 9.21% | RMB866 | 8.33% |
| Sale of the Company to Xiang-Shuo (Suzhou) Trading(NT$'000) | 56 | -% | - | -% |
| Sale of the Company to Kinsus Interconnect Technology Suzhou(NT$'000) | 9,267 | 0.05% | - | -% |

The product specification of goods sold between subsidiaries in the year ended December 31, 2016 differed from goods sold to other customers. Thus, transaction prices cannot be reasonably compared. Sales of the Company to Kinsus Interconnect Technology Suzhou Corp. and Xiang-Shuo (Suzhou) Trading Limited have the same product prices as sales to non-related parties. Collection terms are also equivalent to the ones for non-related parties, which is 30 to 60 days from delivery by telegraphic transfer.

(c) Ending balance of endorsements/guarantees or collateral provided and the purposes: Please refer to attachment 1.

(d) Maximum balance, ending balance, interest rate range and total interest for current period from financing provided to others: None.

(e) Transactions that have significant impact on profit or loss of current period or the financial position, such as services provided or rendered:

a. The Company commissioned Kinsus Interconnect Technology (Suzhou) Corp. for processing of NT$6,470 thousand for the year ended December 31, 2016. Payable amounted to NT1,209 thousand as of December 31, 2016.

b. The Company sold fixtures and spare parts to Piotek Computer (Suzhou) Co., Ltd., Kinsus Interconnect Technology Suzhou Corp. Trading Limited and Xiang-Shuo (Suzhou) Trading and recognized other income of NT$15,831 thousand for the year ended December 31, 2016.

c. As of December 31, 2016, the balance of other receivables amounted to NT$1,104 thousand, NT$6,069 thousand and NT$963 thousand, respectively.The other receivable were resulted from the Company's sale of fixtures to Piotek Computer (Suzhou) Co., Ltd., Kinsus Interconnect Technology Suzhou Corp and Xiang-Shuo (Suzhou) Trading Limited.

d. As of December 31, 2016, other receivables of Xiang-Shuo (Suzhou) Trading Limited due to payment and collection on behalf of Piotek Computer (Suzhou) Co., Ltd. amounted to RMB31 thousand.

## 14. OPERATING SEGMENT INFORMATION

The Company has provided the operating segment disclosure in the consolidated financial statements.

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Endorsement/Guarantee Provided to Others

For the Year Ended December 31, 2016

Attachment 1

(In Thousands of Foreign Currency / New Taiwan Dollars)

| Endorsement/ Guarantee Provider | | Guaranteed Party | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| No. (Note 1) | Name | Name | Nature of Relationship | Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party | Maximum Balance for the Period | Ending Balance | Amount Actually Drawn | Amount of Endorsement/ Guarantee secured by Properties | Ratio of Accumulated Endorsement/ Guarantee to Net Worth per Latest Financial Statements | Maximum Endorsement/ Guarantee Amount Allowed | Endorsement provided by parent company to subsidiaries | Endorsement provided by subsidiaries to parent company | Endorsement provided to entities in China |
| 0 | Kinsus Interconnect Technology Corp. | Kinsus Interconnect Technology Suzhou Corp. | Investee accounted for using equity method indirectly | The overall amount of guarantees/ endorsements provided to a subsidiary in which the Company holds directly over 50% (inclusive) of common equity interest shall not exceed 20% of the net worth in the current financial statements. $5,773,942 | $3,708,750 (USD 115,000) (Note 2) | $1,935,000 (USD 60,000) (Note 2) | $951,375 | $- | 6.70% | Shall not exceed 50% of the net worth in the current financial statements. $14,434,855 | Y | N | Y |
| 0 | Kinsus Interconnect Technology Corp. | Piotek Computer (Suzhou) Co., Ltd. | Investee accounted for using equity method indirectly | The overall amount of guarantees/ endorsements provided to a subsidiary in which the Company holds directly over 50% (inclusive) of common equity interest shall not exceed 20% of the net worth in the current financial statements. $5,773,942 | $986,850 (USD 30,600) (Note 2) | $986,850 (USD 30,600) (Note 2) | $400,908 | $- | 3.42% | Shall not exceed 50% of the net worth in the current financial statements. $14,434,855 | Y | N | Y |

Note 1: Kinsus Interconnect Technology Corp. is coded "0".

Note 2: Amounts in foreign currencies are converted to New Taiwan Dollars using the exchange rates as of the balance sheet date.

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Marketable Securities

As of December 31, 2016

Attachment 2

(In Thousands of New Taiwan Dollars)

| Name of Held Company | Type and Name of Marketable Securities | Relationship with the Issuer | Financial Statement Account | As of December 31, 2016 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares / Units | Carrying Amount | Shareholding % | Fair Value (Note) | |
| Kinsus Interconnect Technology Corp. | Money market funds: | | | | | | | |
| | Capital Money Market Fund | - | Financial assets at fair value through profit or loss | 32,783,435 | $510,667 | -% | $523,951 | |
| | Taishin Ta Chong Money Market Fund | - | Financial assets at fair value through profit or loss | 18,812,748 | 255,796 | -% | 264,712 | |
| | Taishin 1699 Money Market Fund | - | Financial assets at fair value through profit or loss | 30,522,218 | 400,000 | -% | 408,961 | |
| | FSITC Money Market Fund | - | Financial assets at fair value through profit or loss | 1,168,258 | 200,000 | -% | 206,443 | |
| | Mega Diamond Money Market Fund | - | Financial assets at fair value through profit or loss | 41,465,474 | 500,000 | -% | 514,931 | |
| | Jih Sun Money Market | - | Financial assets at fair value through profit or loss | 31,315,952 | 450,000 | -% | 459,396 | |
| | Union Money Market Fund | - | Financial assets at fair value through profit or loss | 15,838,553 | 203,448 | -% | 207,214 | |
| | UPAMC James Bond Fund | - | Financial assets at fair value through profit or loss | 15,322,946 | 250,000 | -% | 253,725 | |
| | Subtotal | | | | 2,769,911 | | $2,839,333 | |
| | Add: Valuation adjustments of financial assets held for trading | | | | 69,422 | | | |
| | Total | | | | $2,839,333 | | | |

Note: Companies without quotes in the open markets are valued at net equities.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp

Marketable Securities Acquired and Disposed of At Costs or Prices of At Least NT$300 Million or 20% of The Paid-In Capital

For the Year Ended December 31, 2016

Attachment 3

(In Thousands of New Taiwan Dollars)

| Company Name | Type and Name of Marketable Securities | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal | | | | Ending Balance | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares/Units | Amount | Shares/Units | Amount | Shares/Units | Amount | Carrying Value | Gain/Loss on Disposal | Shares/Units | Amount |
| Kinsus Interconnect Technology Corp. | Stock: Kinsus Investment Co., Ltd. | Investments accounted for using the equity method | - | - | 39,800,000 | $398,000 | 60,200,000 | $602,000 | - | $- | $- | $- | 100,000,000 | $1,000,000 |

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Acquisition of Individual Real Estate with Amount of at Least NT$300 million or 20% of the Paid-in Capital

For the Year Ended December 31, 2016

Attachment 4

(In Thousands of New Taiwan Dollars)

| Acquiring Company | Name of Property | Transaction Date | Transaction Amount | Payment Status | Counter-party | Relationship | Prior Transaction of Related Counter-party | | | | Price Reference | Purpose and Use of Acquisition | Other Terms |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Owner | Relationship with the Company | Transfer Date | Amount | | | |
| Kinsus Interconnect Technology Corp. | Houses and buildings<br>Construction of XinFeng Plant | 2014.02.13<br>2015.03.24 | $2,268,036 | NT$ 2,146,042 thousand was paid as of December 31, 2016 | Guo-Gong Construction Co., Ltd. | None | None | None | None | None | Bidding | Production expansion and operation planning | None |

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Related Party Transactions with Purchase or Sales Amount of At least NT$100 Million or 20% of the Paid-in Capital

For the Year Ended December 31, 2016

Attachment 5

(In Thousands of New Taiwan Dollars)

| Company Name | Related Party | Nature of Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/ Accounts Payable or Receivable | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % to Total | Payment/ Collection Term | Unit Price | Payment/ Collection Term | Ending Balance | % to Total | |
| Kinsus Interconnect Technology Corp. | Kinsus Interconnect Technology Suzhou Corp. | Investee accounted for using equity method indirectly | Purchase | $2,006,751 | 27.33% | Payment within 30 days from the end of delivery month | Specs of goods purchased are different from others. Cannot be reasonablely compared. | Other vendors also enjoy payment within 30~120 days from the end of delivery month | Accounts payable $(191,819) | (14.95)% | |

<u>English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese</u>

Kinsus Interconnect Technology Corp.

Receivables from Related Parties of at Least NT$ 100 Million or 20% of the Paid-in Capital

As of December 31, 2016

Attachment 6

(In Thousands of New Taiwan Dollars)

| Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Ratio | Overdue | | Amount Received in | Allowance for Doubtful |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action Taken | | |
| Kinsus Interconnect Technology Corp. | FuYang Technology Corp. | Other related parties | $305,891 (Note) | - | $- | - | $- | $- |

Note: Other receivable

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Investees over Which the Company Exercise Significant Influence or Control Directly or Indirectly (Excluding Investees in Mainland China)

As of December 31, 2016

Attachment 7

(In Thousands of Foreign Currency / New Taiwan Dollars)

| Investor | Investee | Business Location | Main Business and Product | Original Investment Amount | | Balance as of December 31, 2016 | | | Net Income (Loss) of the Investee | Share of Income (Loss) of the Investee | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | As of December 31, 2015 | As of December 31, 2016 | Shares | % | Carrying Value | | | |
| Kinsus Interconnect Technology Corp. | KINSUS CORP. (USA) | CA. U.S.A. | Designing substrates, formulating marketing strategy analysis, developing new customers, researching and development new product technology | USD500 | USD500 | 500,000 shares | 100.00% | $36,663 | $4,769 | $4,769 | |
| Kinsus Interconnect Technology Corp. | KINSUS HOLDING (SAMOA) LIMITED | Samoa | Investing activities | USD166,309 | USD166,309 | 166,308,720 shares | 100.00% | $2,526,740 | $(256,869) | $(256,869) | |
| Kinsus Interconnect Technology Corp. | Kinsus Investment Co., Ltd. | Taoyuan City | Investing activities | $398,000 (Note1) | $1,000,000 (Note1) | 100,000,000 shares | 100.00% | $1,214,882 | $52,520 | $52,520 | |
| Kinsus Investment Co., Ltd. | Pegavision Corporation | Taoyuan City | Manufacturing medical equipment | $286,418 | $286,418 | 22,088,736 shares | 36.81% | $451,144 | $186,891 | $68,803 | |
| Kinsus Investment Co., Ltd. | FuYang Technology Corp. | Hsinchu County | Electronic Parts and Components Manufacturing | $- | $450,000 | 45,000,000 shares | 36.00% | $432,689 | $(35,509) | $(12,783) | |
| KINSUS HOLDING (SAMOA) LIMITED | KINSUS HOLDING (CAYMAN) LIMITED | Cayman Islands | Investing activities | USD72,000 | USD72,000 | 72,000,000 shares | 100.00% | USD 34,110 | USD 1,032 | USD 1,032 | |
| KINSUS HOLDING (SAMOA) LIMITED | PIOTEK HOLDINGS LTD. (CAYMAN) | Cayman Islands | Investing activities | USD94,309 | USD94,309 | 95,755,000 shares | 51.00% | USD 44,239 | USD (17,641) | USD (8,997) | |
| PIOTEK HOLDINGS LTD. (CAYMAN) | PIOTEK HOLDING LIMITED | British Virgin Islands | Investing activities | USD139,841 | USD139,841 | 139,840,790 shares | 100.00% | USD 86,743 | USD (17,641) | USD (17,641) | |
| PIOTEK HOLDING LIMITED | PIOTEK (H.K.) TRADING LIMITED | Hong Kong | Trading activities | USD26 | USD26 | 200,000 shares | 100.00% | USD 2,261 | USD 476 | USD 476 | |
| Pegavision Corporation | PEGAVISION HOLDINGS CORPORATION | Samoa | Investing activities | USD2130 | USD2,130 | 2,130,000 shares | 100.00% | $35,419 | $5,769 | $5,769 | |
| Pegavision Corporation | PEGAVISION JAPAN INC. | JAPAN | Selling medical equipment | JPY9,900 | JPY 9,900 | 198 shares | 100.00% | $3,102 | $354 | $354 | |

Note1 : The Company's original investment in Kinsus Investment Co., Ltd. was NT$500,000 thousand. Kinsus Investment Co., Ltd. reduced capital by NT$102,000 thousand to offset deficits in 2013. And increased capital by NT$602,000 thousand in 2016. After the increase, investment amount increased to NT$1,000,000 thousand.

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Marketable Securities (Excluding Investments in Subsidiaries, Associates and Jointly Controlled Entities)

As of December 31, 2016

Attachment 8

(In Thousands of New Taiwan Dollars)

| Name of Held Company | Type and Name of Marketable Securities | Relationship with the Issuer | Financial Statement Account | As of December 31, 2016 | | | | Guarantee, Pledge or Other Restricted Conditions | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Shares (Unit) | Carrying Amount | % | Fair Value (Net Equity) | Shares | Carrying Amount | Note |
| Kinsus Investment Co., Ltd. | Money market funds: | | | | | | | | | |
| | Taishin Ta Chong Money Market Fund | - | Financial assets at fair value through profit or loss | 829,070 | $11,315 | -% | $11,666 | - | $- | |
| | Valuation adjustments of financial assets held for trading | | | | 351 | | | | | |
| | Total | | | | $11,666 | | | | | |
| Kinsus Investment Co., Ltd. | Stocks: | | | | | | | | | |
| | Yi-Shuo Creative Co., Ltd. | - | Financial assets carried at cost | 5,000,000 | $50,000 | 7.49% | $- (Note) | - | $- | |
| Pegavision Corporation | Money market funds: | | | | | | | | | |
| | Yuanta Wan Tai Money Market Fund | - | Financial assets at fair value through profit or loss | 17,879,293 | $268,108 | -% | $268,381 | - | $- | |
| | Yuanta De-Li Money Market Fund | | | 9,229,182 | 149,000 | | 149,055 | | | |
| | Valuation adjustments of financial assets held for trading | | | | 328 | | $417,436 | | | |
| | Total | | | | $417,436 | | | | | |

Note: No quotes in active markets and fair values cannot be measured reliably.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Marketable Securities Acquired and Disposed of At Costs or Prices of At Least NT$300 Million or 20% of The Paid-In Capital

For the Year Ended December 31, 2016

Attachment 9

(In Thousands of New Taiwan Dollars)

| Company Name | Type and Name of Marketable Securities | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal | | | | Ending Balance | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares/Units | Amount | Shares/Units | Amount | Shares/Units | Amount | Carrying Value | Gain/Loss on Disposal | Shares/Units | Amount |
| Kinsus Investment Co., Ltd. | Stock: FuYang Technology Corp. | Investments accounted for using the equity method | - | - | - | $- | 45,000,000 | $450,000 | - | $- | $- | $- | 45,000,000 | $450,000 |

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Related Party Transactions with Purchase or Sales Amount of At least NT$100 Million or 20% of the Paid-in Capital

For the Year Ended December 31, 2016

Attachment 10

(In Thousands of US Dollars)

| Company Name | Related Party | Nature of Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Payable or Receivable | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % to Total | Payment/ Collection Term | Unit Price | Payment/ Collection Term | Ending Balance | % to Total | |
| Piotek Computer (Suzhou) Co., Ltd. | Pegatron Corporation | Parent company | Sales | USD 43,213 | 39.15% | Payment within 60 days from the end of delivery month | Specs of goods sold are different from others. Cannot be reasonably | No non-related parties to be compared with. | Accounts receivable USD 11,071 | 39.62% | |
| Piotek Computer (Suzhou) Co., Ltd. | Piotek (H.K.) Trading Limited | Also a subsidiary under the Company's control | Sales | USD 18,401 | 16.67% | Payment within 60 days from the end of delivery month | Specs of goods sold are different from others. Cannot be reasonably compared. | No non-related parties to be compared with. | Accounts receivable USD 2,431 | 8.70% | |
| Piotek (H.K.) Trading Limited | Piotek Computer (Suzhou) Co., Ltd. | Also a subsidiary under the Company's control | Purchase | USD 18,401 | 100.00% | Payment within 60 days from the end of delivery month | Specs of goods sold are different from others. Cannot be reasonably compared. | No non-related parties to be compared with. | Accounts payable USD (2,431) | (100.00)% | |
| Kinsus Interconnect Technology Suzhou Corp. | Kinsus Interconnect Technology Corp. | Parent company | Sales | USD 62,404 | 100.00% | Payment within 30 days from the end of delivery month | Specs of goods sold are different from others. Cannot be reasonably compared. | No non-related parties to be compared with. | Accounts receivable USD 6,015 | 100.00% | |
| Piotek Computer (Suzhou) Co., Ltd. | Xiang-Shuo (Suzhou) Trading Limited | Also a subsidiary under the Company's control | Purchase | USD 3,428 | 4.90% | Payment within 60 days from the end of delivery month | Specs of goods sold are different from others. Cannot be reasonably | No non-related parties to be compared with. | Accounts payable USD 567 | 2.41% | |
| Xiang-Shuo (Suzhou) Trading Limited | Piotek Computer (Suzhou) Co., Ltd. | Also a subsidiary under the Company's control | Sales | USD 3,428 | 47.81% | Payment within 60 days from the end of delivery month | Specs of goods sold are different from others. Cannot be reasonably compared. | No non-related parties to be compared with. | Accounts receivable USD 670 | 44.73% | |

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Receivables from Related Parties of at Least NT$ 100 Million or 20% of the Paid-in Capital

As of December 31, 2016

Attachment 11

(In Thousands of US Dollars)

| Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Ratio | Overdue | | Amount Received in Subsequent Periods | Allowance for Doubtful Debts |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action Taken | | |
| Piotek Computer (Suzhou) Co., Ltd. | Pegatron Corporation | Parent company | USD 11,071 (Note) | 4.80 | $- | - | $- | $- |
| Kinsus Interconnect Technology Suzhou Corp. | Kinsus Interconnect Technology Corp. | Parent company | USD 6,015 (Note) | 6.67 | $- | - | $- | $- |

Note: Accounts receivable

English Translation of Financial Statements and a Report Originally Issued in Chinese

**MANAGEMENT REPRESENTATION LETTER**

The entities that are required to be included in the combined financial statements of Kinsus Interconnect Technology Corp. as of December 31, 2016 and for the year then ended under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Accounting Standard No. 10, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Kinsus Interconnect Technology Corp. and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

Kinsus Interconnect Technology Corp.

By

Guo, Ming-Dong
Chairman
February 8, 2017

English Translation of Financial Statements and a Report Originally Issued in Chinese

# REVIEW REPORT OF INDEPENDENT AUDITORS

To: the Board of Directors and Shareholders of
Kinsus Interconnect Technology Corp.

