Ticker: 3658

Hermes Microvision, Inc.

Annual Report 2015

Annual report is available at http://mops.tse.com.tw
HMI annual report is available at http://www.hermes-microvision.com
Published on Apr. 29, 2016

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Name: Shen, Hsiao-Lien
Title: Vice President
Contact Tel: (03)666-9229
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2. Name, Title, Contact Tel and E-mail for Deputy Spokesperson
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Hermes Microvision, Inc. Headquarters:
Address: 7F, No.18, Puding Road, Hsinchu City, Taiwan, ROC
TEL: +886-(0)3-666-9229

Hermes Microvision, Inc. Hsinchu Branch:
Address: 4F, No. 18, Creation Road 1, Hsinchu County, Hsinchu Science Park, Taiwan, ROC
TEL: +886-(0)3-579-7711

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Name: Chinatrust Commercial Bank, Corporate Trust Service Department
Address: 5F, No. 83, Sec. 1, Chongqing S. Rd., Zhongzheng District, Taipei City, Taiwan, ROC
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TEL: +886-(0)2-6636-5566

5. Name, Office Name, Address, Website and Tel Number of CPA for recent financial reports
Name of CPA: Tien-Yi Lee, Kuo-Hua Tseng
Accounting Firm: PwC Taiwan
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Website: http://www.pwc.com/tw
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6. Name of Overseas Securities Exchange Office & the way to inquire into information of securities
Luxembourg Stock Exchange: http://www.bourse.lu

7. **Hermes Microvision, Inc Website:** http://www.hermes-microvision.com/

Contents

I. Letter to Shareholders

Dear Shareholders,

We would like thank you so much for your long term support and encouragement to Hermes Microvision, Inc.

Due to continuous advancement of the semiconductor geometry node, the increasing technical and process difficulties result in more defects during wafer fabrication process. Hence, the requirement for the precision of wafer defect inspection is critically being aspired. Due to its physical resolution limit, the traditional optical wafer inspection technology is encountering a bottleneck. Under such circumstances, the high-resolution e-beam inspection equipment produced by the Company has becoming the mainstream inspection equipment in advanced process nodes. However, due to the weakness of emerging market currencies and instability of macroeconomics in 2015, the end market demand of the electronic devices was adversely affected. As a result, the semiconductor manufacturers have become more conservative in their capital expenditure. As such, the Company's annual operating revenue and profit have decreased slightly. The Company's 2015 operating revenue is NT$6.65 billion, representing a slight decline rate of 7.8% compared with NT$7.21 billion generated in 2014. The Company's net income became NT$2.32 billion whereas its EPS topped NT$32.70.

Even though the overall operating revenue showed a slight decline in 2015, the Company has still intensively collaborated with its clients and other equipment suppliers to develop and advance its e-beam wafer inspection technology. HMI has specialized in development and production of e-beam inspection equipments. With our proprietary inspection technology, currently, HMI has already had a solid market share in the e-beam inspection market. Now our key objective is to improve the throughput of our inspection tools to address in-line monitoring market. The latest device of SkyScan5000 is a new product specifically developed to meet the requirement for in-line massive hotspot inspection with throughput topping hundreds of hotspots per hour. It is, by far, the fastest e-beam hotspot inspection model in the industry. HMI has also taken customer requirements into account and aggressively diversified our applications of e-beam technology, in the hope of enriching our product offering. HMI is ahead of its peers to provide clients with the optimal way for e-beam inspection solution, and create more value to our clients.

HMI was ranked in the top 5% for the first year corporate governance appraisal conducted in 2015, It illustrates the Company's resolution for reinforcing its operating management and fulfilling its corporate governance, in the hope of strengthening its corporate governance culture and creating its corporate sustainable competitiveness.

Looking ahead to 2016, as wafer fabrication giants continue to advance to 10 nm process and are devoted to R&D of 7 nm and 5 nm, compounding the vertical structure development of 3D NAND flash memory, the geometry shrink, architectural change and different process adopted make it even more challenging for our clients to manage their yield rate. Therefore, our clients are driving us very aggressively to develop e-beam inspection tools with high resolution and high throughput. HMI is dedicated to launch leading-edge e-beam wafer inspection solutions by improving product performance and timely response to customer demand to help our clients reach profitable yield rate. HMI has put more focus developing new applications and commitment to carrying out its sustainable corporate operations and becoming a qualified global corporate citizen. We will participate in corporate governance appraisal, and reinforce our corporate social responsibility to solidify its strength for further development in respective fields and head for the goal of sustainable corporate development and becoming a prominent corporate citizen.

Finally, we would like again to thank every of you for your continuing support and dedication to the Company. We more hope that your support and dedication will continue in the future.

We wish you health and happiness.

Chairman Shu, Chin-Yung

II. Company Profile
1. Established on May 19th, 2003
2. Company profile

Year	Major milestones
2003	- Established Hermes Microvision Precision Technology Co., Ltd., with a capital of NT$1,000,000 at Hsinchu City, and provided semiconductor wafer manufacturing fabs with more advanced inspection equipment and technology along with geometry migration. - Renamed the original company name to be Hermes Microvision, Inc.
2004	- Acquired 100% of the outstanding shares of Hermes Microvision, Inc., USA in Silicon Valley and obtained the core technology required for EBI equipment. - Sold our first EBI equipment product, penetrating the EBI market which had long been monopolized by U.S. and Japanese companies. - Established a branch in the Hsinchu Science Park. - Established a production foothold at the Tainan Science Park to expand production capacity. - Increased the capital by cash by NT$ 499,000,000. The total paid-in capital after the offering was NT$500,000,000.
2005	- Successfully extend our business to Korean and Japanese clients.
2006	- Set up a branch in Japan to expand the Company’s business. - Successfully developed eScan 310 and eScan 380.
2007	- Increased the capital by cash by NT$280,000,000. The total paid-in capital after the offering was NT$780,000,000.
2008	- Set up subsidiaries in Korea and Japan respectively to expand the Company’s business in Korea and Japan markets. - Reduced the capital by NT$650,000,000, followed by increasing the capital by NT$280,000,000 through capital raising in cash, making the total paid-in capital to be NT$410,000,000. - The stock went public. - Successfully developed eP2, eScan Lite and eScan 315.
2009	- Trans-invested in China’s third-tier subsidiary, making it an important module production site. - Closed the Japan branch - Successfully developed eScan 400.
2010	- Raised the capital in cash by NT$190,000,000, making the total paid-in capital to be NT$600,000,000. - Successfully developed eScan 320, eXplore, eManager Workstation and Supernova.
2011	- Relocated the headquarters to Hsinchu City and set up a branch at the

Hsinchu Science Park
- Registered on Apr. 29 as an emerging-listed company.
- Successfully developed eP3.