## Opinion

We have audited the accompanying consolidated balance sheets of Kinsus Interconnect Technology Corp. (the "Company") and its subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including the summary of significant accounting policies (together "the consolidated financial statements").

In our opinion, based on our audits and the reports of other auditor (please refer to the Other Matter – Making Reference to the Audit of a Component Auditor section of our report), the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2016 and 2015, and their consolidated financial performance and cash flows for the years then ended, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

## Basis for Opinion

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

## Key Audit Matters

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

Revenue Recognition

We determine that revenue recognition is one of the key audit matters. The Company's consolidated revenue amounting to NT$23,165,066 thousand for the year ended December 31, 2016 is a significant account to the Company's consolidated financial statements. The Company and its subsidiaries have conducted these sale activities in multi-marketplace, including Taiwan, China, USA, etc. Among these locations, the Company and its subsidiaries have established hub-warehouse for certain foreign customers' convenience. Furthermore, variety of sale terms and conditions enacted in the main sale contracts or sale orders contributed to the complexity for the Company and its subsidiaries to decide the appropriate timing of transfer the risk of ownership and return of goods to the buyers. We therefore conclude that there are significant risks with respect to the topic of revenue recognition.

Our audit procedures therefore include, but not limit to, evaluating the properness of accounting policy for revenue recognition, assessing and testing the effectiveness of relevant internal controls related to revenue recognition, particularly those controls for shipment to or from foreign warehouses, obtaining major sale orders or agreements to inspect the terms and conditions, checking the consistency of the accounting for revenue recognition with sale agreement or orders, performing analytical review procedures on monthly sale revenues, and executing sale cut-off tests, etc.

We have also evaluated the appropriateness of the related disclosure in Note 6 to the consolidated financial statements.

Related Party Transactions

The Company and its subsidiaries, to implement a plan of group operation, sold part of its operating equipment and machinery to FuYang Technology Corp., an associate investee accounted for under equity method, in amount of NT$241,776 thousand. This transaction was accunted for as a significant, non-routine related party transaction during the year ended December 31, 2016. We therefore conclude that the transaction is one of the key audit matters.

Our audit procedures therefore include, but not limit to, obtaining the related mutual agreements in order to clarify the purpose, pricing and collection term of the transaction, evaluating and testing the effectiveness of the internal controls related to related party transactions established by the Company's management, including the approval flow authorized by board of directors or proper management and examination on the Company and its subsidiaries' compliance with the "Process Guidance for Acquiring or Disposing Assets".

We have also evaluated the appropriateness of the related disclosure in Note 7 to the consolidated financial statements.

**Other Matter – Making Reference to the Audit of a Component Auditor**

We did not audit the financial statements of FuYang Technology Corp., an invested associate accounted for under the equity method. The financial statements of FuYang Technology Corp. as of December 31, 2016 and for the year then ended were audited by other auditors, whose report thereon has been furnished to us. Our audit, insofar as it related to the investment in the associate accounted for under the equity method amounting to NT$432,689 thousand as of December 31, 2016 representing 1.05% of the Company's consolidated total assets, the related shares of income before tax from the associate under the equity method for the year then ended amounting to NT$(12,783) thousand representing (0.50)% of the Company's consolidated income before tax, and the related shares of other comprehensive income from the associate under the equity method for the year then ended amounting to NT$(4,528) thousand representing 1.38% of the consolidated other comprehensive income, are based solely on the audit reports of other auditors.

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

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

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

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Ernst & Young
February 8, 2017
Taipei, Taiwan,
Republic of China

*<u>Notices to Readers</u>*

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2016 and 2015

(Amounts Expressed In Thousands of New Taiwan Dollars)

| Assets | | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Code | Accounts | Notes | Amount | % | Amount | % |
| | Current assets | | | | | |
| 1100 | Cash and cash equivalents | 4, 6(1) | $11,212,646 | 27 | $12,746,307 | 30 |
| 1110 | Financial assets at fair value through profit or loss | 4, 6(2) | 3,268,435 | 8 | 3,536,370 | 8 |
| 1147 | Bond investments with no active market | 4, 6(3), 8 | 423,057 | 1 | 428,112 | 1 |
| 1150 | Notes receivable, net | 4, 6(5) | 3,030 | - | 1,835 | - |
| 1170 | Accounts receivable, net | 4, 6(6) | 3,197,829 | 8 | 3,590,193 | 8 |
| 1180 | Accounts receivable - related parties | 4, 6(6), 7 | 399,736 | 1 | 248,909 | 1 |
| 1200 | Other receivables | | 289,514 | 1 | 336,543 | 1 |
| 1210 | Other receivables - related parties | 7 | 307,646 | 1 | 2,081 | - |
| 1310 | Inventories, net | 4, 6(7) | 2,258,244 | 5 | 2,285,436 | 5 |
| 1410 | Prepayments | | 134,676 | - | 159,205 | 1 |
| 1470 | Other current assets | | 120,742 | - | 136,377 | - |
| 11XX | Total current assets | | 21,615,555 | 52 | 23,471,368 | 55 |
| | Non-current assets | | | | | |
| 1543 | Financial assets carried at cost | 4, 6(4) | 50,000 | - | 50,000 | - |
| 1550 | Investment accounted for under equity method | 4, 6(8) | 432,689 | 1 | - | - |
| 1600 | Property, plant and equipment, net | 4, 6(9), 8 | 16,578,663 | 40 | 16,150,904 | 38 |
| 1780 | Intangible assets | 4, 6(10) | 18,820 | - | 30,280 | - |
| 1840 | Deferred income tax assets | 4, 6(25) | 9,882 | - | 9,880 | - |
| 1900 | Other non-current assets | 6(11), 7 | 295,385 | 1 | 318,785 | 1 |
| 1915 | Prepayment for equipment | 4, 6(9), 9 | 2,252,721 | 6 | 2,607,515 | 6 |
| 15XX | Total non-current assets | | 19,638,160 | 48 | 19,167,364 | 45 |
| 1XXX | Total Assets | | $41,253,715 | 100 | $42,638,732 | 100 |

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

Chairman: Ming-Dong Guo CEO: Ho-Shu Chen Head of Accounting: Su-Zhen Liu

English Translation of Consolidated Financial Statements Originally Issued in Chinese
Kinsus Interconnect Technology Corp. and Subsidiaries
Consolidated Balance Sheets-(Continued)
As of December 31, 2016 and 2015
(Amounts Expressed In Thousands of New Taiwan Dollars)

| Liabilities and Equity | | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Code | Accounts | Notes | Amount | % | Amount | % |
| | Current liabilities | | | | | |
| 2100 | Short-term loans | 6(12) | $2,228,478 | 6 | $3,095,030 | 7 |
| 2150 | Notes payable | | 48,092 | - | 55,484 | - |
| 2170 | Accounts payable | | 2,126,485 | 5 | 1,996,799 | 5 |
| 2180 | Accounts payable - related parties | 7 | 16,059 | - | - | - |
| 2200 | Other payables | 6(13), 7 | 3,021,801 | 7 | 3,932,762 | 9 |
| 2230 | Current income tax liabilities | 4, 6(25) | 510,591 | 1 | 569,378 | 1 |
| 2250 | Provisions | 4, 6(14) | - | - | 294 | - |
| 2300 | Other current liabilities | 6(15) | 688,291 | 2 | 668,701 | 2 |
| 21XX | Total current liabilities | | 8,639,797 | 21 | 10,318,448 | 24 |
| | Non-current liabilities | | | | | |
| 2540 | Long-term loans | 6(16), 8 | 1,508,390 | 4 | 1,366,299 | 4 |
| 2570 | Deferred income tax liabilities | 4, 6(25) | 631 | - | 40,190 | - |
| 2600 | Other non-current liabilities | 4, 6(17), 6(18) | 90,128 | - | 85,994 | - |
| 25XX | Total non-current liabilities | | 1,599,149 | 4 | 1,492,483 | 4 |
| 2XXX | Total liabilities | | 10,238,946 | 25 | 11,810,931 | 28 |
| 31XX | Equity attributable to shareholders of the parent | | | | | |
| 3100 | Capital | 6(19) | | | | |
| 3110 | Common stock | | 4,460,000 | 11 | 4,460,000 | 10 |
| 3200 | Capital surplus | 6(19) | 5,939,819 | 14 | 5,939,819 | 14 |
| 3300 | Retained earnings | 6(19) | | | | |
| 3310 | Legal reserve | | 3,340,018 | 8 | 3,049,623 | 7 |
| 3350 | Unappropriated earnings | | 15,163,371 | 37 | 14,780,095 | 35 |
| 3400 | Other components of equity | | (613) | - | 194,484 | - |
| 3500 | Treasury Stock | 6(19) | (32,885) | - | (32,885) | - |
| 36XX | Non-controlling interests | 6(19) | 2,145,059 | 5 | 2,436,665 | 6 |
| 3XXX | Total equity | | 31,014,769 | 75 | 30,827,801 | 72 |
| | Total liabilities and equity | | $41,253,715 | 100 | $42,638,732 | 100 |

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

Chairman: Ming-Dong Guo CEO: Ho-Shu Chen Head of Accounting: Su-Zhen Liu

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2016 and 2015

(Amounts Expressed In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Code | Accounts | Notes | Amount | % | Amount | % |
| 4000 | Net revenue | 4, 6(20), 7 | $23,165,066 | 100 | $23,061,311 | 100 |
| 5000 | Cost of sale | 7 | (17,414,521) | (75) | (17,099,709) | (74) |
| 5900 | Gross profit | | 5,750,545 | 25 | 5,961,602 | 26 |
| 6000 | Operating expenses | 7 | | | | |
| 6100 | Sales and marketing | | (509,185) | (2) | (437,849) | (2) |
| 6200 | General and administrative | | (1,213,506) | (5) | (975,409) | (4) |
| 6300 | Research and development | | (1,438,082) | (7) | (1,484,620) | (7) |
| | Total operating expenses | | (3,160,773) | (14) | (2,897,878) | (13) |
| 6900 | Operating income | | 2,589,772 | 11 | 3,063,724 | 13 |
| 1310 | | | | | | |
| 7000 | Non-operating incomes and expenses | | | | | |
| 7010 | Other incomes | 6(23), 7 | 195,672 | 1 | 309,476 | 1 |
| 7020 | Other gains and losses | 6(23) | (131,897) | (1) | (110,984) | - |
| 7050 | Finance costs | 6(23) | (71,306) | - | (56,968) | - |
| 7060 | Share of profit or loss of associates and joint ventures | 4, 6(8) | (12,783) | - | - | - |
| | Total non-operating incomes and expenses | | (20,314) | - | 141,524 | 1 |
| 7900 | Income before income tax | | 2,569,458 | 11 | 3,205,248 | 14 |
| 7950 | Income tax expense | 4, 6(25) | (496,430) | (2) | (475,722) | (2) |
| 8200 | Net income | | 2,073,028 | 9 | 2,729,526 | 12 |
| 8300 | Other comprehensive income (loss) | 6(24) | | | | |
| 8310 | Item that may not be reclassified to profit or loss | | | | | |
| 8311 | Actuarial gain (loss) from defined benefit plans | | (959) | - | (8,721) | - |
| 8360 | Items that may be reclassified subsequently to profit or loss | | | | | |
| 8361 | Exchange differences arising on translation of foreign operations | | (361,332) | (1) | (116,596) | (1) |
| 8362 | Unrealized valuation gain (loss) on available-for-sale financial assets | | - | - | (24,694) | - |
| 8370 | Share of profit or loss of associates and joint ventures | | (4,528) | - | - | - |
| 8399 | Income tax related to items that may be reclassified subsequently to P/L | | 39,834 | - | 12,397 | - |
| | Total other comprehensive income, net of tax | | (326,985) | (1) | (137,614) | (1) |
| 8500 | Total comprehensive income | | $1,746,043 | 8 | $2,591,912 | 11 |
| 8600 | Net income (loss) attributable to: | | | | | |
| 8610 | Shareholders of the parent | | $2,233,705 | 10 | $2,903,952 | 13 |
| 8620 | Non-controlling interests | | (160,677) | (1) | (174,426) | (1) |
| | | | $2,073,028 | 9 | $2,729,526 | 12 |
| 8700 | Total comprehensive income (loss) attributable to: | | | | | |
| 8710 | Shareholders of the parent | | $2,037,649 | 9 | $2,810,012 | 12 |
| 8720 | Non-controlling interests | | (291,606) | (1) | (218,100) | (1) |
| | | | $1,746,043 | 8 | $2,591,912 | 11 |
| 9750 | Earnings per share - basic (In NT$) | 6(26) | $5.01 | | $6.51 | |
| 9850 | Earnings per share - diluted (In NT$) | 6(26) | $4.95 | | $6.38 | |

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

Chairman: Ming-Dong Guo　　CEO: Ho-Shu Chen　　Head of Accounting: Su-Zhen Liu

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Consolidated Statements of Changes in Equity

For the Years Ended December 31, 2016 and 2015

(Amounts Expressed In Thousands of New Taiwan Dollars)

| Code | Items | Equity Attributable to Shareholders of the Parent | | | | | | | | Non-controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital | Capital Surplus | Retained Earnings | | Others | | Treasury Stock | Total | | |
| | | | | Legal Reserve | Unappropriated Earnings | Exchange differences arising on translation of foreign operations | Unrealized valuation gain (loss) on available-for-sale financial assets | | | | |
| | | 3100 | 3200 | 3310 | 3350 | 3410 | 3425 | 3500 | 31XX | 36XX | 3XXX |
| A1 | Balance as of January 1, 2015 | $4,460,000 | $5,939,819 | $2,687,890 | $14,030,597 | $255,009 | $24,694 | $- | $27,398,009 | $2,654,765 | $30,052,774 |
| | Appropriation and distribution of 2014 earnings: | | | | | | | | | | |
| B1 | Legal reserve | | | 361,733 | (361,733) | | | | - | | - |
| B5 | Cash dividends - common shares | | | | (1,784,000) | | | | (1,784,000) | | (1,784,000) |
| D1 | Net income (loss) for 2015 | | | | 2,903,952 | | | | 2,903,952 | (174,426) | 2,729,526 |
| D3 | Other comprehensive income (loss) for 2015 | | | | (8,721) | (60,525) | (24,694) | | (93,940) | (43,674) | (137,614) |
| D5 | Total comprehensive income | - | - | - | 2,895,231 | (60,525) | (24,694) | - | 2,810,012 | (218,100) | 2,591,912 |
| L1 | Treasury stock repurchased | | | | | | | (32,885) | ($32,885) | | (32,885) |
| A1 | Balance as of December 31, 2015 | 4,460,000 | 5,939,819 | 3,049,623 | 14,780,095 | 194,484 | - | (32,885) | 28,391,136 | 2,436,665 | 30,827,801 |
| | Appropriation and distribution of 2015 earnings: | | | | | | | | | | |
| B1 | Legal reserve | | | 290,395 | (290,395) | | | | - | | - |
| B5 | Cash dividends - common shares | | | | (1,559,075) | | | | (1,559,075) | | (1,559,075) |
| D1 | Net income (loss) for 2016 | | | | 2,233,705 | | | | 2,233,705 | (160,677) | 2,073,028 |
| D3 | Other comprehensive income (loss) for 2016 | | | | (959) | (195,097) | | | (196,056) | (130,929) | (326,985) |
| D5 | Total comprehensive income | - | - | - | 2,232,746 | (195,097) | - | - | 2,037,649 | (291,606) | 1,746,043 |
| Z1 | Balance as of December 31, 2016 | $4,460,000 | $5,939,819 | $3,340,018 | $15,163,371 | $(613) | $- | $(32,885) | $28,869,710 | $2,145,059 | $31,014,769 |

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

Chairman: Ming-Dong Guo CEO: Ho-Shu Chen Head of Accounting: Su-Zhen Liu

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

(Amounts Expressed In Thousands of New Taiwan Dollars)

| Code | Items | 2016 | 2015 |
|---|---|---|---|
| AAAA | Cash flows from operating activities: | | |
| A10000 | Income before income tax | $2,569,458 | $3,205,248 |
| A20000 | Adjustments: | | |
| A20010 | Income and expense adjustments: | | |
| A20100 | Depreciation | 3,464,017 | 3,196,903 |
| A20200 | Amortization | 31,215 | 34,432 |
| A20300 | Bad debt expense (gain on recovery) | 6,531 | (19,603) |
| A20400 | Net loss (gain) of financial assets (liabilities) at fair value through profit or loss | (10,653) | (55,431) |
| A20900 | Interest expense | 71,306 | 56,968 |
| A21200 | Interest income | (72,471) | (86,116) |
| A22300 | Share of profit or loss of associates and joint ventures | 12,783 | - |
| A22500 | Loss (gain) on disposal of property, plant and equipment | 43,555 | 108,807 |
| A23700 | Impairment loss on non-financial assets | 21,126 | 14,211 |
| A30000 | Changes in operating assets and liabilities: | | |
| A31110 | Financial assets at fair value through profit or loss | 278,588 | 1,623,650 |
| A31130 | Notes receivable | (1,195) | 4,417 |
| A31150 | Accounts receivable | 386,860 | (529,703) |
| A31160 | Accounts receivable - related parties | (150,827) | 187,497 |
| A31180 | Other receivables | 47,292 | 111,215 |
| A31190 | Other receivables - related parties | (305,565) | (774) |
| A31200 | Inventories | 27,192 | (122,467) |
| A31230 | Prepayments | 24,529 | (60,704) |
| A31240 | Other current assets | 15,635 | (44,397) |
| A31990 | Long-term prepaid rents | 28,213 | 13,291 |
| A32130 | Notes payable | (7,392) | 14,473 |
| A32150 | Accounts payable | 129,686 | 10,050 |
| A32160 | Accounts payable - related parties | 16,059 | - |
| A32180 | Other payables | (369,201) | 73,374 |
| A32200 | Provisions | (294) | (8) |
| A32210 | Unearned sales revenue | 59,442 | (11,246) |
| A32230 | Other current liabilities | (3,469) | (2,035) |
| A32240 | Accrued pension liabilities | (4,098) | (4,241) |
| A33000 | Cash generated from (used in) operations | 6,308,322 | 7,717,811 |
| A33100 | Interest received | 72,140 | 90,561 |
| A33300 | Interest paid | (72,842) | (55,519) |
| A33500 | Income tax paid | (554,944) | (814,278) |
| AAAA | Net cash provided by (used in) operating activities | 5,752,676 | 6,938,575 |

| Code | Items | 2016 | 2015 |
|---|---|---|---|
| BBBB | Cash flows from investing activities: | | |
| B00400 | Disposal of available-for-sale financial assets | - | 46,520 |
| B00700 | Disposal of bond investments with no active market | 5,055 | 35,715 |
| B01800 | Acquisition of Investment accounted for under equity method | (450,000) | - |
| B02700 | Acquisition of property, plant and equipment | (4,761,567) | (5,000,206) |
| B02800 | Disposal of property, plant and equipment | 260,601 | 1,680 |
| B03800 | Decrease (increase) in refundable deposits | (4,813) | (363) |
| B04500 | Acquisition of intangible assets | (20,457) | (44,806) |
| BBBB | Net cash provided by (used in) investing activities | (4,971,181) | (4,961,460) |
| CCCC | Cash flows from financing activities: | | |
| C00100 | Increase in (repayment of) short-term loans | (866,552) | 1,288,134 |
| C01600 | Increase in long-term loans | 800,000 | 1,084,751 |
| C01700 | Repayment of long-term loans | (694,292) | (1,310,123) |
| C03000 | Increase (decrease) in deposits received | 7,273 | (29,106) |
| C04500 | Payment of cash dividends | (1,559,075) | (1,784,000) |
| C04900 | Treasury stock purchased | - | (32,885) |
| CCCC | Net cash provided by (used in) financing activities | (2,312,646) | (783,229) |
| DDDD | Effect of exchange rate changes | (2,510) | 10,806 |
| EEEE | Increase (decrease) in cash and cash equivalents | (1,533,661) | 1,204,692 |
| E00100 | Cash and cash equivalents at beginning of period | 12,746,307 | 11,541,615 |
| E00200 | Cash and cash equivalents at end of period | $11,212,646 | $12,746,307 |

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

Chairman: Ming-Dong Guo　　CEO: Ho-Shu Chen　　Head of Accounting: Su-Zhen Liu

1. HISTORY AND ORGANIZATION

Kinsus Interconnect Technology Corp. (referred to “the Company”) was established on September 11, 2000. Its main business activities include the manufacture of electronic products, the whole-sale and retail-sale of electronic materials, and the consultation services of business operation and management. The Company’s stocks have been governmentally approved on May 20, 2004 to be listed and traded in Taiwan Stock Exchange starting November 1, 2004. The registered business premise and main operation address is at No. 1245, Chung Hua Rd., Hsinwu District, Taoyuan City, Taiwan 32747.

2. DATE AND PROCEDURE OF AUTHORIZATION FOR FINANCIAL STATEMENTS ISSUANCE

The consolidated financial statements of the Company and its subsidiaries (“the Group”) were authorized to be issued in accordance with a resolution of the Board of Directors’meeting held on February 8, 2017.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

(1) Standards or interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission (“FSC”), but not yet adopted by the Group at the date of issuance of the Group’s financial statements are listed below.

(a) IAS 36 “Impairment of Assets” (Amendment)

This amendments relate to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement. The amendments are effective for annual periods beginning on or after January 1, 2014.

(b) IFRIC 21 “Levies”

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain). The interpretation is effective for annual periods beginning on or after January 1, 2014.

(c) IAS 39 “Financial Instruments: Recognition and Measurement” (Amendment)

Under the amendments, there would be no need to discontinue hedge accounting if a hedging derivative was notated, provided certain criteria are met. The interpretation is effective for annual periods beginning on or after January 1, 2014.

(d) LAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective for annual periods beginning on or after July 1, 2014.

(e) Improvements to International Financial Reporting Standards (2010-2012 cycle):

IFRS 2 “Share-based Payment”

The annual improvements amend the definitions of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). The amendments prospectively apply to share-based payment transactions for which the grant date is on or after July 1, 2014.

IFRS 3 “Business Combinations”

The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) deleting the reference to "IAS 37 Provisions, Contingent Liabilities and Contingent Assets or other IFRSs as appropriate", other contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in profit or loss; (3) amending the classification requirements of IFRS 9 Financial Instruments to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after July 1, 2014.

IFRS 8 “Operating Segments”

The amendments require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendments are effective for annual periods beginning on or after July 1, 2014.

IFRS 13 “Fair Value Measurement”

The amendments to the Basis for Conclusions of IFRS 13 clarify that when deleting paragraph B5.4.12 of IFRS 9 Financial Instruments and paragraph AG79 of IAS 39 Financial Instruments: Recognition and Measurement as consequential amendments from IFRS 13 Fair Value Measurement, the IASB did not intend to change the measurement requirements for short-term receivables and payables.

IAS 16 “Property, Plant and Equipment”

The amendments clarify that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendments are effective for annual periods beginning on or after July 1, 2014.

IAS 24 “Related Party Disclosures”

The amendments clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The amendments are effective for annual periods beginning on or after July 1, 2014.

IAS 38 “Intangible Assets”

The amendments clarify that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendments are effective for annual periods beginning on or after July 1, 2014.

(f) Improvements to International Financial Reporting Standards (2011-2013 cycle):

IFRS 1 “First-time Adoption of International Financial Reporting Standards”

The amendments clarify that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

IFRS 3 “Business Combinations”

This amendments clarify that paragraph 2(a) of IFRS 3 Business Combinations excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendments are effective for annual periods beginning on or after July 1, 2014.

IFRS 13 “Fair Value Measurement”

The amendments clarify that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of the amendments is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. The amendments are effective for annual periods beginning on or after July 1, 2014.

IAS 40 “Investment Property”

The amendments clarify the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property, separate application of both standards independently of each other is required. The amendments are effective for annual periods beginning on or after July 1, 2014.

(g) IFRS 14 “Regulatory Deferral Accounts”

IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods beginning on or after January 1, 2016.

(h) IFRS 11 “Joint Arrangements” (Accounting for Acquisitions of Interests in Joint Operations)

The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments require the entity to apply all of the principles on business combinations accounting in IFRS 3 “Business Combinations”, and other IFRS (that do not conflict with the guidance in IFRS 11), to the extent of its share in a joint operation acquired. The amendments also requires certain disclosure. The amendments are effective for annual periods beginning on or after January 1, 2016.

(i) IAS 16“Property, Plant and Equipment and IAS 38 “Intangible Assets” — Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify that the use of revenue-based methods to calculate depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, such as selling activities and change in sales volumes or prices. The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendments are effective for annual periods beginning on or after January 1, 2016.

(j) IAS 16“Property, Plant and Equipment and IAS 41 “Agriculture” — Agriculture: Bearer Plants

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 *Property, Plant and Equipment,* because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, and the produce growing on bearer plants will remain within the scope of IAS 41. The amendments are effective for annual periods beginning on or after January 1, 2016.

(k) IAS 27“Separate Financial Statements” — Equity Method in Separate Financial Statements

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity’s separate financial statements. In 2003, the equity method was removed from the options. This amendments removes the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions. The amendments are effective for annual periods beginning on or after January 1, 2016.

(l) Improvements to International Financial Reporting Standards (2012-2014 cycle):

IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”

The amendments clarify that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendments also requires identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendments are effective for annual periods beginning on or after January 1, 2016.

IFRS 7 “Financial Instruments: Disclosures”

The amendments clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety under IFRS 7 Financial Instruments: Disclosures is required. The amendments also clarify that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities are required to be included in the condensed interim financial report would depend on the requirements under IAS 34 Interim Financial Reporting. The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 19 “Employee Benefits”

The amendments clarify the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 34 “Interim Financial Reporting”

The amendments clarify what is meant by “elsewhere in the interim financial report” under IAS 34; the amendments states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendments are effective for annual periods beginning on or after January 1, 2016.

(m) Disclosure Initiative — Amendment to IAS 1 “Presentation of Financial Statements”:

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, (2) clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2016.

(n) IFRS 10“Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities”, and IAS 28“Investments in Associates and Joint Ventures” — Investment Entities: Applying the Consolidation Exception

The amendments contain (1) clarifying that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity when the investment entity measures all of its subsidiary at fair value, (2) clarifying that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated when all other subsidiaries of an investment entity are measured at fair value, and (3) allowing the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2016.

The abovementioned standards and interpretations issued by IASB and recognized by FSC are applicable for annual periods beginning on or after January 1, 2017. The Group assesses that there will be no significant impact on the Group's financial statements then.

(2) Standards or interpretations issued, revised or amended, by IASB but not yet recognized by FSC at the date of issuance of the Group's financial statements are listed below.

(a) IFRS 15 "Revenue from Contracts with Customers"

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The new Standard includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Standard is effective for annual periods beginning on or after January 1, 2018.

(b) IFRS 9"Financial Instruments"

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9 *Financial Instruments* (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that 'own credit risk' adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

The new standard is effective for annual periods beginning on or after January 1, 2018.

(c) IFRS 10"Consolidated Financial Statements" and IAS 28"Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

(d) IFRS 16“Leases”

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease. The Standard is effective for annual periods beginning on or after January 1, 2019.

(e) IAS 12“Income Taxes” — Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify how to account for deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017.

(f) Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”:

The amendments relate to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period. The amendments are effective for annual periods beginning on or January 1, 2017.

(g) IFRS 15 “Revenue from Contracts with Customers” — Clarifications to IFRS 15

The amendments clarify how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time. The amendment are effective for annual periods beginning on or after Jaunary 1, 2018.

(h) IFRS 2 “Shared-Based Payment” — Amendments to IFRS 2

The amendments contains (1) clarifying that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, (2) clarifying if tax laws or regulations require the employer to withhold a certain amount in order to meet the employee’s tax obligation associated with the share-based payment, such transacitons will be classified in their entirety as equity-settled share-based payment transacitons if they would have been so classified in the absence of the net share settlement feature, and (3) clarifying that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognised in equity, on the modification date, to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date. Any difference between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss. The amendments are effective for annual periods beginning on or after Jaunary 1, 2018.

(i) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts — Amendments to IFRS 4

The amendments help to resolve issues arising from the different effective dates for IFRS 9 “Financial Instruments” (January 1, 2018) and the new insurance contracts standard about to be issued by the IASB (still to be decided, but not before 1 January 2020). The amendments allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 “Financial Instruments” before the IASB’s new insurance contracts standard becomes effective. The amendments introduce two approaches: an overlay approach and a temporary exemption. The overlay approach allows an entity applying IFRS 9 to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before the new insurance contracts standard is applied. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until 2021 (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

(j) Transfers of Investment Property — Amendments to IAS 40

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after January 1, 2018.

(k) Improvements to International Financial Reporting Standards (2014-2016 cycle):

IFRS 1 “First-time Adoption of International Financial Reporting Standards”

The amendments revise and amend transition requirements relating to certain standards and delete short-term exemptions under Appendix E for first-time adopter. The amendments are effective for annual periods beginning on or after January 1, 2018.

IFRS 12 “Disclosure of Interests in Other Entities”

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity’s interests that are classified as held for sale or discontinued operations. The amendments are effective for annual periods beginning on or after January 1, 2017.

IAS 28“Investments in Associates and Joint Ventures”

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 “Financial Instruments” on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after January 1, 2018.

(l) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 “The Effects of Changes in Foreign Exchange Rates”, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after January 1, 2018.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group’s financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Group is still currently determining the potential impact of the standards and interpretations listed under (a)~(b), it is not practicable to estimate their impact on the Group at this point in time. All other standards and interpretations have no material impact on the Group.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Statement of compliance

The consolidated financial statements of the Group for the years ended December 31, 2016 and 2015 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations") and International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by the FSC.

### (2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are presented in thousands of New Taiwan Dollars ("NT$") unless otherwise specified.

### (3) Basis of consolidation

Preparation principle of consolidated financial statements

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

(a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
(b) exposure, or rights, to variable returns from its involvement with the investee, and
(c) the ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee
(b) rights arising from other contractual arrangements
(c) the Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the NCIs even if this results in a deficit balance of the NCIs.

If the Group loses control of a subsidiary, it:

(a) derecognizes the assets (including goodwill) and liabilities of the subsidiary;
(b) derecognizes the carrying amount of any non-controlling interest;
(c) recognizes the fair value of the consideration received;
(d) recognizes the fair value of any investment retained;
(e) recognizes any surplus or deficit in profit or loss; and
(f) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

| | | | Percentage of Ownership (%) As of December 31, | |
|---|---|---|---|---|
| Investor | Subsidiary | Main businesses | 2016 | 2015 |
| The Company | KINSUS CORP. (USA) | Designing substrates, formulating marketing strategy analysis, developing new customers, researching and development new product technology | 100.00% | 100.00% |
| The Company | KINSUS HOLDING (SAMOA) LIMITED | Investing activities | 100.00% | 100.00% |
| The Company | KINSUS INVESTMENT CO., LTD. | Investing activities | 100.00% | 100.00% |

| | | | | |
|---|---|---|---|---|
| KINSUS HOLDING (SAMOA) LIMITED | KINSUS HOLDING (CAYMAN) LIMITED | Investing activities | 100.00% | 100.00% |
| KINSUS HOLDING (SAMOA) LIMITED | PIOTEK HOLDINGS LTD. (CAYMAN) | Investing activities | 51.00% | 51.00% |
| KINSUS INVESTMENT CO., LTD. | PEGAVISION CORPORATION | Manufacture of medical equipment | 36.81% (Note) | 36.81% (Note) |
| KINSUS HOLDING (CAYMAN) LIMITED | KINSUS INTERCONNECT TECHNOLOGY SUZHOU CORP. | Manufacturing and selling printed circuit board (PCB) (not high-density fine-line) | 100.00% | 100.00% |
| KINSUS HOLDING (CAYMAN) LIMITED | XIANG-SHOU (SUZHOU) TRADING LIMITED | Trading of PCB related products and materials (not high-density fine-line) | 100.00% | 100.00% |
| PIOTEK HOLDINGS LTD. (CAYMAN) | PIOTEK HOLDING LIMITED | Investing activities | 100.00% | 100.00% |
| PIOTEK HOLDING LIMITED | PIOTEK COMPUTER (SUZHOU) CO., LTD. | Researching, developing, producing and selling electronic components, PCBs and related products and providing after-sale services | 100.00% | 100.00% |
| PIOTEK HOLDING LIMITED | PIOTEK (H.K.) TRADING LIMITED | Trading activities | 100.00% | 100.00% |
| PEGAVISION CORPORATION | PEGAVISION HOLDINGS CORPORATION | Investing activities | 100.00% | 100.00% |

| | | | | |
|---|---|---|---|---|
| PEGAVISION CORPORATION | PEGAVISION JAPAN INC. | Selling medical equipment | 100.00% | 100.00% |
| PEGAVISION HOLDINGS CORPORATION | PEGAVISION CONTACT LENSES (SHANGHAI) CORPORATION | Selling medical equipment | 100.00% | 100.00% |

Note：The Group owned 36.81% of ownership of Pegavision Corporation as of December 31, 2016 and 2015. The management decide to include Pegavision Corporation as a consolidated entity because the Group, in substance, possess the control over this entity.

(4)Foreign currency transactions

The Group's consolidated financial statements are presented in New Taiwan Dollar, which is the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. At the reporting date, monetary items denominated in foreign currencies are retranslated at the prevailing functional currency closing rate of exchange; non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value is determined; and non-monetary items measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising from the settlement or translation of monetary items are taken to profit or loss in the period in which they arise, except for the following:

A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

B. Foreign currency items within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are accounted for based on the accounting policy for financial instruments.

C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(5)Foreign currency transactions and translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into New Taiwan dollar at the closing rate of exchange prevailing at the balance sheet date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income under exchange differences on translation of foreign operations. On disposal of the foreign operation, cumulative amount of the exchange differences recognized in other comprehensive income under separate component of equity is reclassified from equity to profit or loss when recognizing the disposal gain/loss.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the NCIs in that foreign operation, instead of recognized in profit or loss. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6)Current and non-current distinction for assets and liabilities

An asset is classified as current when:

(a) The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
(b) The Group holds the asset primarily for the purpose of trading
(c) The Group expects to realize the asset within twelve months after the reporting period

(d) The asset is cash or cash equivalent, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

(a) The Group expects to settle the liability in its normal operating cycle
(b) The Group holds the liability primarily for the purpose of trading
(c) The liability is due to be settled within twelve months after the reporting period
(d) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(7)Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including fixed-term deposits that have maturities equal to or less than three months from the date of acquisition).

(8)Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are recognized initially at fair value plus or minus, in the case of financial assets and financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

A. Financial assets

The Group accounts for regular way purchase or sales of financial assets on the settlement date basis.

Financial assets of the Group are classified as financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables. The Group determines the classification of its financial assets at initial recognition based on their natures and purposes.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

A financial asset is classified as held for trading if:

(a) it is acquired principally for the purpose of selling in short term;
(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

(a) it eliminates or significantly reduces measurement or recognition inconsistency; or
(b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If financial assets do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

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

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is reclassified to profit or loss.

If equity instrument investments do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group classifies as at fair value through profit or loss, upon initial recognition designates as available-for-sale, or those for which the holder may not recover substantially all of its initial investment due to credit worsening.

Loans and receivables are separately presented on the balance sheet as receivables or bond investments with no active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

(a) significant financial difficulty of the issuer or obligor; or
(b) breach of contract, such as a default or delinquency in interest or principal payments; or
(c) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(d) the disappearance of an active market for that financial asset due to financial difficulties of the issuer.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the amount recorded for impairment is the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. The impairment amount is reclassified from equity to profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in their fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount of assets and calculated using the effective interest rate which is the discount rate for measuring impairment loss. Interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

Derecognition of financial assets

A financial asset is derecognized when:

(a) The rights to receive cash flows from the asset have expired
(b) The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
(c) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

B. Financial liabilities and equity instruments

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract of the Group that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

A financial liability is classified as held for trading if:

(a) it is acquired principally for the purpose of selling it in short term;
(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated upon initial recognition as at fair value through profit or loss when doing so results in more relevant information, because either:

(a) it eliminates or significantly reduces measurement or recognition inconsistency; or
(b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses from subsequent measurement on liabilities at fair value through profit or loss, including interests, are recognized in profit or loss.

If the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include payables and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Relevant gains or losses and amortization amounts are recognized in profit or loss when the liabilities are derecognized and amortized through the effective interest rate method.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(9)Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(a)In the principal market for the asset or liability, or
(b)In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(10) Inventories

Inventories are valued at lower of cost or net realizable value item by item.

Costs incurred in bringing each inventory to its present location and conditions are accounted for as follows:

Raw materials - At actual purchase cost, using weighted average method
Finished goods and work in progress - Including cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity, using weighted average method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(11) Investments accounted for using the equity method

The Group's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Group has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affects the Group's percentage of ownership interests in the associate or joint venture, the Group recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a prorata basis.

When the associate or joint venture issues new stock, and the Group's interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional Paid in Capital and Investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Group disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 *Impairment of Assets*. In determining the value in use of the investment, the Group estimates:

(a)Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
(b)The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets.

Upon loss of significant influence over the associate or joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

(12) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 “Property, plant and equipment”. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

| | |
|---|---|
| Buildings | 10 to 25 years |
| Machinery | 5 to 10 years |
| Transportation | 2 to 6 years |
| Office equipment | 3 to 5 years |
| Other equipment | 1 to 25 years |

An item of property, plant and equipment or any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The property, plant and equipment’s residual values, useful lives and methods of depreciation are reviewed at each financial year. If the expected values differ from the estimates, the differences are recorded as a change in accounting estimate.

(13) Leasing

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Rental incomes under operating lease are recognized on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

(14) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, not meeting the recognition criteria, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss.