2012
- Raised the capital in cash by NT$60,000,000, making the total paid-in capital to be NT$660,000,000
- Officially listed its stock on the GTSM on May 21 for trading.
- Earned the 21^{st} National SMEs award.

2013
- Participated in issuance of the overseas depositary receipt of NT$50,000,000 by issuing the common stock, making the total paid-in capital to be NT$710,000,000
- Successfully developed eScan 500
- Received Potential Taiwan Mittelstand Award

2014
- Corporate Governance system Certified by CG6009.
- Successfully developed eP4.

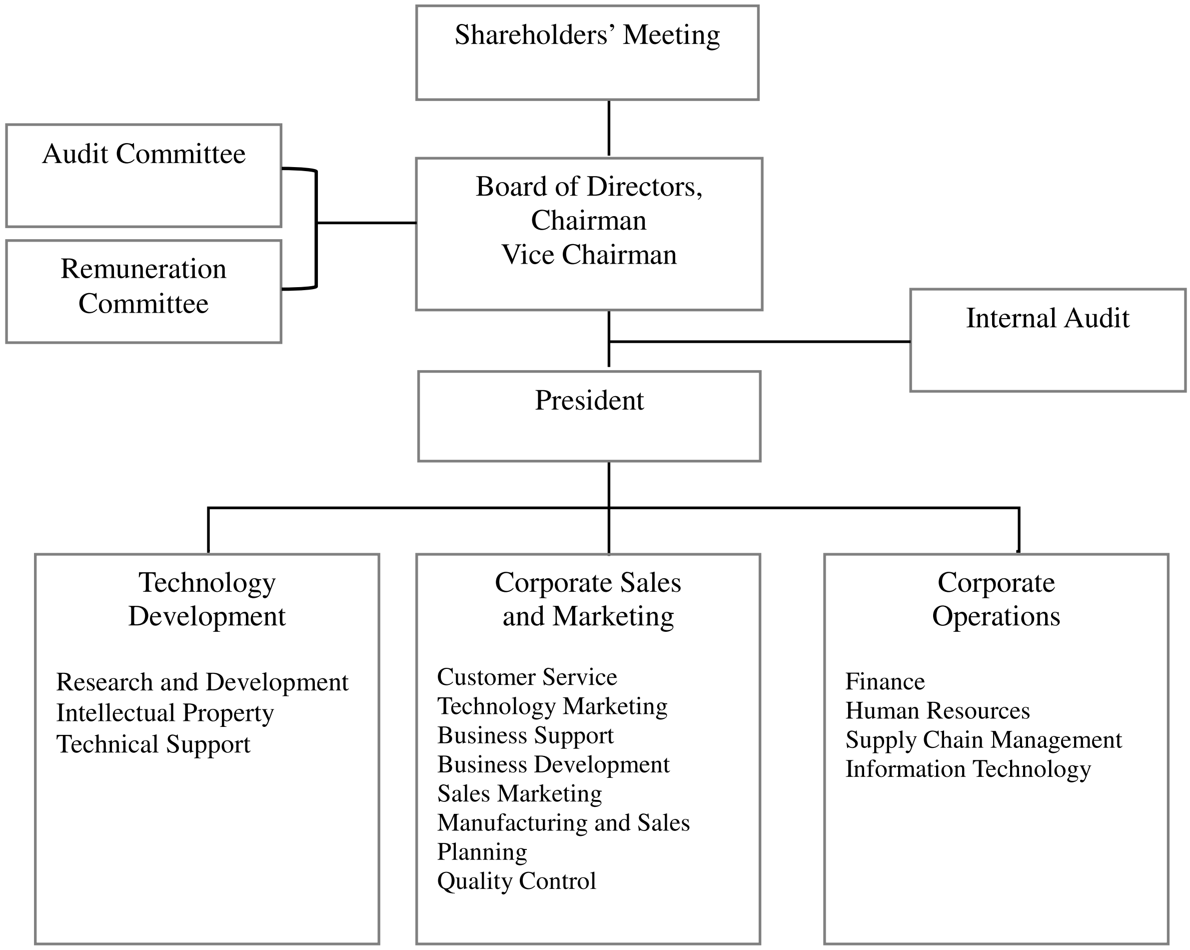
2015
- Ranked in the top 5% according to the first year corporate governance appraisal.
- Successfully developed the SkyScan5000 product.

2016
- Successfully developed the NanoScan3000 product.

III. Corporate Governance

1. Organization

(1) Organization Chart



(2) Functions of Key Divisions

Division	Functions
Internal Audit	◆ Internal audit and operational procedure management
Research and Development	◆ Product development and innovation
Intellectual Property	◆ In charge of accumulation and maintenance of intellectual properties and application for patents.
Technical Support	◆ In charge of overseas client technical support and consultation, reflection of customers' problems and dispatch of them to manufacturing and R&D divisions as the reference for improvement. ◆ Put forth project verification for the design problem of customer's terminals or other major problems, and execute the improvement scheme. ◆ Provide product basic and advanced training courses for internal and external customers. ◆ Provide FCN and CIP service to customers.
Finance	◆ Prepare financial statements, provide management information, plan working capital and long term financial planning.
Human Resource	◆ Execution and planning of human resource related businesses covering personnel recruitment, employment, promotion, educational training and retirement, etc.
Supply Chain Management	◆ Purchase equipment, spare parts, raw materials, and office supplies, etc., and handle export, import and bonding businesses.
Information Technology	◆ Computer management, and information system development and maintenance, etc.
Customer Service	◆ In charge of product after-sales service and required technical support, so as to ensure optimization of product effectiveness. ◆ Provide customers with technology and product related information and basic technical training.
Technology Marketing	◆ Promotion and marketing of technology and products.
Business Support	◆ Business related to domestic and international order, pricing and after-sales service
Business Development	◆ Business development, new product applications, and market development management.
Sales Marketing	◆ Sales and client relationship management.
Manufacturing and Sales Planning	◆ Produce and manufacture semiconductor E-beam equipment. ◆ Improve product modules and spare parts as well as components. ◆ Transfer and improve production technology. ◆ Manufacturing and client demand management.
Quality Control	◆ Establish the quality system. ◆ Establish quality policies and execute quality auditing. ◆ Manage technology and intellectual documents. ◆ Quality and reliable management

2. Information of Directors, Supervisors, President, Vice President, Assistant President, Division Heads, and Branch Heads