The Group’s accounting policies for intangible assets are as follows:

| | Cost of Computer Software |
|---|---|
| Useful economic life | 1 to 5 years |
| Amortization method | Straight-line method during the contract term |
| Internally generated or acquired externally | Acquired externally |

(15) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 “Impairment of Assets” may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group would conduct impairment tests at individual or CGU level. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired. An asset’s recoverable amount is the higher of an asset’s net fair value or its value in use.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

Impairment loss or reversals of continuing operations are recognized in profit or loss.

(16) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) 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. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Provisions for sales returns and allowances

The Group estimates provisions for sales returns and allowances based on past experience and other known factors.

(17) Treasury Stock

The Company’s own equity instruments repurchased (treasury shares) are recognized at repurchase cost and deducted from equity. Any difference between the carrying amountand the consideration is recognized in equity.

(18) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. Conditions and methods for the recognition of various types of revenue are listed below:

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied: significant risks and rewards of ownership of the goods have passed to the buyer; neither continuing managerial involvement nor effective control over the goods sold have been retained; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred in respect of the transaction can be measured reliably.

Customer Loyalty Program

When the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account.

Interest income

Interest incomes from financial assets at amortized costs (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets are estimated using the effective interest method and recognized in profit or loss.

Dividend income

Dividend incomes are recognized only when the Group has the right to receive the dividends.

(19) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(20) Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee’s name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore, fund assets are not included in the Group’s consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations and the contribution is expensed as incurred.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

(a) the date of the plan amendment or curtailment, and
(b) the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events

(21) Income tax

Income tax expense (benefit) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The 10% income tax for undistributed earnings of the Company and its subsidiaries is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred income tax

Deferred income tax is a temporary difference between the tax bases of assets and liabilities and their carrying amounts in balance sheet at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

(a) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (loss);

(b) In respect of taxable temporary differences associated with investments in subsidiaries, and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, any unused tax losses and carry forward of unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

(a) Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

(b) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed and recognized at each reporting date.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

## 5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that would have a significant risk for a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

(1)Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including income approach (for example, the discounted cash flows model) or the market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

(2)Post-employment benefits

The cost of post-employment benefit pension plan and the present value of the defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the change in the discount rate and expected salary level. The assumptions used for measuring pension cost and defined benefit obligation are disclosed in Note 6.

(3)Revenue recognition - customer loyalty programmes

The Group uses statistical techniques to estimate the fair value of award credits under customer loyalty programmes. Parameters used in the estimation include: assumptions on the expected exchange rate, commodity portfolio available for future exchange and customer preference. Before the points issued under the programme expire, the estimates have material uncertainty. Please refer to Note 6 for more details.

(4)Revenue recognition – sale returns and allowances

The Group estimates sales returns and allowances based on past experience and other known factors as reductions of sales revenue upon sales. Please refer to Note 6 for more details.

(5)Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax benefit and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provision is based on various factors, such as past experience in tax audit and different interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. As of December 31, 2016, the un-recognized portion of the Croup's defferred tax assets was disclosed in Note 6.

## 6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1)Cash and cash equivalents

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Cash and petty cash | 5,693 | 6,234 |
| Checking and saving | 2,948,555 | 3,379,804 |
| Time deposit | 8,258,398 | 9,360,269 |
| Total | 11,212,646 | 12,746,307 |

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

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Held for trading: | | |
| Money market fund | 3,198,334 | 3,453,872 |
| Valuation adjustment | 70,101 | 82,498 |
| Total | 3,268,435 | 3,536,370 |

No financial asset at fair value through profit or loss was pledged as collateral.

(3)Bond investments with no active market

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Time deposits | 423,057 | 428,112 |
| Current | 423,057 | 428,112 |
| Non-current | - | - |

There was no bond investments with no active market pledged as collateral.

(4)Financial assets carried at cost

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Stocks | 50,000 | 50,000 |
| Non-current | 50,000 | 50,000 |

A. Because the interval of reasonable estimates of the fair value of unlisted stocks held by the Group is significantly variable and the probabilities of each estimate cannot be reasonably evaluated, these stocks cannot be measured in fair value. Thus they are carried at cost.

B. No financial assets carried at cost were pledged as collateral.

(5)Notes receivable

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Notes receivable – from operations | 3,030 | 1,835 |
| Less: allowance for doubtful accounts | - | - |
| Net | 3,030 | 1,835 |

No notes receivable was pledged by the Group as collateral.

(6)Accounts receivable and accounts receivable - related parties, net

A. Accounts receivable, net

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Accounts receivable, gross | 3,282,698 | 3,642,703 |
| Less: allowance for doubtful accounts | (53,303) | (47,799) |
| Less: allowance for return & discount | (31,566) | (4,711) |
| Net of allowances | 3,197,829 | 3,590,193 |
| | | |
| Accounts receivable - related parties, gross | 399,736 | 248,909 |
| Less: allowance for doubtful accounts | - | - |
| Net of allowances | 399,736 | 248,909 |
| Total accounts receivable, net | 3,597,565 | 3,839,102 |

B. The Group evaluated sales return and discount based on experiences and other known factors and recorded it as a reduction against sales at the time of recognizing revenue.

C. The Group entered into factoring agreements with banks. Accounts receivables from selected customers are transferred to banks without recourse. Details of the agreed credit limits and accounts receivables transferred were as follows:

| | Financial Institution | Accounts receivable de-recognized (NT$'000) | Advance received (NT$'000) | Collateral | Credit Limit |
|---|---|---|---|---|---|
| 12/31/2016 | Mega International Commercial Bank - LanYa Branch | 249,402 | 49,298 | None | Note |
| 12/31/2015 | Mega International Commercial Bank - LanYa Branch | 251,600 | - | None | Note |

Note: The credit limits were US$30,000 thousand as of December 31, 2016 and 2015.

D. The collection term of accounts receivables are generally on 60 to 120 day after monthly closing. The movement schedule of the impairment provision for accounts receivable, including related parties, was presented as below. (Please also refer to Note 12 for credit risk disclosure)

| | Impaired Individually (NT$'000) | Impaired Collectively (NT$'000) | Total (NT$'000) |
|---|---|---|---|
| As of January 1, 2016 | - | 47,799 | 47,799 |
| Provision (reversal) | - | 6,531 | 6,531 |
| Effect of exchange rate changes | - | (1,027) | (1,027) |
| As of December 31, 2016 | - | 53,303 | 53,303 |
| | | | |
| As of January 1, 2015 | - | 67,946 | 67,946 |
| Provision (reversal) | - | (19,603) | (19,603) |
| Effect of exchange rate changes | - | (544) | (544) |
| As of December 31, 2015 | - | 47,799 | 47,799 |

Aging analysis for the net accounts receivable, including related parties, were as follows.

| | Neither past due nor impaired (NT$'000) | Accounts receivable – past due, but not impaired | | | | Total (NT$'000) |
|---|---|---|---|---|---|---|
| | | Less than 61 days (NT$'000) | 61 to 90 days (NT$'000) | 91 to 120 days (NT$'000) | Longer than 120 days (NT$'000) | |
| 12/31/2016 | 3,391,325 | 206,240 | - | - | - | 3,597,565 |
| 12/31/2015 | 3,639,724 | 199,378 | - | - | - | 3,839,102 |

(7)Inventory

A. Details of inventory:

| | As of December 31, 2016 (NT$'000) | As of December 31, 2015 (NT$'000) |
|---|---|---|
| Raw material | 682,338 | 638,897 |
| Supplies | 41,619 | 41,027 |
| Work in process | 769,623 | 815,704 |
| Finished goods | 711,312 | 759,271 |
| Merchandises | 53,352 | 30,537 |
| Total | 2,258,244 | 2,285,436 |

B. For the year ended December 31, 2016 and 2015, the Group recognized NT$17,414,521 thousand and NT$17,099,709 thousand under the caption of costs of sale, respectively. The following items were also included in cost.

| Item | For the year ended December 31, 2016 (NT$'000) | For the year ended December 31, 2015 (NT$'000) |
|---|---|---|
| Loss from (Gains on recovery of) inventory market decline | 21,905 | (104,357) |
| Loss (gain) from physical | 39,428 | (2,118) |
| Loss in inventory write-off obselencense | 1,785,503 | 1,319,081 |
| Total | 1,846,836 | 1,212,606 |

The Group recognized gains on recovery of inventory market decline because some of the inventories previously provided with market loss or obsolescence were disposed.

C. The inventories were not pledged.

(8)Investments accounted for using the equity method

| | As of December 31 | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| Investee | Carrying amount (NT$'000) | Percentage of ownership (%) | Carrying amount (NT$'000) | Percentage of ownership (%) |
| FuYang Technology Corp. | 432,689 | 36.00% | - | -% |

A. The Group invested cash in FuYang Technology Corp. during May 2016 for interest ownership of 36%. The investment is accounted for as an investment in associates due to the Group's ability to exercise its significant influence.

B. Investments in associates

The aggregate carrying amount of the Group's interests in FuYang Technology Corp. is NT$432,689 thousand. The aggregate financial information based on Group's share of FuYang Technology Corp. is as follows:

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Profit or loss from continuing operations | (12,783) | - |
| Other comprehensive income (post-tax) | (4,528) | - |
| Total comprehensive income | (17,311) | - |

There were no contingent liabilities or capital commitments with respect to the investment in the associate as of December 31, 2016. Nor any of the Group's share interest on FuYang was pledged as collateral.

The Group's investment accounted for under equity method as of December 31, 2016 amounted to NT$432,689 thousand while the related investment income/loss and other comprehensive income were NT$(17,311) for the year then ended. They were measured based on the audited financial statements of the investee for the same correspondent period.

C. No investment accounted for under equity method was pledged as collateral as of December 31, 2016.

(9) Property, plant and equipment

| | Land (NT$'000) | Buildings (NT$'000) | Machinery (NT$'000) | Office Equipment (NT$'000) | Transportation (NT$'000) | Other Equipment (NT$'000) | Construction in progress and equipment awaiting inspection (including prepaid equipment) (NT$'000) | Total (NT$'000) |
|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | |
| As of 1/1/2016 | 1,557,800 | 5,556,743 | 16,781,076 | 131,576 | 15,809 | 3,992,908 | 5,238,467 | 33,274,379 |
| Addition | - | 3,938 | 10,253 | 9,376 | 1,805 | 198,196 | 3,997,933 | 4,221,501 |
| Disposals | - | (10,510) | (1,846,796) | (10,971) | (1,355) | (417,520) | (2,575) | (2,289,727) |
| Effect of EX rate | - | (241,745) | (521,279) | (4,625) | (672) | (108,420) | (10,111) | (886,852) |
| Reclassification | 4,642 | 1,030,743 | 3,150,827 | 18,835 | - | 640,416 | (4,846,840) | (1,377) |
| As of 12/31/2016 | 1,562,442 | 6,339,169 | 17,574,081 | 144,191 | 15,587 | 4,305,580 | 4,376,874 | 34,317,924 |
| | | | | | | | | |
| As of 1/1/2015 | 1,366,426 | 5,614,222 | 17,202,285 | 118,946 | 14,700 | 3,958,417 | 3,107,645 | 31,382,641 |
| Addition | - | 10,654 | 58,908 | 11,408 | 1,355 | 86,105 | 4,861,010 | 5,029,440 |
| Disposals | - | (71,944) | (2,442,452) | (17,968) | - | (342,406) | - | (2,874,770) |
| Effect of EX rate | - | (70,843) | (154,054) | (1,428) | (246) | (33,606) | (2,755) | (262,932) |
| Reclassification | 191,374 | 74,654 | 2,116,389 | 20,618 | - | 324,398 | (2,727,433) | - |
| As of 12/31/2015 | 1,557,800 | 5,556,743 | 16,781,076 | 131,576 | 15,809 | 3,992,908 | 5,238,467 | 33,274,379 |
| | | | | | | | | |
| Depreciation and impairment: | | | | | | | | |
| As of 1/1/2016 | - | 1,743,546 | 10,148,920 | 80,839 | 11,552 | 2,531,103 | - | 14,515,960 |
| Depreciation | - | 284,820 | 2,520,866 | 29,751 | 2,586 | 625,994 | - | 3,464,017 |
| Impairment loss | - | - | 17,100 | - | - | 4,026 | - | 21,126 |
| Disposal | - | (10,510) | (1,556,702) | (9,724) | (418) | (408,217) | - | (1,985,571) |
| Effect of EX rate | - | (74,154) | (372,329) | (3,866) | (794) | (76,664) | - | (527,807) |
| Reclassification | - | - | 374 | (185) | - | (1,374) | - | (1,185) |
| As of 12/31/2016 | - | 1,943,702 | 10,758,229 | 96,815 | 12,926 | 2,674,868 | - | 15,486,540 |
| | | | | | | | | |
| As of 1/1/2015 | - | 1,521,919 | 10,235,466 | 73,772 | 8,679 | 2,364,370 | - | 14,204,206 |
| Depreciation | - | 266,238 | 2,390,247 | 24,444 | 3,055 | 512,919 | - | 3,196,903 |
| Impairment loss | - | - | 13,425 | 391 | - | 395 | - | 14,211 |
| Disposal | - | (26,551) | (2,402,650) | (16,642) | - | (318,440) | - | (2,764,283) |
| Effect of EX rate | - | (18,060) | (96,305) | (1,126) | (182) | (19,404) | - | (135,077) |
| Reclassification | - | - | 8,737 | - | - | (8,737) | - | - |
| As of 12/31/2015 | - | 1,743,546 | 10,148,920 | 80,839 | 11,552 | 2,531,103 | - | 14,515,960 |

| Net carrying amount: | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| As of 12/31/2016 | 1,562,442 | 4,395,467 | 6,815,852 | 47,376 | 2,661 | 1,630,712 | 4,376,874 | 18,831,384 |
| As of 12/31/2015 | 1,557,800 | 3,813,197 | 6,632,156 | 50,737 | 4,257 | 1,461,805 | 5,238,467 | 18,758,419 |

A. " Significant components " of buildings primarily comprised the main buildings and the facilities, which are depreciated based on their respective useful economic life of 20 to 25 years and 3 to 20 years.

B. Details of property, plant & equipment and prepayment for machinery is as follows:

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Property, plant and equipment | 16,578,663 | 16,150,904 |
| Prepayment for equipment | 2,252,721 | 2,607,515 |
| Total | 18,831,384 | 18,758,419 |

C. Please refer to Note 8 for details on property, plant and equipment pledged as collaterals.

D. The Company purchased 40 parcels of land with a total area of 36,287.15 square meters. Lands are located at the addresses of No. 1113, 1114, 1438 to 1443,1479,1486 to 1487 at ShiLeiZi Sub-section, ShiLeiZi Section, No. 1044, 1047 to 1049 at QingHua Section, and No. 0001, 697 to 700 and 712 to 726 at RongHua Section, XinFeng Village. Due to regulatory restrictions, land cannot be registered under the Company's name while it has been temporarily registered under the general manager's name and, to secure the Company's right to the land, mortgage registration has been set aside with the Company being the obligee.

(10) Intangible assets

| | Computer software (NT$'000) |
|---|---|
| Cost: | |
| As of January 1, 2016 | 55,622 |
| Additions – acquired separately | 20,457 |
| Derecognized upon retirement | (33,411) |
| Reclassification | 1,377 |
| Effect of exchange rate changes | (1,790) |
| As of December 31, 2016 | 42,255 |

| | |
|---|---|
| As of January 1, 2015 | 40,101 |
| Additions – acquired separately | 44,806 |
| Derecognized upon retirement | (29,007) |
| Effect of exchange rate changes | (278) |
| As of December 31, 2015 | 55,622 |
| | |
| Amortization and Impairment: | |
| As of January 1, 2016 | 25,342 |
| Amortization | 31,215 |
| Derecognized upon retirement | (33,411) |
| Reclassification | 1,185 |
| Effect of exchange rate changes | (896) |
| As of December 31, 2016 | 23,435 |
| | |
| As of January 1, 2015 | 20,119 |
| Amortization | 34,432 |
| Derecognized upon retirement | (29,007) |
| Effect of exchange rate changes | (202) |
| As of December 31, 2015 | 25,342 |
| | |
| Carrying amount, net: | |
| As of December 31, 2016 | 18,820 |
| As of December 31, 2015 | 30,280 |

Amounts of amortization recognized for intangible assets are as follows:

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Operating expense | 205 | - |
| Sales and marketing | 869 | 1,107 |
| General and administrative | 29,445 | 31,257 |
| Research and development | 696 | 2,068 |
| Total | 31,215 | 34,432 |

(11) Other non-current assets

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Refundable deposits | 49,919 | 45,106 |
| Long-term prepaid rent | 245,466 | 273,679 |
| Total | 295,385 | 318,785 |

As of December 31, 2016 and 2015, among the long-term prepaid rent, the balances of right to use land amounted to NT$245,466 thousand and NT$273,679 thousand, respectively.

(12) Short-term loans

| | Interest interval (%) | As of December 31, | |
|---|---|---|---|
| | | 2016 (NT$'000) | 2015 (NT$'000) |
| Unsecured bank loans | 0.88~1.85 | 2,228,478 | 3,095,030 |

As of December 31, 2016 and 2015, the line of unused short-term loan credit for the Group amounted to NT$6,192,525 thousand and NT$3,156,970 thousand, respectively.

(13) Other payable

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Accrued expense | 2,293,765 | 2,662,966 |
| Equipment payable | 725,692 | 1,265,758 |
| Accrued interest | 2,344 | 4,038 |
| Total | 3,021,801 | 3,932,762 |

(14) Provisions

| | Sales Returns and Allowances (NT$'000) |
|---|---|
| As of January 1, 2016 | 294 |
| Additions | - |
| Used | - |

| | |
|---|---|
| Reversal | (294) |
| Adjustment to present value due to discount rate change and passage of time | - |
| As of December 31, 2016 | - |

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Current | - | 294 |
| Non-current | - | - |
| Total | - | 294 |

Sales returns and allowances

The Group incurred sales returns and allowances based on past experiences and other known factors as reductions against sales revenue upon sale, recording it under the caption of provisions.

(15) Other current liabilities

A.