(1) Directors and Supervisors Information

1. Directors and Supervisors Information

April 10, 2016；Unit: thousand share; %

Position	Nationality or registered place	Name	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse and Minor Shareholding		Shareholding under the title of a 3rd party		Education & Past Positions	Current Positions at Other Companies	Spouse or 2nd level kin holding other heads, director or supervisor position		
						Shares	%	Shares	%	Shares	%	Shares	%			Position	Name	Relationship
Chairman	R.O.C.	Shu, Chin-Yung	June 6, 2014	3 years	Apr. 30, 2003	387	0.55	361	0.51	0	0	0	0	Master's Degree of Institute of Electro-Optical Engineering (Science), National Chiao Tung University President of UMC Senior Vice President of TSMC Director of Hermes-Epitek (Shanghai) Inc.	Director and President of Hermes-Epitek Corp. Director of Hermes Investment, Inc. Chairman of Hermes Testing Systems, Inc. Chairman of Hermes-Epitek (Shanghai) Inc. Chairman of EXOJET Technology Corporation Director of Hermes-Epitek (Shanghai) Inc. Director of Advanced Ion Beam Technology INC. Director of EPISIL Director of HanShin Corp. Director of EPILEDS Co. Ltd. Director of Advanced System Technology Co., Ltd. Director of GeoThings Director of Hermes Microvision, Inc.(USA) Director of Hermes Microvision Japan Inc.	None	None	None
Vice chairman	R.O.C.	Jau, Jack Ying Chia	June 6, 2014	3 years	June 21, 2005	1,620	2.28	1,620	2.28	0	0	0	0	Doctoral degree in Electronic and Computer Engineering from University of Wisconsin, USA Executive Vice President of Hermes-Epitek Corp. Senior Manager of Research and Development Division at KLA-Tencor Corporation USA Senior Researcher in Kodak Research Laboratories USA President of Hermes Microvision Inc.	Executive Vice President and Director of Hermes Microvision, Inc.(USA) Global CEO of Hermes Microvision Inc.	None	None	None
Director	R.O.C.	Hermes-Epitek Corp.	June 6, 2014	3 years	June 30, 2011	7,105	10.01	5,605	7.89	0	0	0	0		Director of HanShin Corp. Chairman of Hermes Investment, Inc. Director of EPISIL Director of Hermes-Epitek (Shanghai) Inc.	None	None	None
Director	R.O.C.	Representative: Hwang, Ming-Chi	June 6, 2014	3 years	June 30, 2011	1,973	2.78	1,973	2.78	1,486	2.09	0	0	Department of Electro-physics, National Chiao Tung University Chairman of Hermes Microvision Inc. President of Tokyo Electron Taiwan Ltd. Chairman of Huang Hu Test System Co., Ltd. Chairman of EPISIL Semiconductor Wafer Co., Ltd.	Chairman of Hermes-Epitek Corp. Chairman of Advanced Ion Beam Technology INC. Chairman of Hermes Investment, Inc. Chairman of Tokyo Electron Taiwan Ltd. Chairman of Episil Holding Inc. Chairman of Episil Technologies Inc. Chairman of Pan Wen Yuan Foundation Director of Hermes Microvision Japan Inc. Director of Hermes Microvision Korea Inc. Chairman of Hermes Microvision, Inc.(USA)	None	None	None

Position	Nationality or registered place	Name	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse and Minor Shareholding		Shareholding under the title of a 3rd party		Education & Past Positions	Current Positions at Other Companies	Spouse or 2nd level kin holding other heads, director or supervisor position		
						Shares	%	Shares	%	Shares	%	Shares	%			Position	Name	Relationship
Director	U.S.A.	Chen, Zhong-Wei	June 6, 2014	3 years	June 6, 2014	0	0	0	0	0	0	1,600	2.25	Department of Electrical Engineering from Tsinghua University Master Degree of Institute of Electron Beam from Shantong University Doctoral Degree in Philosophy from Cambridge University Cavendish Laboratory, England Senior Scientist of KLA-Tencor Corporation Chief Scientist of Cambridge Equipment Corporation, England Research Scientist of Cambridge University, England	President of Hermes Microvision, Inc.(USA) Chairman of Hermes Microvision Co., Ltd. (Beijing)	None	None	None
Director	R.O.C.	Yang, Chyan	June 6, 2014	3 years	June 16, 2009	0	0	0	0	0	0	0	0	Doctoral Degree in Computer Science from Washington University, U.S.A. Professor of Institute of Business and Management of National Chiao Tung University Vice President (Deputy President), College of Management, National Chiao Tung University Associate Professor of Institute of Management Science, National Chiao Tung University Associate Professor in Computer Science at U.S. Naval Research Laboratory and Director of VLSI Laboratory	Professor of Institute of Business and Management of National Chiao Tung University Impendent Director of Penpower Technology Ltd. Supervisor of Chia Chang Co., Ltd. Independent Director of BestCom Infotech Corporation Independent Director of Aspeed Technology, Inc. Independent Director of Acter Co., Ltd.	None	None	None
Independent director	R.O.C.	Tu, Huai-Chi	June 6, 2014	3 years	June 30, 2011	0	0	0	0	0	0	0	0	Department of Economics, College of Law, National Taiwan University	Chairman of Glimmer Inc. Director and CEO of Promate Electronic Co., Ltd. Director of Chun Fung investment Co., Ltd. Chairman of Promote Solutions Corp. Chairman of Fung Shao Yi Investment Co., Ltd. Director of EVGA Corp.	None	None	None
Independent director	R.O.C.	Hu, Han-Liang	June 6, 2014	3 years	June 30, 2011	0	0	0	0	0	0	0	0	Master Degree of Institute of Accounting, National Taiwan University Passed the High Exam. of Taiwan Certified Public Accountant	Partner of C.J.S. CPAs & Co., Ltd. Supervisor of Genius, KYE Systems Corp. Director of Scientech Director of Godex International Co. Supervisor of Orient Pharma Co., Ltd. Supervisor of Shamrock Micro Devices Corp. Supervisor of Life Technologies Co.	None	None	None
Independent director	R.O.C.	Liang, Kai-Tai	June 6, 2014	3 years	June 30, 2011	0	0	0	0	0	0	0	0	Department of Electrophysics, National Chiao Tung University Director and President of Infinite Shanghai Communication Terminals Ltd. Director and President of Siemens Shanghai Mobile Communications Co., Ltd. General Manager of Global Mobile Communication Division at Metawave Communications Corp. World Trade (GSM).	President of Masstop Technology Inc. Responsible person of Sheng Tai Feng Co., Ltd.	None	None	None
Independent director	R.O.C.	Kin, Lien-Fang	June 6, 2014	3 years	June 6, 2014	0	0	0	0	0	0	0	0	Department of Nuclear Engineering, National Tsing Hua University Master and Doctoral degree from Nuclear Engineering and Applied Physics, Columbia University Senior VP, Worldwide Sales & Services, TSMC Vice President of Microelectronics Global Business and Services, IBM Vice President of Motorola Computer Business-Asia Pacific Counselor of Oak Hill Capital Partners	Director of MediaTek Inc. Independent Director of AzureWave Technologies Inc. Independent Director of Vanguard International Semiconductor Corp. Independent Director of eMemory Technology Inc. Vice Dean, College of Technology Management, National Tsing Hua University	None	None	None

2.Major Shareholders of Important Corporate Shareholders

Dec. 31, 2015

Corporate Shareholders	Major Shareholders of Important Corporate Shareholders
Hermes-Epitek Corp.	B.V.I. Ji Xing Co., Ltd.(69.12%), Hwang, Ming-Chi (11.55%), Lu, Hui-Chiang (8.49%), Lin, Shu-Ling (3.90%), Shu, Chin-Yung (2.52%), Huang, Mei-Yun (2.02%), Wei Shan Investment Co., Ltd.(1.24%), Lin, Tung-Ching (0.39%), Lin, Shih-Ching (0.39%), Chen, Li-Kuei (0.36%)

3. Major Shareholders of Important Corporate Shareholders, which are Corporate Shareholder Representatives:

Dec. 31, 2015

Corporate Shareholders	Principal Shareholders of Corporate Shareholder
B.V.I. Ji Xing Co., Ltd.	Huang, Mei-Yun (100.00%)
Wei Shan Investment Co., Ltd.	B.V.I. Ji Xing Co., Ltd. (80.00%), Hwang, Ming-Chi (8.30%), Lu, Hui-Chiang (3.60%), Lin, Shu-Lin (3.60%), Huang, Mei-Yun (2.50%), Wu, Yu-Mei (0.80%), Lin, Shih-Ching (0.80%), Chen, Yuan-Chi(0.40%)

4. Directors and Supervisors' Professional Qualifications and Independent Analysis

Criteria / Name	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Qualification (note)										Number of other public companies concurrently serving as an independent director
	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	1	2	3	4	5	6	7	8	9	10	
Shu, Chin-Yung			√			√	√			√	√	√	√	None
Jau, Jack Ying Chia			√				√	√		√	√	√	√	None
Hermes-Epitek Corp. Representative: Hwang, Ming-Chi			√							√	√	√		None
Chen, Zhong-Wei			√				√	√		√	√	√	√	None
Yang, Chyan	√		√	√	√	√	√	√	√	√	√	√	√	4
Hu, Han-Liang		√	√	√	√	√	√	√	√	√	√	√	√	None
Tu, Huai-Chi			√	√	√	√	√	√	√	√	√	√	√	None
Liang, Kai-Tai			√	√	√	√	√	√	√	√	√	√	√	None
Kin, Lien-Fang	√		√	√	√	√	√	√	√	√	√	√	√	3

Note: For those directors and supervisors meeting the following terms two years prior to be elected and during their term in office, a "✓" is put in the space under the applicable term.

1. Not the Company's employee, or employee of the Company's affiliated companies.
2. Those who are not a director or supervisor of the Company or its affiliated companies (however, it is not limited to the independent director of the Company or its parent company or the subsidiary in which the Company directly or indirectly holds more than 50% of its voting shares).
3. The natural-person shareholder who does not hold more than 1% of the total outstanding stocks in their name or the name of their spouse, their minor children or others, or the shares held in their name or the name of their spouse, their minor children or others do not make them one of the Company's top ten shareholders.
4. Not the spouse, or the 2nd level kin or the 3rd level lineal relative of the parties mentioned in the previous 3 paragraphs.
5. Neither an employee, a director, nor a supervisor of corporate shareholders directly holding shares more than 5% of the total outstanding stocks; neither nor of the Company's top five shareholders.
6. Neither a director, supervisor, manager, nor shareholder holds over 5% shares of a company or institution that is financing or doing business with the Corporation.
7. The professional, proprietor of the sole proprietorship, partnership, company or institute, partner, director, supervisor, manager and their spouse who does not provide services or consultation for the Company or its affiliated enterprises in the sectors of business, legal affairs, finance and accounting, etc. However, it is not limited to the Remuneration Committee members prescribed by Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded over the Counter.
8. Those who do not have the spouse relationship or are not within the 2nd level of kinship with any other directors.
9. Those who are not subject to any of the conditions listed in Article 30 of the Company Act.
10. Those who are not in the circumstance regulated in Article 27 of the Company Act where the government agency, corporate shareholder or their representative is elected.

(2) Information of President, Vice President, Assistant President, Division Heads, and Branch Heads

Apr. 10, 2016；Unit: thousand share; %

Position	Nationality	Name	Date of Appointment	Shareholding		Spouse and Minor Shareholding		Shareholding under the title of a 3rd party		Education & Past Positions	Current Positions at Other Companies	Spouse or 2nd level kin holding manager		
				Shares	%	Shares	%	Shares	%			Position	Name	Relation ship
President/ Chief Operation Officer	R.O.C.	Pan, Chung-Shih	Oct. 30, 2014	0	0	0	0	1,318	1.86	Doctoral degree in Mechanical Engineering from University of California, Berkeley, USA Senior R&D Engineer of KLA-Tencor Corporation, USA Senior Engineer of Tencor Intruments, USA Engineer of Dastek Corp, US	Supervisor of Hermes Microvision Co., Ltd. (Beijing) Director of HMI Holdings Inc. Director of HMI INVESMTENT CORP. Director of Hermes Microvision Korea Inc.	None	None	None
Senior Vice President	R.O.C.	Liu, Kuo-Shih (note 1)	Mar. 4, 2015	0	0	0	0	0	0	Master's degree in management science & engineering, Stanford University, USA PhD of Aeronautics and Aerospace, Stanford University, USA Vice president of Hua Hsin Solar Tech Co., Ltd. Vice president of E-Ton Solar Tech Co., Ltd. Applied Materials, Inc. Sr. Manager	None	None	None	None
Vice President of R& D and Administration	R.O.C.	Lin, Wen-Sheng	Apr. 29, 2013	0	0	0	0	0	0	Department of Electro-Mechanical Engineering, Oriental Institute of Technology Assistant Manager of Hermes-Epitek Corp. Senior Manager of Customer Service at Hermes Microvision, Inc.	None	None	None	None
Vice President of business development	R.O.C.	Su, Yung-Hang	Mar. 1, 2013	16	0.02	0	0	0	0	Bachelor's degree in Electronic & Computer Engineering from National Chiao Tung University Assistant Manager of Hermes-Epitek Corp. Engineer at Acer Inc. Sales Manager of Hermes Microvision Inc.	Director of Hermes Microvision Japan Inc.	None	None	None
Vice President of Finance Center	R.O.C.	Shen, Hsiao-Lien	Mar. 1, 2013	0	0	0	0	0	0	Master's degree in management of technology from Chung Hua University Audit manager of Brilliance Semiconductor Inc. Audit manager of PwC Taiwan Senior finance manager of Hermes Microvision Inc.	Director of HMI Holdings Inc. Director of Hermes Microvision Co., Ltd. (Beijing) Director of HMI INVESTMENT CORP. Supervisor of Hermes Microvision Korea Inc. Supervisor of Hermes Microvision Japan Inc.	None	None	None