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Other current liabilities | 69,362 | 73,152 |
| Unearned sales revenue | 81,049 | 21,607 |
| Deferred revenue - Customer Loyalty Programmes | 1,623 | 1,302 |
| Current portion of long-term loans | 536,257 | 572,640 |
| Total | 688,291 | 668,701 |

B. Customer loyalty programs

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Balance, beginning | 1,302 | 781 |
| Deferred during the period | 11,561 | 637 |
| Recognized in profit or loss | (11,240) | (116) |
| Balance, ending | 1,623 | 1,302 |

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Current | 1,623 | 1,302 |
| Non-current | - | - |
| Total | 1,623 | 1,302 |

(16) Long-term loans

Details of long-term loans were as follows:

| Debtor | Type of Loan | Maturity | Loan Balance As of Dec. 31, 2016 (NT$'000) | Repayment |
|---|---|---|---|---|
| Mega International Commercial Bank - LanYa Branch | Secured bank loan | 2020.05.07 | 96,000 | Note 9 |
| Mega International Commercial Bank - LanYa Branch | Credit loan | 2018.08.12-2021.09.05 | 1,676,397 | Note 8 |
| The Shanghai Commercial & Savings Bank - ZhongLi Branch | Secured bank loan | 2017.04.15-2019.01.15 | 75,000 | Note 6 and 8 |
| The Shanghai Commercial & Savings Bank - ZhongLi Branch | Credit loan | 2017.01.15-2017.04.15 | 3,750 | Note 8 |
| Taipei Fubon Commercial Bank – BeiTou Branch | Credit loan | 2017.12.14 | 193,500 | Note 10 |
| Total | | | 2,044,647 | |
| Less: current portion | | | (536,257) | |
| Non-current portion | | | 1,508,390 | |

| Debtor | Type of Loan | Maturity | Loan Balance As of Dec. 31, 2015 (NT$'000) | Repayment |
|---|---|---|---|---|
| Mega International Commercial Bank - LanYa Branch | Secured bank loan | 2016.05.07-2016.12.15 | 123,081 | Note 1, 2 and 9 |
| Mega International Commercial Bank - LanYa Branch | Credit loan | 2016.01.17-2020.12.04 | 1,162,006 | Note 2, 3 and 4 |
| The Shanghai Commercial & Savings Bank - ZhongLi Branch | Secured bank loan | 2016.07.15-2019.01.15 | 181,953 | Note 6, 7 and 8 |
| The Shanghai Commercial & Savings Bank - ZhongLi Branch | Credit loan | 2016.01.24-2017.04.15 | 15,000 | Note 6 and 8 |
| Land Bank of Taiwan - ZhongLi Branch | Credit loan | 2016.04.27 | 62,999 | Note 2 and 5 |
| Taipei Fubon Commercial Bank – BeiTou Branch | Credit loan | 2017.12.14 | 393,900 | Note 10 |
| Total | | | 1,938,939 | |
| Less: current portion | | | (572,640) | |
| Non-current portion | | | 1,366,299 | |

Note 1: A term is defined as every 3 months starting from the initial draw-down date. Grace period is 2 years (8 terms). The rest is repayable in installments of equal amount for 20 terms.

Note 2: Interest shall be paid for the first 12 months from the initial draw-down date. Starting from the 13th month, interest shall be paid monthly with principal repaid every 3 months.

Note 3: A term is defined as every 3 months starting from the initial draw-down date. The loan is repayable in installments of equal amount for 20 terms.

Note 4: A term is defined as every 3 months starting from the initial draw-down date. The loan is repayable in installments of equal amount for 16 terms.

Note 5: A term is defined as every 1 months starting from the initial draw-down date. The principal and interest are repayable in installments of equal amount.

Note 6: A term is defined as every 3 months starting from the initial draw-down date. Grace period is 2 years (8 terms). The rest is repayable in installments of equal amount for 12 terms.

Note 7: Starting from the 25th month, a term is defined as every 3 months. The loan is repayable in installments of equal amount for 11 terms.

Note 8: A term is defined as every 3 months starting from the initial draw-down date. Grace period is 1 years (4 terms). The rest is repayable in installments of equal amount for 16 terms.

Note 9: The first year is the grace period while the loan principal is repaid in 16 installments 4% for each of the first 15 installments and 40% for the very last installment.

Note 10: One year after the initial draw-down date is considered term one and the following terms are defined as every 6 months since then. The principal and interest are repayable in installments of equal amount for 5 terms.

A. A portion of property, plant and equipment were pledged to Mega International Commercial Bank and Shanghai Commercial & Savings Bank (the first-priority mortgagors) as collaterals for secured bank loans. Please refer to Note 8 for more details.

B. As of December 31, 2016 and 2015, the interest rate intervals for long-term loans were 1.076%~2.590% and 1.02%~2.01%, respectively.

(17) Other non-current liabilities

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Accrued pension costs | 31,009 | 34,148 |
| Deposits received | 59,119 | 51,846 |
| Total | 90,128 | 85,994 |

(18) Post-employment benefits

Defined contribution plan

The Company and its domestic subsidiaries adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company and its domestic subsidiaries will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company and its domestic subsidiaries have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

Pension benefits for employees of overseas subsidiaries and branches are provided in accordance with the local regulations.

Expenses under the defined contribution plan for the years ended December 31, 2016 and 2015 were NT$113,660 thousand and NT$112,096 thousand, respectively.

Defined benefits plan

The Company and its domestic subsidiaries adopt a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company and its domestic subsidiaries and its domestic subsidiaries contribute an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee.

The fund is operated in a potofolio basis by Governance Committee on Labor Retirement Fund in accordance with the Rule for Custody and Operating the Labor Retirement Fund. The investment of the Fund may be executed either by the Committee itself or by outsourced other profession institutions with its investment stategy, including both active and passive management, targeting in a medium or longer term. In considering the risks of market, credit and liquidity, the Committee establishes the ceiling of fund investment and control plan, in one hand, to reduce investment risk to an affordable extent and, in the other hand, to achieve the targeted return flexibly. As of December 31, 2016, the Company plans to contribute NT$4,969 thousand to the funds under its defined benefit scheme during the following fiscal year.

As of December 31, 2016 and 2015, the maturities of the Company's defined benefit plan were expected in 2036 and 2037 and the detail information is listed as below.

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Less than one year | 13,014 | 14,162 |
| More than one year but less than five years | 17,313 | 3,038 |
| More than five years | 113,555 | 22,213 |
| Total | 143,882 | 39,413 |

Pension costs recognized in profit or loss were as follows:

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Current period service costs | 189 | 152 |
| Net interest of defined benefit liability (asset) | 683 | 668 |
| Previous period service costs | - | - |
| Settlement | - | - |
| Total | 872 | 820 |

Reconciliation of liability (asset) of the defined benefit plan is as follows:

| | As of | | |
|---|---|---|---|
| | Dec. 31, 2016 (NT$'000) | Dec. 31, 2015 (NT$'000) | Jan. 1, 2015 (NT$'000) |
| Defined benefit obligation | 130,404 | 127,707 | 116,697 |
| Plan assets at fair value | (99,395) | (93,559) | (87,029) |
| Other non-current liabilities – net defined benefit liability | 31,009 | 34,148 | 29,668 |

Reconciliation of liability (asset) of the defined benefit liability is as follows:

| | Present value of defined benefit obligation (NT$'000) | Fair value of plan assets (NT$'000) | Net defined benefit liability (asset) (NT$'000) |
|---|---|---|---|
| 1/1/2015 | 116,697 | (87,029) | 29,668 |
| Current service cost | 152 | - | 152 |
| Interest expense(revenue) | 2,626 | (1,958) | 668 |
| Past service cost and settlement | - | - | - |
| Total | 2,778 | (1,958) | 820 |
| | | | |
| *<u>Re-measurment on defined benefit liability/assets:</u>* | | | |
| Actuarial gain/loss due to change in population statistic assumptions | 2,453 | - | 2,453 |
| Actuarial gian/loss due to change in financial assumptions | 6,154 | - | 6,154 |
| Experience adjustments | 474 | (360) | 114 |

| | | | |
|---|---|---|---|
| Re-measurement on defined benefit assets | - | - | - |
| Total | 9,081 | (360) | 8,721 |
| Benefits paid | (849) | 849 | - |
| Contributions by employer | - | (5,061) | (5,061) |
| Effect of exchange rate | - | - | - |
| 12/31/2015 | 127,707 | (93,559) | 34,148 |
| Current service cost | 189 | - | 189 |
| Interest expense(revenue) | 2,554 | (1,871) | 683 |
| Past service cost and settlement | - | - | - |
| Total | 2,743 | (1,871) | 872 |
| *Re-measurment on defined benefit liability/assets:* | | | |
| Actuarial gain/loss due to change in population statistic assumptions | (726) | - | (726) |
| Actuarial gian/loss due to change in financial assumptions | 5,073 | - | 5,073 |
| Experience adjustments | (4,393) | 1,005 | (3,388) |
| Re-measurement on defined benefit assets | - | - | - |
| Total | (46) | 1,005 | 959 |
| Benefits paid | - | - | - |
| Contributions by employer | - | (4,970) | (4,970) |
| Effect of exchange rate | - | - | - |
| 12/31/2016 | 130,404 | (99,395) | 31,009 |

The major categories as a percentage of the fair value of total plan assets are as follows:

| | Pension plan (%) as of December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Cash | 100.00% | 100.00% |

The actuarial assumptions used for the Group’s defined benefit plan are shown below:

| | As of December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Discount rate | 1.80% | 2.00% |
| Expected rate of salary increases | 3.00% | 3.00% |

Sensitivity analysis:

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | 2016 (NT$'000) | | 2015 (NT$'000) | |
| | Increase in defined benefit obligation | Decrease in defined benefit obligation | Increase in defined benefit obligation | Decrease in defined benefit obligation |
| Discount rate increase by 0.5% | - | (12,157) | - | (12,150) |
| Discount rate decrease by 0.5% | 13,692 | - | 13,746 | - |
| Expected salary level increased by 0.5% | 13,454 | - | 13,534 | - |
| Expected salary level decreased by 0.5% | - | (12,080) | - | (12,095) |

For the purpose of sensitivity analysis above, the Company calculated the impact on defined benefit obligation due to a reasonable and feasible change of one singal assumption (i.e. discount rate or expected salary level) with other assumptions remaining equal. Please note that the sensitivity analysis has its limitation due to the co-relation between different actuarial assumptions and the rarity that only one assumption changes at a time. The method used in the analysis is consistent for both current and prior years.

(19) Equity

A. Common shares

As of December 31, 2016 and 2015, the Company's authorized capital and paid-in capital were NT$5,500,000 thousand and NT$4,460,000 thousand, respectively, each share at par value of NT$10, divided into 446,000 thousand shares. Each share represents a voting right and a right to receive dividends.

Treasury stocks brought back by the Company for the purpose of transfer to employee during the period from August 18, 2015 to September 25, 2015 totaled to 550 thousand shares. Please refer to Note 6(19)-C to the financial statements for more details.

B. Capital surplus

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Additional paid-in capital | 5,850,000 | 5,850,000 |
| Differences between equity purchase price and carrying amount arising from actual acquisition or disposal of subsidiaries | 50,925 | 50,925 |

| | | |
|---|---|---|
| All changes in interests in subsidiaries | 38,894 | 38,894 |
| Total | 5,939,819 | 5,939,819 |

According to the Taiwan Company Act, the capital surplus shall not be used except for making good the deficit of the Company. When a company incurs no loss, it may distribute the capital surplus related to the income derived from the issuance of new shares at a premium or income from endowments received by the company up to a certain percentage of paid-in capital. The said capital surplus could be distributed in cash to its shareholders in proportion to the number of shares being held by each of them. Capital surplus related to long-term equity investments cannot be used for any purpose.

C. Treasury stock

For the years ended December 31, 2016 and 2015,treasury stock was held by the Group while treasury stock amounted to NT$32,885 thousand, divided into 550 thousand shares.

For the year ended December 31, 2016, there was no change in share of treasury stock. The movement schedule of treasury stock for the year ended December 31, 2015 was as below (in thousand shares).

| Purpose of repurchase | Beginning balance | Addition | Decrease | Ending balance |
|---|---|---|---|---|
| To be transfered to employees | - | 550 | - | 550 |

According to the Securities and Exchange Law of the R.O.C., the total shares of treasury stock shall not exceed 10% of the Company’s issued stock, and the total purchase amount shall not exceed the sum of the retained earnings, additional paid-in capital-premiums and realized additional paid-in capital. As such, the ceiling number of shares of treasury stock that the Company could hold as of December 31, 2016 were 44,600 thousand shares, with the maximum payments of NT$24,353,389 thousand.

In compliance with Securities and Exchange Law of the R.O.C., treasury stock should not be pledged, nor should it be entitled to voting rights or receiving dividends.

D. Appropriation of earnings and dividend policies

(a) Earning distribution

The Company’s earnings in current year, if any, shall firstly be made to pay all taxes and dues and then to offset prior year’s operation losses. 10% of the remaining amount shall be set aside as legal reserve and special reserve shall be provided pursuant to Article 41 of the Securities and Exchange Act. Any remaining earnings after the said deductions shall be appropriated as follows:

a. 1% as remuneration to directors
b. Bonues to employees cannot be less than 1% of the total bonus to employees and shareholders. Bonus to employees can be distributed in cash or stocks. The parties receiving the stock dividends shall include employees in affiliated companies who met certain conditions stipulated by the Board of Directors.
c. The Board of Directors would propose an earning distribution plan based on the remaining balance combined with the undistributed earnings accumulated during previous years to be resolved at the shareholders' meeting.

However, according to the addition of Article 235-1 of the Company Act announced on May 20, 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as "employees' compensation". The Company's shareholders' meeting held on May 27, 2016 passed the resolution of amending the Articles of Incorporation, according to the revised Articles of Incorporations, current year's earnings, if any, shall be distributed in the following order:

a. Payment of all taxes and dues;
b. Offset prior years' operation losses;
c. Set aside 10% of the remaining amount after deducting items (a) and (b) as legal reserve;
d. Set aside or reverse special reserve in accordance with law and regulations; and
e. The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting.

(b) Dividend policies

The Company is in an industry with versatile environment. For long-term finance planning requirements and to meet the shareholders' demand for cash, dividend policy aims for a steady balance. Cash dividends distributed each year cannot be less than 10% of the total dividends paid.

(c) Legal reserve

According to the Company Act, legal reserve shall be set aside until such amount equal total authorized capital. Legal reserve can be used to offset deficits. If the Company does not incur any loss, the portion of legal reserve exceeding 25% of the paid-in capital may be distributed to shareholders by issuing new shares or by cash in proportion to the number of shares held by each shareholder.

(d) Special reserve

Following the adoption of Taiwan IFRS, the Company complies with Order No. Jin-Guan-Zheng-Fa 1010012865 issued by FSC on April 6, 2012. On the Company's first-time adoption of the Taiwan IFRS, for any unrealized revaluation gains and cumulative translation adjustments recorded under shareholders' equity that the Company elects to transfer to retained earnings by application of the exemption under IFRS 1, an equal amount of special capital reserve shall be set aside. After the adoption of Taiwan IFRS for the preparation of financial statements, the Company shall set aside supplemental special reserve based on the difference between the amount already set aside according to the requirements in the preceding point and other net deductions from shareholders' equity when appropriating distributable earnings. For any subsequent reversal of other net deductions from shareholders' equity, the amount reserved may be distributed as earnings.

The Company did not incur any special reserve upon the first-time adoption of Taiwan IFRS.

(e) The appropriations of earnings for the Year 2016 and 2015 were approved through the Board of Directors' meetings and shareholders' meetings held on February 8, 2017 and May 27, 2016, respectively. The details of the distributions are as follows:

| | Appropriation of earnings | | Dividend per share (in NT$) | |
|---|---|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) | 2016 | 2015 |
| Legal reserve | 223,370 | 290,395 | | |
| Cash dividends - common stock | 1,336,350 | 1,559,075 | 3.00 | 3.50 |
| Total | 1,559,720 | 1,849,470 | | |

For 2015 employee and directors' compensation under the new Article to be amended, please refer to Note 6(22) for details.

E. Non-controlling interests

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Beginning balance | 24,367,665 | 2,654,765 |
| Net loss attributable to NCIs | (160,677) | (174,426) |
| Other comprehensive income attributable to NCIs: | | |
| Exchange differences arising on translation of foreign operations | (130,929) | (43,674) |
| Ending balance | 2,145,059 | 2,436,665 |

(20) Sale

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Sale of goods | 23,182,483 | 23,155,396 |
| Less: sales returns and allowances | (485,401) | (491,745) |
| Services rendered | 157,707 | 190,589 |
| Other operating revenue | 310,277 | 207,071 |
| Total | 23,165,066 | 23,061,311 |

(21) Operating lease

A. Group as a lessee

The commercial leasing agreements that the Group entered into for buildings and plants have an average term of one to five years. There are no restrictive covenants for the Group in the contracts.

Total future minimum lease payments due to irrevocable leasing contracts were as follows:

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Less than one year | 89,893 | 84,745 |
| More than one year but less than five years | 304,162 | 394,056 |
| Total | 394,055 | 478,801 |

Expenses under operating lease were as follows:

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Minimum lease payment | 148,762 | 149,112 |

B. Group as a lessor

The leasing agreements that the Group entered into for plants have an average term of one year.

Total future minimum lease payments due to irrevocable leasing contracts were as follows:

| | As of December 31 | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Less than one year | - | - |

For the years ended December 31, 2016 and 2015, rent incomes of the Group amounted to NT$26,903 thousand and NT$22,716 thousand, respectively.

(22) Summary statement of employee benefits, depreciation and amortization by function is as follows:

| Function / Nature | 2016 (NT$'000) | | | 2015 (NT$'000) | | |
|---|---|---|---|---|---|---|
| | Cost of goods sold | Operating expense | Total | Cost of goods sold | Operating expense | Total |
| Employee benefit | | | | | | |
| Salaries & wages | 2,972,538 | 923,223 | 3,895,761 | 3,182,359 | 921,541 | 4,103,900 |
| Labor and health insurance | 185,291 | 71,144 | 256,435 | 189,146 | 67,082 | 256,228 |
| Pension | 77,990 | 36,542 | 114,532 | 79,690 | 33,226 | 112,916 |
| Other employee benefit | 218,370 | 100,111 | 318,481 | 214,987 | 93,195 | 308,182 |
| Depreciation | 3,093,276 | 370,741 | 3,464,017 | 2,952,612 | 244,291 | 3,196,903 |
| Amortization | 205 | 31,010 | 31,215 | - | 34,432 | 34,432 |

A resolution was passed at the shareholders' meeting of the Company held on May 27, 2016 to amend the Articles of Incorporation of the Company. According to the resolution, not lower than 10% of profit of the current year is distributable as employees' compensation and no higher than 1% of profit of the current year is distributable as remuneration to directors and supervisors. However, the company's accumulated losses shall have been covered. 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 employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of the year ended December 31,2016, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2016 to be not lower than 10% and not higher than 1% of profit of the current nine-month period, respectively, recognized as employee benefits expense. As such, employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2016 amount to NT$343,533 thousand and NT$20,911 thousand, respectively. Employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2015 amount to NT$442,444 thousand and NT$26,026 thousand. The aforementioned employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2016 were estimated based on post-tax net income of the period and recognized as salary expenses. The number of stocks distributed as employees' compensation, if any, shall be calculated based on the closing price one day earlier than the date of shareholders' meeting and considered the impacts of ex-right/ex-dividend.

The Company's Board has determined the employees' compensation and directors' renumeration, all in cash, to be NT$343,533 thousand and NT$20,911 thousand, respectively, in a meeting held on February 8, 2017.

No material differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors and supervisors for the year ended December 31, 2016.

The Company's Board has determined the employees' compensation and directors' renumeration, all in cash, to be NT$442,444 thousand and NT$26,026 thousand, respectively, in a meeting held on February 1, 2016.

No material differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors and supervisors for the year ended December 31, 2015.