Position	Nationality	Name	Date of Appointment	Shareholding		Spouse and Minor Shareholding		Shareholding under the title of a 3rd party		Education & Past Positions	Current Positions at Other Companies	Spouse or 2nd level kin holding manager		
				Shares	%	Shares	%	Shares	%			Position	Name	Relation ship
Manager	U.S.A.	Wang, Yi-Hsiang	Apr. 18, 2014	52	0.07	40	0.06	1,579	2.22	PhD in electrical engineering from Purdue University R&D vice president of Momentum Laser Inc.,U.S.A R&D vice president of Pao Li Electronic Co.,Ltd., Beijing Senior Engineer, Respironics, U.S.A. R&D vice president of Vitalog Inc., U.S.A.	Director of Hermes Microvision Co., Ltd. (Beijing)	None	None	None
Vice President of Administration	R.O.C.	Liang, Wen-Cheng (Note 2)	June 1, 2014	0	0	0	0	0	0	Master of computer Science, Tamkang University Director of Hung Yeh Construction Co., Ltd. Assistant Manager of Business Section, Intelligent Inspection Control Corp. Project Director, Business Section, Ardentec Corp. Vice president, Business Section, Hongfa Technology Co., Ltd.	None	None	None	None

Note 1: On-board on Mar. 4, 2015

Note 2: Resigned on June 30, 2015

(3) Remuneration of Directors, Supervisors, President and Vice Presidents in recent years

1. Remuneration of Directors

Dec. 31, 2015；Unit: NT$ 1,000; 1,000 shares

<table>
<tr><th rowspan="3">Position</th><th rowspan="3">Name</th><th colspan="8">Remuneration of Directors</th><th colspan="2" rowspan="2">% of the total amount A, B, C and D to the net profit after tax</th></tr>
<tr><th colspan="2">Salary (A)</th><th colspan="2">Pension (B)</th><th colspan="2">Remuneration of Directors (C)</th><th colspan="2">Professional fees (D)</th></tr>
<tr><th>HMI</th><th>All companies in the financial report</th><th>HMI</th><th>All companies in the financial report</th><th>HMI</th><th>All companies in the financial report</th><th>HMI</th><th>All companies in the financial report</th><th>HMI</th><th>All companies in the financial report</th></tr>
<tr><td>Chairman</td><td>Shu, Chin-Yung</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">13,200</td><td rowspan="9">13,200</td><td rowspan="9">440</td><td rowspan="9">440</td><td rowspan="9">0.59%</td><td rowspan="9">0.59%</td></tr>
<tr><td>Vice Chairman</td><td>Jau, Jack Ying Chia</td></tr>
<tr><td>Director</td><td>Hwang, Ming-Chi</td></tr>
<tr><td>Director</td><td>Chen, Zhong-Wei</td></tr>
<tr><td>Director</td><td>Yang, Chyan</td></tr>
<tr><td>Director</td><td>Hu, Han-Liang</td></tr>
<tr><td>Director</td><td>Tu, Huai-Chi</td></tr>
<tr><td>Director</td><td>Liang, Kai-Tai</td></tr>
<tr><td>Director</td><td>Kin, Lien-Fang</td></tr>
</table>

<table>
<tr><th rowspan="4">Position</th><th rowspan="4">Name</th><th colspan="12">Remunerations Earned as Employee of HMI or of HMI Affiliates</th><th colspan="2" rowspan="2">(%)% of the total amount A, B, C, D, E, F and G to the net profit after tax</th><th rowspan="4">Other remunerations from non-Salary subsidiary affiliates</th></tr>
<tr><th colspan="2">Salary, bonus, special expenditures and etc.(E)</th><th colspan="2">Pension (F)</th><th colspan="4">Employee remuneration (G)</th><th colspan="2">Employee Option (H)</th><th colspan="2">Granted Employee Restricted Stock (I)</th></tr>
<tr><th rowspan="2">HMI</th><th rowspan="2">All companies in the financial report</th><th rowspan="2">HMI</th><th rowspan="2">All companies in the financial report</th><th colspan="2">HMI</th><th colspan="2">All companies in the financial report</th><th rowspan="2">HMI</th><th rowspan="2">All companies in the financial report</th><th rowspan="2">HMI</th><th rowspan="2">All companies in the financial report</th><th rowspan="2">HMI</th><th rowspan="2">All companies in the financial report</th></tr>
<tr><th>Cash amount</th><th>Stock amount</th><th>Cash amount</th><th>Stock amount</th></tr>
<tr><td>Chairman</td><td>Shu, Chin-Yung</td><td rowspan="9">0</td><td rowspan="9">26,403</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">589</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0.59%</td><td rowspan="9">1.75%</td><td rowspan="9">None</td></tr>
<tr><td>Vice Chairman</td><td>Jau, Jack Ying Chia</td></tr>
<tr><td>Director</td><td>Hwang, Ming-Chi</td></tr>
<tr><td>Director</td><td>Chen, Zhong-Wei</td></tr>
<tr><td>Director</td><td>Yang, Chyan</td></tr>
<tr><td>Director</td><td>Hu, Han-Liang</td></tr>
<tr><td>Director</td><td>Tu, Huai-Chi</td></tr>
<tr><td>Director</td><td>Liang, Kai-Tai</td></tr>
<tr><td>Director</td><td>Kin, Lien-Fang</td></tr>
</table>

Table of Range of the Remunerations

Range of the Remunerations paid to each Director of the Corporation	Name of Directors			
	Sum of the 4 Remunerations (A+B+C+D)		Sum of the 7 Remunerations (A+B+C+D+E+F+G)	
	HMI	All companies in the financial report	HMI	All companies in the financial report
Less than NT$2,000,000	Shu, Chin-Yung, Hwang, Ming-Chi, Jau, Jack Ying Chia, Chen, Zhong-Wei Yang, Chyan, Hu, Han-Liang, Tu, Huai-Chi, Liang, Kai-Tai Kin, Lien-Fang	Shu, Chin-Yung, Hwang, Ming-Chi, Jau, Jack Ying Chia, Chen, Zhong-Wei Yang, Chyan, Hu, Han-Liang, Tu, Huai-Chi, Liang, Kai-Tai Kin, Lien-Fang	Shu, Chin-Yung, Hwang, Ming-Chi, Jau, Jack Ying Chia, Chen, Zhong-Wei Yang, Chyan, Hu, Han-Liang, Tu, Huai-Chi, Liang, Kai-Tai Kin, Lien-Fang	Shu, Chin-Yung, Hwang, Ming-Chi, Yang, Chyan, Hu, Han-Liang, Tu, Huai-Chi, Liang, Kai-Tai Kin, Lien-Fang
NT$2,000,000 (including)～5,000,000 (excluding)	None	None	None	None
NT$5,000,000 (including)～10,000,000 (excluding)	None	None	None	Chen, Zhong-Wei
NT$10,000,000 (including)～NT$15,000,000 (excluding)	None	None	None	None
NT$15,000,000 (including)～NT$30,000,000 (excluding)	None	None	None	Jau, Jack Ying Chia,
NT$30,000,000 (including)～NT$50,000,000 (excluding)	None	None	None	None
NT$50,000,000 (including)～NT$100,000,000 (excluding)	None	None	None	None
Over NT$100,000,000	None	None	None	None
Total	9	9	9	9

2. Remuneration Paid to President and Vice Presidents

Dec. 31, 2015；Unit: NT$ 1,000; 1,000 shares

<table>
<tr><th rowspan="3">Position</th><th rowspan="3">Name</th><th colspan="2">Salary (A)</th><th colspan="2">Pension (B)</th><th colspan="2">Bonus, special expenditures, etc. (C)</th><th colspan="4">Amount of employee remuneration(D)</th><th colspan="2">(%)% of the total amount A, B, C and D to the net profit after tax</th><th colspan="2">Employee Option</th><th colspan="2">Granted Employee Restricted Stock</th><th rowspan="3">Other remunerations from non- Salary subsidiary affiliates</th></tr>
<tr><th rowspan="2">HMI</th><th rowspan="2">All companies in the financial report</th><th rowspan="2">HMI</th><th rowspan="2">All companies in the financial report</th><th rowspan="2">HMI</th><th rowspan="2">All companies in the financial report</th><th colspan="2">HMI</th><th colspan="2">All companies in the financial report</th><th rowspan="2">HMI</th><th rowspan="2">All companies in the financial report</th><th rowspan="2">HMI</th><th rowspan="2">All companies in the financial report</th><th rowspan="2">HMI</th><th rowspan="2">All companies in the financial report</th></tr>
<tr><th>Cash amount</th><th>Stock amount</th><th>Cash amount</th><th>Stock amount</th></tr>
<tr><td>President</td><td>Pan, Chung-Shih</td><td rowspan="7">12,674</td><td rowspan="7">24,027</td><td rowspan="7">0</td><td rowspan="7">0</td><td rowspan="7">30,154</td><td rowspan="7">50,961</td><td rowspan="7">688</td><td rowspan="7">0</td><td rowspan="7">2,137</td><td rowspan="7">0</td><td rowspan="7">1.87%</td><td rowspan="7">3.32%</td><td rowspan="7">0</td><td rowspan="7">0</td><td rowspan="7">0</td><td rowspan="7">0</td><td rowspan="7">None</td></tr>
<tr><td>Senior Vice President</td><td>Liu, Kuo-Shih (Note 1)</td></tr>
<tr><td>Vice President</td><td>Lin, Wen-Sheng</td></tr>
<tr><td>Vice President</td><td>Su, Yung-Hang</td></tr>
<tr><td>Vice President</td><td>Shen, Hsiao-Lien</td></tr>
<tr><td>Vice President</td><td>Liang, Wen-Cheng (Note 2)</td></tr>
<tr><td>Manager</td><td>Wang, Yi-Hsiang</td></tr>
</table>

Note 1: On-board on Mar. 4, 2015

Note 2: Resigned on June 30, 2015

Table of Range of the Remunerations

Remuneration scale for President and Vice Presidents of the Corporation	Name of President and Vice Presidents	
	HMI	All companies in the financial report
Less than NT$2,000,000	None	None
NT$2,000,000 (including)～NT$5,000,000 (excluding)	None	None
NT$5,000,000 (including)～NT$10,000,000 (excluding)	Lin, Wen-Sheng, Su, Yung-Hang, Shen, Hsiao-Lien, Liang, Wen-Cheng	Wang, Yi-Hsiang, Lin, Wen-Sheng, Su, Yung-Hang, Shen, Hsiao-Lien, Liang, Wen-Cheng
NT$10,000,000 (including)～NT$15,000,000 (excluding)	None	None
NT$15,000,000 (including)～NT$30,000,000 (excluding)	Pan, Chung-Shih	Pan, Chung-Shih, Liu, Kuo-Shih
NT$30,000,000 (including)～NT$50,000,000 (excluding)	None	None
NT$50,000,000 (including)～NT$100,000,000 (excluding)	None	None
Over NT$100,000,000	None	None
Total	5	7

3. Employees' bonus paid to Managers

Dec. 31, 2015；Unit: NT$ 1,000; 1,000 shares

	Position	Name	Stock amount	Cash amount	Total	(%)% of the total amount to the net profit after tax
Manager	President	Pan, Chung-Shih	0	2,137	2,137	0.092%
	Senior Vice President	Liu, Kuo-Shih (Note 1)				
	Vice President	Lin, Wen-Sheng				
	Vice President	Su, Yung-Hang				
	Vice President	Shen, Hsiao-Lien				
	Vice President	Liang, Wen-Cheng (Note 2)				
	Manager	Wang, Yi-Hsiang				

Note 1: On-board on Mar. 4, 2015

Note 2: Resigned on June 30, 2015

(4) Elaboration on the analysis of the ratio of the total amount of the remuneration paid to the Company's directors, supervisors, president and vice president over the past two years as shown in the Company's and its consolidated statements to the net profit after tax and explanation of the Company's remuneration payment policy, standard and combination, its procedure to set up remuneration standards and the correlation between its business performance and future risks.

i. The ratio of the total amount of the remuneration paid to the Company's directors, president and vice president over the past two years to the net profit after tax.

Unit: NTD1,000；%

Item/Year		2014	2015
The Company	Total remuneration	43,009	57,156
	Ratio to the net profit after tax	1.33	2.46
All companies in the consolidated statements	Total remuneration	103,598	117,757
	Ratio to the net profit after tax	3.20	5.07

ii. Remuneration payment policy, standard and combination, the procedure to set up remuneration standards and the correlation between the business performance and

future risks

A. Director: Their remuneration shall be paid according to the remuneration distribution percentage and range prescribed by the Articles of Incorporation.

B. President and vice president: their remuneration including salaries, bonuses and employee bonuses shall be paid according to their post, assuming liabilities and contribution to the Company and by referring to the level of the pay adopted by the peer companies.

C. Correlation with business performance and future risks: The Company’s policy for the remuneration paid to its directors, president and vice president and procedure to set up remuneration standards have positive correlation with its business performance, and it discloses the payment amount in accordance with statutory laws and regulations, so its future risks shall be limited.