(23) Non-operating incomes and expenses

A. Other incomes

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Interest income | 72,471 | 86,116 |
| Other income－others | 123,201 | 223,360 |
| Total | 195,672 | 309,476 |

B. Other gains and losses

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Loss from disposal of property, plant and equipment | (43,555) | (108,807) |
| Foreign exchange loss, net | (48,989) | (14,925) |
| Financial assets at fair value through profit | 10,653 | 55,431 |
| Impairment loss on non-financial assets | (21,126) | (14,211) |
| Other expenses | (28,880) | (28,472) |
| Total | (131,897) | (110,984) |

C. Finance costs

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Interests on bank loans | 71,306 | 56,968 |

(24) Components of other comprehensive income (OCI)

For the year ended December 31, 2016

| | Arising during the period (NT$'000) | Reclassification during the period (NT$'000) | Subtotal (NT$'000) | Income tax benefit (expense) (NT$'000) | OCI, Net of tax (NT$'000) |
|---|---|---|---|---|---|
| Not reclassified to profit or loss: | | | | | |
| Actuarial gains or losses on defined benefits plan | (959) | - | (959) | - | (959) |
| To be reclassified to profit or loss in subsequent period: | | | | | |
| Exchange differences arising on translation of foreign operations | (361,332) | - | (361,332) | 39,834 | (321,498) |
| Unrealized valuation gain (loss) on available-for-sale financial assets | (4,528) | - | (4,528) | - | (4,528) |
| Total OCI | (366,819) | - | (366,819) | 39,834 | (326,985) |

For the year ended December 31, 2015

| | Arising during the period (NT$'000) | Reclassification during the period (NT$'000) | Subtotal (NT$'000) | Income tax benefit (expense) (NT$'000) | OCI, Net of tax (NT$'000) |
|---|---|---|---|---|---|
| Not reclassified to profit or loss: | | | | | |
| Actuarial gains or losses on defined benefits plan | (8,721) | - | (8,721) | - | (8,721) |
| To be reclassified to profit or loss in subsequent period: | | | | | |
| Exchange differences arising on translation of foreign operations | (116,596) | - | (116,596) | 12,397 | (104,199) |
| Unrealized valuation gain (loss) on available-for-sale financial assets | 6,151 | (30,845) | (24,694) | - | (24,694) |
| Total OCI | (119,166) | (30,845) | (150,011) | 12,397 | (137,614) |

(25)Income tax

A. The major components of income tax expense (income) are as follows:

Income tax expense (benefit) recognized in profit or loss

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Current income tax expense (benefit): | | |
| Current income tax expense | 618,253 | 687,692 |
| Reversal of uncertain tax position upon finalization | (122,096) | (210,169) |
| Deferred tax expense (benefit): | | |
| Deferred tax expense (benefit) relating to origination and reversal of temporary differences | 273 | (1,801) |
| Total income tax expense | 496,430 | 475,722 |

B. Income tax recognized in other comprehensive income

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Deferred tax expense (benefit): | | |
| Exchange differences arising on translation of foreign operations | (39,834) | (12,397) |

A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Accounting profit (loss) before tax from continuing operations | 2,569,458 | 3,205,248 |
| Tax payable at the enacted tax rates | 508,837 | 501,265 |
| 10% surtax on Undistributed earnings | 120,013 | 157,191 |
| Tax effect of income tax-exempted | (43,296) | (112,954) |

| | | |
|---|---|---|
| Tax effect of expenses not deductible for tax purposes | 37 | 506 |
| Tax effect of deferred tax assets/liabilities | 32,935 | 139,883 |
| Reversal of uncertain tax position upon finalization | (122,096) | (210,169) |
| Total income tax expense (income) recognized in profit or loss | 496,430 | 475,722 |

C. Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2016

| | Beginning balance as of Jan. 1, 2016 (NT$'000) | Deferred tax income (expense) recognized in P/L (NT$'000) | Deferred tax income (expense) recognized in OCI (NT$'000) | Deferred tax income (expense) recognized in equity (NT$'000) | Increase from business acquisition (NT$'000) | Exchange adjustment (NT$'000) | Ending balance as of Dec. 31, 2016 (NT$'000) |
|---|---|---|---|---|---|---|---|
| Temporary differences | | | | | | | |
| Prepaid appreciation tax on agricultural land | 9,593 | - | - | - | - | - | 9,593 |
| Unrealized loss on inventory valuation | 287 | (6) | - | - | - | - | 281 |
| Unrealized exchange loss (gain) | (356) | (275) | - | - | - | - | (631) |
| Other | - | 8 | - | - | - | - | 8 |
| Cumulative translation adjustment | (39,834) | - | 39,834 | - | - | - | - |
| Deferred tax income/ (expense) | | (273) | 39,834 | - | - | - | |
| Net deferred tax assets/(liabilities) | (30,310) | | | | | | 9,251 |
| Reflected in balance sheet as follows: | | | | | | | |
| Deferred tax assets | 9,880 | | | | | | 9,882 |
| Deferred tax liabilities | (40,190) | | | | | | (631) |

For the year ended December 31, 2015

| | Beginning balance as of Jan. 1, 2015 (NT$'000) | Deferred tax income (expense) recognized in P/L (NT$'000) | Deferred tax income (expense) recognized in OCI (NT$'000) | Deferred tax income (expense) recognized in equity (NT$'000) | Increase from business acquisition (NT$'000) | Exchange adjustment (NT$'000) | Ending balance as of Dec. 31, 2015 (NT$'000) |
|---|---|---|---|---|---|---|---|
| Temporary differences | | | | | | | |
| Prepaid appreciation tax on agricultural land | `- | 9,593 | - | - | - | - | 9,593 |
| Unrealized loss on inventory valuation | 276 | 11 | - | - | - | - | 287 |
| Unrealized exchange loss (gain) | (2,146) | 1,790 | - | - | - | - | (356) |
| Cumulative translation adjustment | (52,231) | - | 12,397 | - | - | - | (39,834) |
| Deferred tax income/ (expense) | | 11,394 | 12,397 | - | - | - | |
| Net deferred tax assets/(liabilities) | (54,101) | | | | | | (30,310) |
| Reflected in balance sheet as follows: | | | | | | | |
| Deferred tax assets | 276 | | | | | | 9,880 |
| Deferred tax liabilities | (54,377) | | | | | | (40,190) |

D. Unrecognized deferred tax assets

As of December 31, 2016 and 2015, deferred tax assets that have not been recognized as they may not be used to offset future taxable income amounted to NT$1,056,371 thousand and NT$1,078,696 thousand, respectively.

E. The investments and capital additions of the Company and its subsidiary, Pegavision, are qualified as the investment on manufacture or technology service industry during the period from July 1, 2008 to December 31, 2009 and, therefore, entitled to a 5-year tax holidays/exemption enjoyed by the Group are listed as below.

| Item | Approval authority | Approval document | Exemption period |
|---|---|---|---|
| 1 | Ministry of Economic Affairs | No. 10005112010 issued at Aug. 25, 2011 | Jan. 1, 2013~ Dec. 31, 2017 |
| 2 | Ministry of Economic Affairs | No. 10005116950 issued at Dec. 27, 2011 | Jan. 1, 2014~ Dec. 31, 2018 |

F. Unused balance of deductible net operating loss within the Group was listed as following.

| Occurrence year | Accumulated net operating loss (NT$'000) | Unused balance As of December 31, 2016 (NT$'000) | Unused balance As of December 31, 2015 (NT$'000) | Expiration Year |
|---|---|---|---|---|
| 2012 | 135,158 | 98,291 | 98,751 | 2022 |

G. Imputation credit information

| | As of December 31, 2016 (NT$'000) | As of December 31, 2015 (NT$'000) |
|---|---|---|
| Balances of imputation credit | 2,140,790 | 1,942,384 |

The Company's expected/actual creditable ratio for 2016 and 2015 were 16.09% and 14.50%. However, effective January 1, 2015, the creditable ratio for the individual shareholders residing in the Republic of China will be half of the original creditable ratio according to the revised Article 66-6 of the Income Tax Law.

As of December 31, 2016, the Company did not have unappropriated earnings resulted in the years of 1997 and before.

H. The assessment of income tax return

As of December 31, 2016, the assessment status of income tax returns of the Company and subsidiaries were as follows:

| | The assessment of income tax returns |
|---|---|
| The Company | Assessed and approved up to 2013 |
| Subsidiary - Pegavision Corporation | Assessed and approved up to 2014 |
| Subsidiary - Kinsus Investment Co., Ltd. | Assessed and approved up to 2014 |

(26)Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to the common shareholders of the parent entity by the weighted average number of common shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

A. Basic earnings per share

| | For the year ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Net income available to common shareholders of the parent (in NT$'000) | 2,233,705 | 2,903,952 |
| Weighted average number of common shares outstanding (in thousand shares) | 445,450 | 445,822 |
| Basic earnings per share (in NT$) | $5.01 | $6.51 |

B. Diluted earnings per share

| | For the year ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Net income available to common shareholders of the parent (in NT$'000) | 2,233,705 | 2,903,952 |
| Net income available to common shareholders of the parent after dilution (in NT$'000) | 2,233,705 | 2,903,952 |
| Weighted average number of common shares outstanding (in thousand shares) | 445,450 | 445,822 |
| Effect of dilution: | | |
| Employee bonus – stock (in thousand shares) | 5,383 | 9,611 |
| Weighted average number of common shares outstanding after dilution (in thousand shares) | 450,833 | 455,433 |
| Diluted earnings per share (in NT$) | $4.95 | $6.38 |

No other transactions that would significantly change the outstanding common shares or potential common shares incurred during the period subsequent to reporting date and up to the approval date of financial statements.

(27) Subsidiary that has material non-controlling interests

Proportion of equity interest held by non-controlling interests:

| Name | Country | As of December 31, 2016 | As of December 31, 2015 |
|---|---|---|---|
| PIOTEK HOLDINGS LTD. and its subsidary | China | 51.00% | 51.00% |

| Accumulated balances of material non-controlling interest: | As of December 31, 2016 (NT$'000) | As of December 31, 2015 (NT$'000) |
|---|---|---|
| PIOTEK HOLDINGS LTD. and its subsidary | 1,370,753 | 1,777,880 |

| Profit/(loss) allocated to material non-controlling interest: | For the year ended December 31, 2016 (NT$'000) | For the year ended December 31, 2015 (NT$'000) |
|---|---|---|
| PIOTEK HOLDINGS LTD. and its subsidary | (278,764) | (254,741) |

The summarized financial information of this subsidiary is provided below. This information is based on amounts before inter-company eliminations.

Summarized information of profit or loss is as follows:

| | For the year ended December 31, 2016 (NT$'000) | For the year ended December 31, 2015 (NT$'000) |
|---|---|---|
| Operating revenue | 4,190,571 | 4,700,977 |
| Profit/loss from continuing operation | (568,886) | (520,173) |
| Total comprehensive income for the period | (830,882) | (609,370) |

Summarized information of financial position is as follows:

| | As of December 31, 2016 (NT$'000) | As of December 31, 2015 (NT$'000) |
|---|---|---|
| Current assets | 2,098,636 | 2,516,463 |
| Non-current assets | 2,585,677 | 3,336,563 |
| Current liabilities | 1,044,255 | 1,188,561 |
| Non-current liabilities | 842,596 | 1,036,121 |

Summarized cash flow information is as follows:

| | For the year ended Deceember 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Operating activities | (198,386) | 123,821 |
| Investing activities | (39,600) | (171,773) |
| Financing activities | (193,459) | 404,416 |
| Net increase/(decrease) in cash and cash equivalents | (463,330) | 349,218 |

## 7. RELATED PARTY TRANSACTIONS

(1) Significant transactions with related parties

A. Sales to

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Parent company | 1,393,606 | 1,452,652 |
| Other related parties | 69,913 | 62,426 |
| Total | 1,463,519 | 1,515,078 |

Selling prices and collection terms to related parties are similar to those to third party customers for the years ended December 31, 2016 and 2015. The collection terms are 30 to 60 days from the end of delivery month by telegraphic transfer.

B. Purchases

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Other related parties | 15,870 | - |

The product specification of goods purchased from related parties in the year ended December 31, 2016 and 2015, differed from those purchased from other vendors. Thus, transaction prices are not comparable. The payment terms for related parties and non-related parties are 30 to 120 days from the end of delivery month by telegraphic transfer.

C. For the years ended December 31, 2016 and 2015, the Group recognized travelling expenses of NT$152 thousand and NT$340 thousand, respectively, for commissioning other related parties to handle travelling logistics.

D. For the years ended December 31, 2016 and 2015, the Group recognized rent expenses of NT$68,236 thousand and NT$50,460 thousand, respectively, for plants leased from the Parent.

Moreover, for the years ended December 31, 2016 and 2015, the Group recognized rent expenses of NT$923 thousand and NT$7,769 thousand, respectively, for plants leased from other related parties.

In addition, for the years ended December 31, 2016 and 2015, the Group recognized rent expenses of NT$265 thousand and NT$183 thousand (tax included), respectively, for various facilities leased from the Parent.

E. For the years ended December 31, 2016 and 2015, the Group recognized operating expenses of NT$5,591 thousand and NT$7,554 thousand, respectively, for services provided by other related parties.

Moreover, for the years ended December 31, 2016 and 2015, the Group recognized operating expenses of NT$1,073 thousand and NT$1,261 thousand (tax included), respectively, for services provided by the Parent.

In addition, for the years ended December 31, 2016 and 2015, the Group incurred operating expenses of NT$70,504 thousand and NT$91,965 thousand (tax included), respectively, for utility bills paid by the Parent on behalf of the Group.

F. For the years ended December 31, 2016 and 2015, the Group recognized rent income of NT$5,332 thousand and NT$7,243 thousand, for plants leased to other related parties.

G. For the years ended December 31, 2016, the Group recognized other income of NT$1,877 thousand, for provided services to other related parties.

H. For the year ended December 31, 2016, the Group recognized other income of NT$41,930 thousand, for selling equipment and spare parts to other related parties.

I. Accounts receivable - related parties

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Parent company | 357,057 | 227,150 |
| Other related parties | 42,679 | 21,759 |
| Total | 399,736 | 248,909 |
| Less: allowance for doubtful accounts | - | - |
| Net | 399,736 | 248,909 |

J. Accounts payable - related parties

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Other related parties | 16,059 | - |

K. Salaries and rewards to key management of the Group

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Short-term employee benefits | 96,019 | 90,101 |
| Post-employee benefits | 810 | 819 |
| Total | 96,829 | 90,920 |

L. Other receivables

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Other related parties | 307,646 | 2,081 |

M.Refundable deposits

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Parent company | 10,000 | 5,700 |

N. Accrued expenses

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Ultimate parent company | 16,594 | 22,971 |
| Other related parties | 936 | 1,607 |
| Total | 17,530 | 24,578 |

O. Transfering asset

The Group did not conduct any transactions related to property, plant and equipment with related parties during the year ended December 31, 2015. While, for 2016, transfer of assets with related parties were shown as the following.

| Type of Assets | Related Parties | Book Value (NT$'000) | Selling price (NT$'000) | Gain (NT$'000) | Price reference |
|---|---|---|---|---|---|
| 2016 | | | | | |
| Machinery | Other related parties | 241,776 | 241,776 | - | Negotiated |

## 8. PLEDGED ASSETS

The following assets of the Group are pledged as collaterals:

| Item | Carrying Amount As of December 31, 2016 (NT$'000) | Carrying Amount As of December 31, 2015 (NT$'000) | Purpose |
|---|---|---|---|
| Property, plant and equipment - machinery (carrying amount) | 244,492 | 332,913 | Long-term secured loans |
| Property, plant and equipment - other equipment (carrying amount) | 5,157 | 13,400 | Long-term secured loans |
| Total | 249,649 | 346,313 | |

## 9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) The Group's unused letters of credit (LC) as of December 31, 2016 were as follows:

| Currency | LC Amount (in thousand) | | Security(in thousand) |
|---|---|---|---|
| JPY | JPY | 1,454,932 | - |
| USD | USD | 8,469 | - |
| Euro | EUR | 53 | - |

(2) Details of significant constructions in progress and outstanding contracts of property, plant and equipment as of December 31, 2016 were as follows:

| Nature of Contract | Contract Amount (NT$'000) | Amount Paid (NT$'000) | Outstanding Balance (NT$'000) |
|---|---|---|---|
| Machinery and contruction contracts | 3,807,972 | 3,049,055 | 758,917 |

## 10. SIGNIFICANT DISASTER LOSS

None

## 11. SIGNIFICANT SUBSEQUENT EVENT

None

## 12. OTHERS

(1) Categories of financial instruments

Financial assets

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Financial assets at fair value through profit or loss: | | |
| Held for trading | 3,268,435 | 3,536,370 |
| Loans and receivable | | |
| Cash and cash equivalents (excluding cash on hand) | 11,206,953 | 12,740,073 |

| | | |
|---|---|---|
| Bond investments with no active market | 423,057 | 428,112 |
| Notes receivable | 3,030 | 1,835 |
| Accounts receivable | 3,197,829 | 3,590,193 |
| Accounts receivable - related parties | 399,736 | 248,909 |
| Other receivable | 289,514 | 336,543 |
| Other receivable - related parties | 307,646 | 2,081 |
| Total | 19,096,200 | 20,884,116 |

Financial liabilities

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Financial liabilities measured at amortized cost: | | |
| Short-term loans | 2,228,478 | 3,095,030 |
| Payables | 5,212,437 | 5,985,045 |
| Long-term loans (including current portion) | 2,044,647 | 1,938,939 |
| Total | 9,485,562 | 11,019,014 |

(2) Objectives and policies of financial risk management

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activates. The Group identifies, measures, and manages the aforementioned risks based on its policy and risk preferences.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market risk comprises currency risk, interest rate risk and other price risk (e.g. equity instruments).

In practice, it is rarely the case that a single risk variable will change independently from other risk variables. There are usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Group's exposure to foreign currency risk relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign operations. The Group has certain foreign currency receivables denominated in the same foreign currency as certain foreign currency payables, therefore natural hedge is achieved. Thus, hedge accounting is not adopted.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit (loss) and equity is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates of US dollars. The sensitivity analysis is as follows:

If NT dollars appreciates/depreciates against US dollars by 1%, net income (loss) for the years ended December 31, 2016 and 2015 would increase/decrease by NT$9,223 thousand and NT$11,442 thousand, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk relates primarily to the Group's investments with variable interest rates and loans with fixed and variable interest rates, which are all categorized as loans and receivables.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period and presumed to be held for one accounting year, including investments and loans with variable interest rates. If interest rate increases/decreases by 0.1%, the net income (loss) for the years ended December 31, 2016 and 2015 would decrease/increase by NT$1,340 thousand and decrease/increase by NT$7,383 thousand, respectively.

(4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract and result in a financial loss. The Group is exposed to credit risk from operating activities (primarily for accounts and notes receivable) and financing activities (primarily for bank deposits and other financial instruments).