3. Corporate Governance

(1) **Operation of the Board of Directors**

The Board of Directors held 5 sessions in 2015. The attendance of the Directors and Independent Directors is shown in the following table:

Position	Name	Number of times of actual attendance	Number of times of attendance by authorized	Ratio of actual attendance (%)	Remarks
Chairman	Shu, Chin-Yung	5	0	100.00	June 6, 2014 Re-elected
Vice Chairman	Jau, Jack Ying Chia	4	1	80.00	June 6, 2014 Re-elected
Director	Hermes-Epitek Corp. Representative: Hwang, Ming-Chi	5	0	100.00	June 6, 2014 Re-elected
Director	Chen, Zhong-Wei	5	0	100.00	June 6, 2014 Newly-elected
Director	Yang, Chyan	5	0	100.00	June 6, 2014 Re-elected
Independent Director	Hu, Han-Liang	5	0	100.00	June 6, 2014 Re-elected
Independent Director	Tu, Huai-Chi	5	0	100.00	June 6, 2014 Re-elected
Independent Director	Liang, Kai-Tai	5	0	100.00	June 6, 2014 Re-elected
Independent Director	Kin, Lien-Fang	5	0	100.00	June 6, 2014 Newly-elected

Other matters required to be recorded:

1. Items listed in Article 14-3 in Securities and Exchange Act or Board resolutions Independent Directors have dissenting opinions or qualified opinions with notes in minutes of the Directors meetings: None.
2. Execution status for Article 206 of the Company Act regarding matters bearing on the personal interests of directors:
   a. The proposal for managerial officer's annual salary raise and performance bonus distribution was discussed in the board meeting held on July 31, 2015, in which, due to recusal, the directors Jau, Jack Ying Chia and Chen, Zhong-Wei did not participate in discussion and resolution of the case.
   b. The board meeting held on Dec. 22, 2015 discussed and ratified the list of the recipients of the first-time issuance of employee stock option certificates in 2015 and the quantities eligible for the stock option, in which, due to recusal, the directors Jau, Jack Ying Chia and Chen, Zhong-Wei did not participate in discussion and resolution of the case.
   c. Director Jau, Jack Ying Chia and Chen, Zhong-Wei didn't involve in the discussion and resolution of " IV. To decide 2015 employees and managers' annual bonus payment" in Dec 22, 2015 Board of Directors meeting to avoid conflict of interest.
3. Goals to enhance the Board's operations:
   (a) Establishment of the audit committee and Remuneration Committee
      1. HMI set up its Audit Committee on Jun. 30, 2011 to exercise its powers prescribed by the Securities and Exchange Act, Company Act and other statutory laws and regulations.
      2. HMI set up its Remuneration Committee on Aug. 23, 2011 to assist the Board of Directors in periodically evaluating and setting up director and manager's remuneration standards, and periodically evaluate director and manager's performance, and the remuneration policy, system, standard and structure.

   (b) Enhancement of information transparency

   The company's financial information and material resolutions have been put on the market observation post system as regulated, while the Company's business information has also been disclosed on the Company's website, so the public investors can all obtain the information in a timely manner.

(2) Continued Education/Training of Directors and Managers in 2014

In order to fulfill the corporate governance system, HMI has taken initiative to pass its governance related information on advanced study opportunities to our Directors. HMI's 2015 and 5th term of directors all complied with the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and GTSM Listed Companies".

Position	Name	Host by	Training Title	Hours of study	"Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and GTSM Listed Companies"
Chairman	Shu, Chin-Yung	Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3	yes
		Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan's enterprises according to the Effective Board published by the U.K. Institute of Directors	3	yes
Vice Chairman	Jau, Jack Ying Chia	Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3	yes
		Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan's enterprises according to the Effective Board published by the U.K. Institute of Directors	3	yes
Representative of Corporate Director	Hwang, Ming-Chi	Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3	yes
		Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan's enterprises according to the Effective Board published by the U.K. Institute of Directors	3	yes

Position	Name	Host by	Training Title	Hours of study	“Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and GTSM Listed Companies”
Director	Chen, Zhong-Wei	Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3	yes
		Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan’s enterprises according to the Effective Board published by the U.K. Institute of Directors	3	yes
Director	Yang, Chyan	Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan’s enterprises according to the Effective Board published by the U.K. Institute of Directors	3	yes
		Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3	yes
Independent Directors	Hu, Han-Liang	Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan’s enterprises according to the Effective Board published by the U.K. Institute of Directors	3	yes
		Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3	yes
Independent Directors	Tu, Huai-Chi	Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan’s enterprises according to the Effective Board published by the U.K. Institute of Directors	3	yes
		Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3	yes

Position	Name	Host by	Training Title	Hours of study	"Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and GTSM Listed Companies"
Independent Directors	Liang, Kai-Tai	Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan's enterprises according to the Effective Board published by the U.K. Institute of Directors	3	yes
		Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3	yes
Independent Directors	Kin, Lien-Fang	Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan's enterprises according to the Effective Board published by the U.K. Institute of Directors	3	yes
		Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3	yes

Continued Education/Training of Management

Position	Name	Date of Course	Host by	Title of Course	Hours of study (hour)
President	Pan, Chung-Shih	Apr. 24, 2015~ Apr. 24, 2015	Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3
		May 29, 2015~ May 29, 2015	Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan's enterprises according to the Effective Board published by the U.K. Institute of Directors	3
Vice President	Shen, Hsiao-Lien	Jan. 13, 2015~ Jan. 13, 2015	Hermes Microvision, Inc.	HMI-Personal Data Protection Act in response to the impact of cognitive	0.5
		Apr. 24, 2015~ Apr. 24, 2015	Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3
		May 29, 2015~ May 29, 2015	Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan's enterprises according to the Effective Board published by the U.K. Institute of Directors	3
		Aug.13, 2015~ Aug. 14, 2015	Accounting Research and Development Foundation	Effectiveness evaluation and case resolve of mergers and acquisitions	3
		Aug.13, 2015~ Aug. 14, 2015	Accounting Research and Development Foundation	Reading and preparation and case studies for "corporate social responsibility report"	3
		Aug.13, 2015~ Aug. 14, 2015	Accounting Research and Development Foundation	Resolution for International Financial Reporting Standards No. 15, "Customer Contract income" (IFRS15)	3
		Aug.13, 2015~ Aug. 14, 2015	Accounting Research and Development Foundation	Discussion of law responsibility and case related to judicial on corporate insider "short-term trading and disgorgement"	3