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit risk of all customers are assessed based on a comprehensive review of the customers' financial status, credit ratings from credit institutions, past transactions, current economic conditions and the Group's internal credit ratings. The Group also employs some credit enhancement instruments (e.g. prepayment or insurance) to reduce certain customers' credit risk.

As of December 31, 2016 and 2015, receivables from the top ten customers were accounted for 47.67% and 51.71% of the Group's total accounts receivable, respectively. The concentration of credit risk is relatively insignificant for the remaining receivables.

Credit risk from balances with banks, fixed-income securities and other financial instruments is managed by the Group's finance division in accordance with the Group's policy. The counterparties that the Group transacts with are determined by internal control procedures. They are banks with fine credit ratings and financial institutions, corporate and government agencies with investment-grade credit ratings. Thus, there is no significant default risk. Conclusively, no significant credit risk is expected by the Group.

(5) Liquidity risk management

The Group maintains financial flexibility through the use of cash and cash equivalents, highly-liquid marketable securities, bank loans, etc. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted interest payment relating to borrowings with variable interest rates is extrapolated based on the estimated yield curve as of the end of the reporting period.

Non-derivative financial instruments

| | Less than 1 year (NT$'000) | 1 to 2 years (NT$'000) | 2 to 3 years (NT$'000) | 3 to 4 years (NT$'000) | 4 to 5 years (NT$'000) | Total (NT$'000) |
|---|---|---|---|---|---|---|
| As of December 31, 2016 | | | | | | |
| Loans | 2,825,676 | 552,030 | 477,777 | 376,274 | 151,614 | 4,383,371 |
| Payables | 5,212,437 | - | - | - | - | 5,212,437 |

| As of December 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|
| Loans | 3,734,453 | 831,211 | 228,215 | 252,199 | 117,342 | 5,163,420 |
| Payables | 5,985,045 | - | - | - | - | 5,985,045 |

(6) Fair values of financial instruments

A. The evaluation methods and assumptions applied in determining the fair value

Fair value is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between willing market participants (not under coercion or liquidation). The following methods and assumptions are used by the Group in estimating the fair values of financial assets and liabilities:

(a) The carrying amount of cash and cash equivalents, receivables, payables and other current liabilities approximate their fair value due to their short maturity terms.

(b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (e.g. listed stocks and bonds).

(c) Fair value of equity instruments without active markets (including listed companies' shares from private placement, stocks of public companies not traded in an active market and unlisted stocks) are estimated using the market approach. Under the approach, factors, such as the trading prices of comparable equity instruments in an active market, and other relevant informations (i.e. discount due to lack of liquidity, stock price-to-earning ratio (PER) and price-to-book ratio (PBR) of similar companies) are input into the pricing model for its fair value.

B. Fair value of financial instruments measured at amortized cost

The carrying amount of the Group's financial assets and liabilities measure at amortized cost approximates their fair value.

C. Fair value measurement hierarchy for financial instruments

Please refer to Note 12(7) for fair value measurement hierarchy for financial instruments of the Group.

(7) Fair value measurement hierarchy

A. Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Fair value measurement hierarchy of the Group's assets and liabilities

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

As of December 31, 2016

| | Level 1 (NT$'000) | Level 2 (NT$'000) | Level 3 (NT$'000) | Total (NT$'000) |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Funds | 3,268,435 | - | - | 3,268,435 |
| Financial liabilities: | | | | |
| None | | | | |

As of December 31, 2015

| | Level 1 (NT$'000) | Level 2 (NT$'000) | Level 3 (NT$'000) | Total (NT$'000) |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Funds | 3,536,370 | - | - | 3,536,370 |
| Financial liabilities: | | | | |
| None | | | | |

Transfers between Level 1 and Level 2 during the period

For the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value hierarchy.

(8) Significant financial assets and liabilities denominated in foreign currencies

Information regarding the Group's significant financial assets and liabilities denominated in foreign currencies was listed below:

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Foreign Currencies ($'000) | Exchange Rate | NTD (NT$'000) | Foreign Currencies ($'000) | Exchange Rate | NTD (NT$'000) |
| Financial assets | | | | | | |
| Monetary items: | | | | | | |
| USD | 119,476 | 32.25 | 3,853,096 | 139,277 | 32.83 | 4,571,767 |
| CNY | 115,027 | 4.649 | 534,759 | 93,723 | 5.05 | 473,750 |
| Financial liabilities | | | | | | |
| Monetary items: | | | | | | |
| USD | 142,824 | 32.25 | 4,606,070 | 166,990 | 32.83 | 5,482,634 |
| CNY | 104,865 | 4.649 | 487,514 | 118,755 | 5.05 | 600,304 |

The above information is disclosed based on the carrying amount of foreign currency (after being converted to functional currency).

Foreign exchange gain/loss on monetary financial assets and liabilities is shown as below.

| | For the year ended December 31, | |
|---|---|---|
| Foreign currency resulting in exchange gain or loss | 2016 (NT$'000) | 2015 (NT$'000) |
| USD | (48,995) | (17,421) |
| Other | 6 | 2,497 |

(9) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages and adjusts its capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. ADDITIONAL DISCLOSURES

(1) Information on significant transactions

A. Financing provided to others: None.

B. Endorsement/Guarantee provided to others: Please refer to attachment 1.

C. Marketable securities held as of December 31, 2016 (excluding investments in subsidiaries, associates and joint ventures): Please refer to attachment 2.

D. Individual securities acquired or disposed of with accumulated amount of at least NT$ 300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: Please refer to attachment 3

E. Acquisition of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: Please refer to attachment 4.

F. Disposal of individual real estate with amount of at least NT$100 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.

G. Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital for the year ended December 31, 2016: Please refer to attachment 5.

H. Receivables from related parties of at least NT$100 million or 20 percent of the paid-in capital as of Decemer 31, 2016: attachment 6.

I. Derivative instrument transactions: None.

J. Intercompany relationships and significant intercompany transactions for the year ended December 31, 2016: Please refer to attachment 12.

(2) Information on investees

A. Investees over whom the Company exercises significant influence or control (excluding investees in Mainland China): Please refer to attachment 7.

B. Investees over which the Company exercises control shall be disclosed of information under Note 13(1):

(a) Financing provided to others: None.

(b) Endorsement/Guarantee provided to others: None.

(c) Marketable securities held as of December 31, 2016 (excluding investments in subsidiaries, associates and joint ventures): Please refer to attachment 8

(d) Individual securities acquired or disposed of with accumulated amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: Please refer to attachment 9.

(e) Acquisition of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.

(f) Disposal of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.

(g) Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital for the year ended December 31, 2016: Please refer to attachment 10.

(h) Receivables from related parties of at least NT$100 million or 20 percent of the paid-in capital as of December 31, 2016: Please refer to attachment 11.

(i) Derivative instrument transactions: None.

(3) Information on investments in Mainland China:

A. Name of investee in China, main business, paid-in capital, method of investment, investment flows, percentage of ownership, investment gain or loss, carrying amount at the end of reporting period, inward remittance of earning or loss and the upper limit on investment in China:

(In Thousands of New Taiwan Dollars)

| Name of Investee in China | Main Business | Paid-in Capital (NT$'000) | Method of Investment | Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2016 (NT$'000) | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2016 (NT$'000) | Profit/ Loss of Investee (NT$'000) | Percentage of Ownership (Direct or Indirect Investment) | Share of Profit/Loss (NT$'000) | Carrying Amount as of December 31, 2016 (NT$'000) | Accumulated Inward Remittance of Earnings as of Dec. 31, 2016 (NT$'000) | Accumulated Outflow of Investment from Taiwan to Mainland China as of Dec. 31, 2016 (NT$'000) | Investment Amounts Authorized by Investment Commission, MOEA (NT$'000) | Upper Limit on Investment in China by Investment Commission, MOEA (NT$'000) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outflow (NT$'000) | Inflow (NT$'000) | | | | | | | | | |
| Kinsus Interconnect Technology Suzhou Corp. | Manufacturing and selling PCB (not high-density fine-line) | 2,257,500 (Note 2) | (Note 1) | 2,257,500 (Note 2) | - | - | 2,257,500 (Note 2) | 31,763 (Note 2 and Note 4) | 100% | 31,763 (Note 2、Note 4 and Note 7) | 1,034,889 (Note 2、Note 4 and Note 7) | - | 2,257,500 (Note 2) | 2,257,500 (Note 2) | No upper limit (Note 5) |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Piotek Computer (Suzhou) Co., Ltd. | Researching, developing, producing and selling electronic components, PCBs and related products and providing after-sale services | 5,376,075 (Note 2) | (Note 1) | 3,039,683 (Note 2) | - | - | 3,039,683 (Note 2) | (584,054) (Note 2 and Note 4) | 51% | (297,868) (Note 2、Note 4 and Note 7) | 2,723,648 (Note 2、Note 4 and Note 7) | - | 3,039,683 (Note 2) | 3,039,683 (Note 2) | No upper limit (Note 5) |
| Xiang-Shuo (Suzhou) Trading Limited | Trading of PCB (not high-density fine-line) and material for related products | 64,500 (Note 2) | (Note 1) | 64,500 (Note 2) | - | - | 64,500 (Note 2) | 1,511 (Note 2 and Note 4) | 100% | 1,511 (Note 2、Note 4 and Note 7) | 65,149 (Note 2、Note 4 and Note 7) | - | 64,500 (Note 2) | 64,500 (Note 2) | No upper limit (Note 5) |
| Pegavision Contact Lenses (Shanghai) Corporation | Selling medical equipment | 65,062 (Note 3) | (Note 1) | 65,062 | - | - | 65,062 | 5,832 (Note 2 and Note 4) | 100% | 5,832 (Note 2、Note 4 and Note 7) | 46,013 (Note 2、Note 4 and Note 7) | - | 65,062 | 65,062 | 735,270 (Note 6) |

Note 1: Investment in Mainland China through companies in the third area.

Note 2: Amounts in foreign currencies are translated into New Taiwan dollars using the exchange rates on the balance sheet date.

Note 3: The paid-in capital is USD2,100 thousand, equivalent to NT$65,062 thousand.

Note 4: Gain/loss on investment is recognized based on the audited financial statements of the parent company in Taiwan.

Note 5: The Company meets the conditions of corporate operation headquarter in the Principle of Evaluation for Investment and Technical Cooperation in Mainland China. Thus, there is no upper limit on investment amount.

Note 6: The upper limit on investment for Pegavision Contact Lenses (Shanghai) Corporation is calculated as 60% of the net value of the financial statements audited by accounts of Pegavision Corporation's net equity.

Note 7: Transactions are eliminated upon preparation of consolidated financial statements.

B. Significant transactions with investees in China:

(a) Purchase and balances of related accounts payable as of December 31, 2016:
Please refer to attachment 12 for details.

(b) Sale and balance of related accounts receivable as of December 31, 2016:
Please refer to attachment 12 for details.

(c) Property transaction amounts and resulting gain or loss: None.

(d) Ending balance of endorsements/guarantees or collateral provided and the purposes:
Please refer to attachment 1.

(e) Maximum balance, ending balance, interest rate range and total interest for current period from financing provided to others: None.

(f) Transactions that have significant impact on profit or loss of current period or the financial position, such as services provided or rendered: Please refer to attachment 12 for details.

(g) Above transactions are eliminated upon preparation of consolidated financial statements. Please refer to attachment 12 for details.

## 14. OPERATING SEGMENT

For management purposes, the Group is organized into operating segments based on different products and services and has two reportable operating segments as follows:

IC Substrate: This segment produces and manufactures BGA substrates and sells the products to manufacturers of electronic products.

Printed Circuit Board (PCB): This segment produces and manufactures PCBs and sells the products to manufacturers of electronic products.
No operating segments have been aggregated to form the above reportable operating segments.

The Group’s operating segments adopts the same accounting policies as the ones in Note 4. Management monitors the operating results of its business units separately for the purpose of decision-making on resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and measured consistently with methods applied to operating profit or loss in the consolidated financial statements.

(1)Segment income (loss), assets and liabilities

For the year ended December 31, 2016

| | IC Substrate (NT$'000) | PCB (NT$'000) | Elimination (NT$'000) | Consolidated (NT$'000) |
|---|---|---|---|---|
| External customer | 17,922,696 | 5,242,370 | - | 23,165,066 |
| Inter-segment | - | - | - | - |
| Total revenue | 17,922,696 | 5,242,370 | - | 23,165,066 |
| Segment income (loss) | 2,484,374 | (411,346) | - | 2,073,028 |

For the year ended December 31, 2015

| | IC Substrate (NT$'000) | PCB (NT$'000) | Elimination (NT$'000) | Consolidated (NT$'000) |
|---|---|---|---|---|
| External customer | 17,820,429 | 5,240,882 | - | 23,061,311 |
| Inter-segment | - | - | - | - |
| Total revenue | 17,820,429 | 5,240,882 | - | 23,061,311 |
| Segment income (loss) | 3,179,452 | (449,926) | - | 2,729,526 |

Details of assets and liabilities under the Group's operating segments are as follows:

| Segment assets | IC Substrate (NT$'000) | PCB (NT$'000) | Elimination (NT$'000) | Consolidated (NT$'000) |
|---|---|---|---|---|
| As of Dec. 31, 2016 | 34,627,746 | 6,625,969 | - | 41,253,715 |
| As of Dec. 31, 2015 | 35,118,866 | 7,519,866 | - | 42,638,732 |

| Segment liabilities | IC Substrate (NT$'000) | PCB (NT$'000) | Elimination (NT$'000) | Consolidated (NT$'000) |
|---|---|---|---|---|
| As of Dec. 31, 2016 | 7,697,825 | 2,541,121 | - | 10,238,946 |
| As of Dec. 31, 2015 | 9,012,667 | 2,798,264 | - | 11,810,931 |

(2)Geographical information

Revenues from external customers

| | For the year ended December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Taiwan | 9,092,912 | 9,184,614 |
| Other countries | 14,072,154 | 13,876,697 |
| Total | 23,165,066 | 23,061,311 |

Note: The revenue information above is based on the location of the customers.

Non-current assets

| | As of December 31, | |
|---|---|---|
| | 2016 (NT$'000) | 2015 (NT$'000) |
| Taiwan | 14,888,571 | 13,769,447 |
| U.S.A | 277 | 243 |
| China | 4,256,570 | 5,337,759 |
| Japan | 171 | 35 |
| Total | 19,145,589 | 19,107,484 |

(3)Information about major customers

No additional discourses for the years ended December 31, 2016 and 2015 due to no individual customer accounting for at least 10% of net sales.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Endorsement/Guarantee Provided to Others

For the Year ended December 31, 2016

Table 1

(In Thousands of Foreign Currency / New Taiwan Dollars)

| Endorsement/ Guarantee Provider | | Guaranteed Party | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| No. (Note 1) | Name | Name | Nature of Relationship | Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party | Maximum Balance for the Period | Ending Balance | Amount Actually Drawn | Amount of Endorsement/ Guarantee secured by Properties | Ratio of Accumulated Endorsement/ Guarantee to Net Worth per Latest Financial | Maximum Endorsement/ Guarantee Amount Allowed | Endorsement provided by parent company to subsidiaries | Endorsement provided by subsidiaries to parent company | Endorsement provided to entities in China |
| 0 | Kinsus Interconnect Technology Corp. | Kinsus Interconnect Technology Suzhou Corp. | Investee accounted for using equity method indirectly | The overall amount of guarantees/ endorsements provided to a subsidiary in which the Company holds directly over 50% (inclusive) of common equity interest shall not exceed 20% of the net worth in the current financial statements. $5,773.942 | $3,708,750<br>(USD 115,000)<br>(Note 2) | $1,935,000<br>(USD 60,000)<br>(Note 2) | $951,375 | $- | 6.70% | Shall not exceed 50% of the net worth in the current financial statements.<br>$14,434,855 | Y | N | Y |
| 0 | Kinsus Interconnect Technology Corp. | Piotek Computer (Suzhou) Co., Ltd. | Investee accounted for using equity method indirectly | The overall amount of guarantees/ endorsements provided to a subsidiary in which the Company holds directly over 50% (inclusive) of common equity interest shall not exceed 20% of the net worth in the current financial statements. $5,773.,942 | $986,850<br>(USD 30,600)<br>(Note 2) | $986,850<br>(USD 30,600)<br>(Note 2) | $400,908 | $- | 3.42% | Shall not exceed 50% of the net worth in the current financial statements.<br>$14,434,855 | Y | N | Y |

Note 1: Kinsus Interconnect Technology Corp. is coded "0".

Note 2: Amounts in foreign currencies are converted to New Taiwan Dollars using the exchange rates as of the balance sheet date.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Marketable Securities Held as of December 31, 2016

Table 2

(In Thousands of New Taiwan Dollars)

| Name of Held Company | Type and Name of Marketable Securities | Relationship with the Issuer | Financial Statement Account | As of December 31, 2016 | | | Fair Value (Note) | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares / Units | Carrying Amount | Shareholding % | | |
| Kinsus Interconnect Technology Corp. | Money market funds: | | | | | | | |
| | Capital Money Market Fund | - | Financial assets at fair value through profit or loss | 32,783,435 | $510,667 | -% | $523,951 | |
| | Taishin Ta Chong Money Market Fund | - | Financial assets at fair value through profit or loss | 18,812,748 | 255,796 | -% | 264,712 | |
| | Taishin 1699 Money Market Fund | - | Financial assets at fair value through profit or loss | 30,522,218 | 400,000 | -% | 408,961 | |
| | FSITC Money Market Fund | - | Financial assets at fair value through profit or loss | 1,168,258 | 200,000 | -% | 206,443 | |
| | Mega Diamond Money Market Fund | - | Financial assets at fair value through profit or loss | 41,465,474 | 500,000 | -% | 514,931 | |
| | Jih Sun Money Market | - | Financial assets at fair value through profit or loss | 31,315,952 | 450,000 | -% | 459,396 | |
| | Union Money Market Fund | - | Financial assets at fair value through profit or loss | 15,838,553 | 203,448 | -% | 207,214 | |
| | UPAMC James Bond Fund | - | Financial assets at fair value through profit or loss | 15,322,946 | 250,000 | -% | 253,725 | |
| | Subtotal | | | | 2,769,911 | | $2,839,333 | |
| | Add: Valuation adjustments of financial assets held for trading | | | | 69,422 | | | |
| | Total | | | | $2,839,333 | | | |

Note: Companies without quotes in the open markets are valued at net equities.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Marketable Securities Acquired and Disposed of At Costs or Prices of At Least NT$300 Million or 20% of The Paid-In Capital

For the Year ended December 31, 2016

Table 3

(In Thousands of New Taiwan Dollars)

| Company Name | Type and Name of Marketable Securities | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal | | | | Ending Balance | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares/Units | Amount | Shares/Units | Amount | Shares/Units | Amount | Carrying Value | Gain/Loss on | Shares/Units | Amount |
| Kinsus Interconnect Technology Corp. | Stock: Kinsus Investment Co., Ltd. | Investments accounted for under equity method | - | - | 39,800,000 | $398,000 | 60,200,000 | $602,000 | - | $- | $- | $- | 100,000,000 | $1,000,000 |

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Acquisition of Individual Real Estate with Amount of at Least NT$ 300 million or 20% of the Paid-in Capital

For the Year ended December 31, 2016

Table 4

(In Thousands of New Taiwan Dollars)

| Acquiring Company | Name of Property | Transaction Date | Transaction Amount | Payment Status | Counter-party | Relationship | Prior Transaction of Related Counter-party: Owner | Prior Transaction of Related Counter-party: Relationship with the Company | Prior Transaction of Related Counter-party: Transfer Date | Prior Transaction of Related Counter-party: Amount | Price Reference | Purpose and Use of Acquisition | Other Terms |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Kinsus Interconnect Technology Corp. | Houses and buildings<br>Construction of XinFeng Plant | 103.02.13,<br>104.03.24 | $2,268,036 | NT$2,146,042 thousand was paid as of December 31, 2016 | Guo-Gong Construction Co., Ltd. | None | None | None | None | None | Bidding | Production expansion and operation planning | None |

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Related Party Transactions with Purchase or Sales Amount of At least NT$ 100 Million or 20% of the Paid-in Capital

For the Year ended December 31, 2016

Table 5

(In Thousands of New Taiwan Dollars)

| Company Name | Related Party | Nature of Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/ Accounts Payable or Receivable | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % to Total | Payment/ Collection Term | Unit Price | Payment/ Collection Term | Ending Balance | % to Total | |
| Kinsus Interconnect Technology Corp. | Kinsus Interconnect Technology Suzhou Corp. | Investee accounted for using equity method indirectly | Purchase | $2,006,751 | 27.33% | Payment within 30 days from the end of delivery month | Specs of goods purchased are different from others. Cannot be reasonablely compared. | Other vendors also enjoy payment within 30~120 days from the end of delivery month | Accounts payable $(191,819) | (14.95)% | Note |

Note: Transactions are eliminated when preparing the consolidated financial statements.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Receivables from Related Parties of at Least NT$ 100 Million or 20% of the Paid-in Capital

As of December 31, 2016

Table 6

(In Thousands of New Taiwan Dollars)

| Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Ratio | Overdue | | Amount Received in Subsequent Periods | Allowance for Doubtful Debts |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action Taken | | |
| Kinsus Interconnect Technology Corp. | FuYang Technology Corp. | Other related parties | $305,891 (Note) | - | $- | - | $- | $- |

Note: Other receivables

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Investees over Which the Company Exercise Significant Influence or Control Directly or Indirectly (Excluding Investees in Mainland China)

As of December 31, 2016

Table 7

(In Thousands of Foreign Currency / New Taiwan Dollars)

| Investor | Investee | Business Location | Main Business and Product | Original Investment Amount | | Ending balance | | | Net Income (Loss) of the Investee | Share of Income (Loss) of the Investee | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | As of Dec. 31, 2015 | As of Dec. 31, 2016 | Shares | % | Carrying Value | | | |
| Kinsus Interconnect Technology Corp. | KINSUS CORP. (USA) | CA U.S.A. | Designing substrates, formulating marketing strategy analysis, developing new customers, researching and development new product technology | USD500 | USD500 | 500,000 | 100.00% | $36,663 | $4,769 | $4,769 | Note |
| Kinsus Interconnect Technology Corp. | KINSUS HOLDING (SAMOA) LIMITED | Samoa | Investing activities | USD166,309 | USD166,309 | 166,308,720 | 100.00% | $2,526,740 | $(256,869) | $(256,869) | Note |
| Kinsus Interconnect Technology Corp. | Kinsus Investment Co., Ltd. | Taoyuan City | Investing activities | $398,000 (Note 1) | $1,000,000 (Note 1) | 100,000,000 | 100.00% | $1,214,882 | $52,520 | $52,520 | Note |
| Kinsus Investment Co., Ltd. | Pegavision Corporation | Taoyuan City | Manufacturing medical equipment | $286,418 | $286,418 | 22,088,736 | 36.81% | $451,144 | $186,891 | $68,803 | Note |
| Kinsus Investment Co., Ltd. | FuYang Technology Corp. | Hsinchu County | Electronic Parts and Components Manufacturing | $- | $450,000 | 45,000,000 | 36.00% | $432,689 | $(35,509) | $(12,783) | |
| KINSUS HOLDING (SAMOA) LIMITED | KINSUS HOLDING (CAYMAN) LIMITED | Cayman Islands | Investing activities | USD72,000 | USD72,000 | 72,000,000 | 100.00% | USD 34,110 | USD 1,032 | USD 1,032 | Note |
| KINSUS HOLDING (SAMOA) LIMITED | PIOTEK HOLDINGS LTD. (CAYMAN) | Cayman Islands | Investing activities | USD94,309 | USD94,309 | 95,755,000 | 51.00% | USD 44,239 | USD (17,641) | USD (8,997) | Note |
| PIOTEK HOLDINGS LTD. (CAYMAN) | PIOTEK HOLDING LIMITED | British Virgin Islands | Investing activities | USD139,841 | USD139,841 | 139,840,790 | 100.00% | USD 86,743 | USD (17,641) | USD (17,641) | Note |
| PIOTEK HOLDING LIMITED | PIOTEK (H.K.) TRADING LIMITED | Hong Kong | Trading activities | USD26 | USD26 | 200,000 | 100.00% | USD 2,261 | USD 476 | USD 476 | Note |
| Pegavision Corporation | PEGAVISION HOLDINGS CORPORATION | Samoa | Investing activities | USD2,130 | USD2,130 | 2,130,000 | 100.00% | $35,419 | $5,769 | $5,769 | Note |
| Pegavision Corporation | PEGAVISION JAPAN INC. | JAPAN | Selling Medical facility | JPY 9,900 | JPY 9,900 | 198 | 100.00% | $3,102 | $354 | $354 | Note |

Note: Transactions are eliminated when preparing the consolidated financial statements.

Note 1: The Company's original investment in Kinsus Investment Co., Ltd. was NT$500,000 thousand. Kinsus Investment Co., Ltd. reduced capital by NT$102,000 thousand to offset deficits in 2013, and increased capital by NT$602,000 thousand in 2016. After the increase, investment amount increased to NT$1,000,000 thousand.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Marketable Securities Held as of December 31, 2016 (Excluding Investments in Subsidiaries, Associates and Jointly Controlled Entities)

As of December 31, 2016

Table 8

(In Thousands of New Taiwan Dollars)

| Name of Held Company | Type and Name of Marketable Securities | Relationship with the Issuer | Financial Statement Account | As of December 31, 2016 Shares (Unit) | Carrying Amount | % | Fair Value (Net Equity) | Guarantee, Pledge or Other Restricted Conditions Shares | Carrying Amount | Note |
|---|---|---|---|---|---|---|---|---|---|---|
| Kinsus Investment Co., Ltd. | Money market funds: | | | | | | | | | |
| | Taishin Ta Chong Money Market Fund | - | Financial assets at fair value through profit or loss | 829,070 | $11,315 | -% | $11,666 | - | $- | |
| | Valuation adjustments of financial assets held for trading | | | | 351 | | | | | |
| | Total | | | | $11,666 | | | | | |
| Kinsus Investment Co., Ltd. | Stocks: | | | | | | | | | |
| | Yi-Shuo Creative Co., Ltd. | - | Financial assets carried at cost | 5,000,000 | $50,000 | 7.49% | $- (Note) | - | $- | |
| Pegavision Corporation | Money market funds: | | | | | | | | | |
| | Yuanta Wan Tai Money Market Fund | - | Financial assets at fair value through profit or loss | 17,879,293 | $268,108 | -% | $268,381 | - | $- | |
| | Yuanta DE-Li Money Market Fund | | | 9,229,182 | 149,000 | | 149,055 | | | |
| | Valuation adjustments of financial assets held for trading | | | | 328 | | $417,436 | | | |
| | Total | | | | $417,436 | | | | | |

Note: No quotes in active markets and fair values cannot be measured reliably.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Marketable Securities Acquired and Disposed of At Costs or Prices of At Least NT$300 Million or 20% of The Paid-In Capital

For the Year ended December 31, 2016

Table 9

(In Thousands of New Taiwan Dollars)

| Company Name | Type and Name of Marketable Securities | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal | | | | Ending Balance | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares/Units | Amount | Shares/Units | Amount | Shares/Units | Amount | Carrying Value | Gain/Loss on | Shares/Units | Amount |
| Kinsus Investment Co., Ltd. | Stock: FuYang Technology Corp. | Investments accounted for using the equity method | - | - | - | $- | 45,000,000 | $450,000 | - | $- | $- | $- | 45,000,000 | $450,000 |

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Related Party Transactions with Purchase or Sales Amount of At least NT$ 100 Million or 20% of the Paid-in Capital

As of December 31, 2016

Table 10

(In Thousands of US Dollars)

| | | | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Payable or Receivable | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Company Name | Related Party | Nature of Relationship | Purchase/ Sale | Amount | % to Total | Payment/ Collection Term | Unit Price | Payment/ Collection Term | Ending Balance | % to Total | Note |
| Piotek Computer (Suzhou) Co., Ltd. | Pegatron Corporation | Parent company | Sales | USD 43,213 | 39.15% | Payment within 60 days from the end of delivery month | Specs of goods sold are different from others. Cannot be reasonably | No non-related parties to be compared with. | Accounts receivable USD 11,071 | 39.62% | |
| Piotek Computer (Suzhou) Co., Ltd. | Piotek (H.K.) Trading Limited | Also a subsidiary under the Company's control | Sales | USD 18,401 | 16.67% | Payment within 60 days from the end of delivery month | Specs of goods sold are different from others. Cannot be reasonably | No non-related parties to be compared with. | Accounts receivable USD 2,431 | 8.70% | Note |
| Piotek (H.K.) Trading Limited | Piotek Computer (Suzhou) Co., Ltd. | Also a subsidiary under the Company's control | Purchase | USD 18,401 | 100.00% | Payment within 60 days from the end of delivery month | Specs of goods sold are different from others. Cannot be reasonably | No non-related parties to be compared with. | Accounts payable USD (2,431) | (100.00)% | Note |
| Technology Suzhou Corp. | Kinsus Interconnect Technology Corp. | Parent company | Sales | USD 62,404 | 100.00% | Payment within 30 days from the end of delivery month | Specs of goods sold are different from others. Cannot be reasonably | No non-related parties to be compared with. | Accounts receivable USD 6,015 | 100.00% | Note |
| Piotek Computer (Suzhou) Co., Ltd. | Xiang-Shuo (Suzhou) Trading Limited | Also a subsidiary under the Company's control | Purchase | USD 3,428 | 4.90% | Payment within 60 days from the end of delivery month | Specs of goods sold are different from others. Cannot be reasonably | No non-related parties to be compared with. | Accounts payable USD 567 | 2.41% | Note |
| Xiang-Shuo (Suzhou) Trading Limited | Piotek Computer (Suzhou) Co., Ltd. | Also a subsidiary under the Company's control | Sales | USD 3,428 | 47.81% | Payment within 60 days from the end of delivery month | Specs of goods sold are different from others. Cannot be reasonably | No non-related parties to be compared with. | Accounts receivable USD 670 | 44.73% | Note |

Note: Transactions are eliminated when preparing the consolidated financial statements.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Receivables from Related Parties of at Least NT$ 100 Million or 20% of the Paid-in Capital

As of December 31, 2016

Table 11

(In Thousands of US Dollars)

| Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Ratio | Overdue | | Amount Received in Subsequent Periods | Allowance for Doubtful Debts |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action Taken | | |
| Piotek Computer (Suzhou) Co., Ltd. | Pegatron Corporation | Parent company | USD 11,071 (Note) | 4.80 | $- | - | $- | $- |
| Kinsus Interconnect Technology Suzhou Corp. | Kinsus Interconnect Technology Corp. | Parent company | USD 6,015 (Note and Note 1) | 6.67 | $- | - | $- | $- |

Note: Accounts receivable

Note 1: Transactions are eliminated when preparing the consolidated financial statements.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Intercompany Relationships and Significant Intercompany Transactions for the Year Ended December 31, 2016

Table 12

(In Thousands of Foreign Currency / New Taiwan Dollars)

| No. (Note 1) | Company Name | Counter-Party | Nature of Relationship (Note 2) | Intercompany Transaction: Financial Statement Account | Amount | Terms | Percentage to Consolidated Net Revenue or Total Assets (Note 3) |
|---|---|---|---|---|---|---|---|
| | Year 2016 | | | | | | |
| 0 | Kinsus Interconnect Technology Corp. | Xiang-Shuo (Suzhou) Trading Limited | 1 | Other receivables | $963 | - | -% |
| 0 | Kinsus Interconnect Technology Corp. | Xiang-Shuo (Suzhou) Trading Limited | 1 | Other income | $2,485 | Payment within 60 days from the end of delivery month | 0.01% |
| 0 | Kinsus Interconnect Technology Corp. | KINSUS CORP. (USA) | 1 | Accrued expense | $3,396 | Payment within 30 days from the end of delivery month by TT | 0.01% |
| 0 | Kinsus Interconnect Technology Corp. | Kinsus Interconnect Technology Suzhou Corp | 1 | Accrued expense | $1,209 | Payment within 60 days from the end of delivery month | -% |
| 0 | Kinsus Interconnect Technology Corp. | Kinsus Interconnect Technology Suzhou Corp | 1 | Accounts payable | $191,819 | Payment within 30 days from the end of delivery month | 0.46% |
| 0 | Kinsus Interconnect Technology Corp. | Piotek Computer (Suzhou) Co., Ltd. | 1 | Other receivables | $1,104 | - | -% |
| 0 | Kinsus Interconnect Technology Corp. | Kinsus Interconnect Technology Suzhou Corp | 1 | Other receivables | $6,069 | - | 0.01% |
| 0 | Kinsus Interconnect Technology Corp. | Kinsus Interconnect Technology Suzhou Corp | 1 | Purchase | $2,006,751 | Payment within 30 days from the end of delivery month | 8.66% |
| 0 | Kinsus Interconnect Technology Corp. | Piotek Computer (Suzhou) Co., Ltd. | 1 | Purchase | $14,969 | Payment within 60 days from the end of delivery month | 0.06% |
| 0 | Kinsus Interconnect Technology Corp. | KINSUS CORP. (USA) | 1 | Commission expense | $40,806 | Payment within 60 days from the end of delivery month by TT | 0.18% |
| 0 | Kinsus Interconnect Technology Corp. | KINSUS CORP. (USA) | 1 | Travel expense | $134 | - | -% |
| 0 | Kinsus Interconnect Technology Corp. | Kinsus Interconnect Technology Suzhou Corp | 1 | Manufacturing - processing | $6,470 | Payment within 60 days from the end of delivery month | 0.03% |
| 0 | Kinsus Interconnect Technology Corp. | Kinsus Interconnect Technology Suzhou Corp | 1 | Sales revenue | $9,267 | Payment within 30 days from the end of delivery month | 0.04% |
| 0 | Kinsus Interconnect Technology Corp. | Xiang-Shuo (Suzhou) Trading Limited | 1 | Sales revenue | $56 | Payment within 60 days from the end of delivery month | -% |
| 0 | Kinsus Interconnect Technology Corp. | Kinsus Interconnect Technology Suzhou Corp | 1 | Other income | $8,714 | - | 0.04% |
| 0 | Kinsus Interconnect Technology Corp. | Piotek Computer (Suzhou) Co., Ltd. | 1 | Other income | $4,632 | - | 0.02% |
| 0 | Kinsus Interconnect Technology Corp. | PIOTEK (H.K.) TRADING LIMITED | 1 | Other income | $6,930 | - | 0.03% |
| 1 | Piotek Computer (Suzhou) Co., Ltd. | PIOTEK (H.K.) TRADING LIMITED | 3 | Sales revenue | USD 18,401 | Payment within 60~90 days from the end of delivery month | 2.56% |
| 1 | Piotek Computer (Suzhou) Co., Ltd. | PIOTEK (H.K.) TRADING LIMITED | 3 | Accounts receivable | USD 2,431 | Payment within 60~90 days from the end of delivery month | 0.19% |
| 1 | Piotek Computer (Suzhou) Co., Ltd. | Xiang-Shuo (Suzhou) Trading Limited | 3 | Accounts receivable | USD 825 | Payment within 60 days from the end of delivery month | 0.06% |
| 1 | Piotek Computer (Suzhou) Co., Ltd. | Xiang-Shuo (Suzhou) Trading Limited | 3 | Sales revenue | USD 2,597 | Payment within 60 days from the end of delivery month | 0.36% |
| 1 | Piotek Computer (Suzhou) Co., Ltd. | Kinsus Interconnect Technology Suzhou Corp | 3 | Other income | USD 272 | Payment within 60~90 days from the end of delivery month | 0.04% |
| 1 | Piotek Computer (Suzhou) Co., Ltd. | Kinsus Interconnect Technology Suzhou Corp | 3 | Other receivables | USD 32 | Payment within 60~90 days from the end of delivery month | -% |
| 1 | Piotek Computer (Suzhou) Co., Ltd. | Kinsus Interconnect Technology Suzhou Corp | 3 | Purchase | USD 10 | Payment within 60~90 days from the end of delivery month | -% |
| 2 | Xiang-Shuo (Suzhou) Trading Limited | Piotek Computer (Suzhou) Co., Ltd. | 3 | Accounts receivable | RMB 4,649 | Payment within 60 days from the end of delivery month | 0.05% |
| 2 | Xiang-Shuo (Suzhou) Trading Limited | Piotek Computer (Suzhou) Co., Ltd. | 3 | Other receivables | RMB 31 | Payment within 60 days from the end of delivery month | -% |
| 2 | Xiang-Shuo (Suzhou) Trading Limited | Piotek Computer (Suzhou) Co., Ltd. | 3 | Sales revenue | RMB 25,825 | Payment within 60 days from the end of delivery month | 0.52% |
| 2 | Xiang-Shuo (Suzhou) Trading Limited | Kinsus Interconnect Technology Suzhou Corp | 3 | Sales revenue | RMB 4,380 | Payment within 60 days from the end of delivery month | 0.09% |
| 2 | Xiang-Shuo (Suzhou) Trading Limited | Kinsus Interconnect Technology Suzhou Corp | 3 | Accounts receivable | RMB 866 | Payment within 60 days from the end of delivery month | 0.01% |
| 4 | PIOTEK (H.K.) TRADING LIMITED | KINSUS CORP. (USA) | 3 | Commission expense | USD 33 | Payment within 60 days from the end of delivery month | -% |

Note 1: Transaction information between Parent company and its subsidiaries should be disclosed by codes below:

(1) Parent company is coded "0".

(2) The subsidiaries are coded from "1" in the order presented in the table above.

Note 2: Relationship are divided into the following three types and the types are required to be indicated:

(1) From the parent company to a subsidiary.

(2) From a subsidiary to the parent company.

(3) Between subsidiaries.

Note 3: Regarding the percentage of transaction amount to consolidated operating revenues or total assets, it is computed based on the ending balance to consolidated total assets for balance sheet items; and based on interim accumulated amount to consolidated net revenue for income statement items.