Position	Name	Date of Course	Host by	Title of Course	Hours of study (hour)
Vice President	Lin, Wen-Sheng	Jan. 13, 2015~ Jan. 13, 2015	Hermes Microvision, Inc.	HMI-Personal Data Protection Act in response to the impact of cognitive	0.5
		Apr. 24,2015~ Apr. 24,2015	Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3
		May 29,2015~ May 29,2015	Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan's enterprises according to the Effective Board published by the U.K. Institute of Directors	3
Vice President	Su, Yung-Hang	Jan. 13, 2015~ Jan. 13, 2015	Hermes Microvision, Inc.	HMI-Personal Data Protection Act in response to the impact of cognitive	0.5
		Apr. 24,2015~ Apr. 24,2015	Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3
		May 29,2015~ May 29,2015	Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan's enterprises according to the Effective Board published by the U.K. Institute of Directors	3
Vice President	Liang, Wen-Cheng	Jan. 13, 2015~ Jan. 13, 2015	Hermes Microvision, Inc.	HMI-Personal Data Protection Act in response to the impact of cognitive	0.5
		Apr. 24,2015~ Apr. 24,2015	Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3
		May 29,2015~ May 29,2015	Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan's enterprises according to the Effective Board published by the U.K. Institute of Directors	3
Senior Vice President	Liu, Kuo-Shih	Apr. 24,2015~ Apr. 24, 2015	Taiwan Securities and Future Institute	Elaboration on corporate operating concession competition behavior rules and case studies.	3
		May 29,2015~ May 29,2015	Taiwan Corporate Governance Association	Evaluate the efficiency of the board of directors of Taiwan's enterprises according to the Effective Board published by the U.K. Institute of Directors	3

(3) Operation of Audit Committee

The tenure of HMI's 6nd term Audit Committee in 2015 and the attendance of members is shown in the following table:

Position	Name	Number of times of actual attendance (B)	Number of times of authorized attendance	Ratio of actual attendance (%) (B/A)	Remarks
Independent Directors	Hu, Han-Liang	6	0	100.00	Jun.6,2014 Re-Elected
Independent Directors	Tu, Huai-Chi	6	0	100.00	Jun.6,2014 Re-Elected
Independent Directors	Liang, Kai-Tai	6	0	100.00	Jun.6,2014 Re-Elected
Independent Directors	Kin, Lien-Fang	6	0	100.00	Jun.6,2014 Newly-Elected

Other Required Notes for Remuneration Committee:

1. For the matters listed in Article 14-5 of the Securities and Exchange Act and the resolutions which were not adopted by the audit committee but approved by more than two-thirds of the entire body of directors, the board meeting date, term, bill content, audit committee's resolution results, and the Company's handling of the audit committee's opinions: None.
2. For execution of independent director's recusal for conflict-of-interest bills, the independent director's name, bill content, the reason for entering recusal and resolution participation status shall be described: None
3. Status of the communication of independent directors with the internal audit supervisor and CPAs (e.g. the matters, methods and results of the communication for the Company's financial and business status):
   (1) HMI's internal audit supervisor has periodically reported their audit status in audit committee meetings. In case of any special situation, they shall promptly report to the audit committee. As of the date of printing of the annual report, no aforesaid special situation had occurred. HMI's audit committee has good communication with its internal audit supervisor.
   (2) The Company's CPAs have periodically attended the Company's audit committee meetings as a guest. In case of any special situation, they shall promptly report to the audit committee. As of the date of printing of the annual report, no aforesaid special situation had occurred. The Company's audit committee has good communication with its CPAs.

(4) Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons

Item	Implementation Status			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
1. Has the Company set up and disclosed its corporate governance best practice principles in accordance with the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies”?	√		The Company has already set up its corporate governance best-practice principles, and complied with the spirit of the principles in its practical corporate governance operation.	No significant variance
2. The company’s equity structure and shareholders’ equity (1) Has the Company set up its internal operation procedure to handle shareholders’ recommendation, release their doubts, solve any arising disputes and take care of litigation issues, and followed the procedure to do the	√		To ensure shareholders’ equity, the Company has already set up its internal operation procedure and appointed dedicated personnel to properly handle shareholders’ recommendations, release their doubts and solve any arising disputes. The Company has its spokesperson, deputy spokesperson and investment relationship, and has an investor e-mail address to handle shareholders’ recommendations or opinions.	No significant variance

Item	Implementation Status			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
implementation?				
(2) Has the status of the Company's control of the name list of the major shareholders who actually control the Company, and the final controllers of the major shareholders?	√		The Company has stock affairs dedicated personnel who manage related information, appoints a stock affairs agency to assist in handling stock affairs related issues, and keeps abreast with the change of the name lists of the major shareholders who actually control the Company and the final controllers of the major shareholders.	No significant variance
(3) Has the Company established and executed its risk control and fire wall mechanism with its affiliated enterprises?	√		(1) When the Company has any financial or business relationship with any of its affiliated enterprises, it will follow the "Regulations Governing the Operation of Transactions with Specific Companies, Group Enterprises and Related Parties" to specifically stipulate the price terms and payment method. The preceding operation procedure shows no irregularities compared with other peer groups in the industry. (2) The issues on personnel, assets and financial management authorization and responsibility between the Company and its affiliated enterprises are operated independently. In addition, the Company's businesses with banks and bank's credit facilities are also totally implemented independently. The receivables and payables with its affiliated enterprises are also handled in a timely	No significant variance

Item	Implementation Status			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
			way.	
(4) Has the Company set up any internal rules to prohibit the Company's personnel from trading securities according to the information undisclosed in the Market?	√		The Company has already instituted the "Internal Material Information Handling and Insider Trading Prevention Management Operation Procedure", and explicitly prohibited its personnel including directors and employees from making any profit with the information not being able to be acquired in the market.	No significant variance
3. Constitution and duties of the board of directors: (1) Has the board of directors had any diversification plan for the constitution of its members and has it carried out the diversification?	√		The Company has already instituted its "Corporate Governance Best Practice Principles", elaborated on them in the structure of the board of directors, and aggressively fulfilled the diversification of the members of the board of directors.	No significant variance
(2) Other than establishing the Remuneration		√	Currently, the Company has only set up the Remuneration Committee and audit committee by law, and their related organic regulations have	Although the Company does not set up nomination,

Item	Implementation Status			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
Committee and audit committee by law, Has the Company also voluntarily set up other kinds of functional committees?			been resolved and adopted by the board of directors.	corporate social responsibility or other functional committees, the list of its director candidates has been discussed in a board meeting before being finalized, the progress of the social responsibility execution is also required to be routinely reported to the board of directors. As such, all of these shall be considered compliance with the spirit of the corporate governance best practice principles.
(3) Has the Company set up the regulations governing performance evaluation of the board of directors? What is the evaluation method? and whether	√		To carry out corporate governance, enhance the function of the board of directors and functional committees, articulately delineate the performance goal and elevate the operation efficiency, the Company has specifically instituted the "Regulations Governing the Performance Evaluation of the Board of Directors and Functional Committees" in which the performance evaluation is annually and periodically conducted. The 2015 performance evaluation result showed a sound overall performance. Directors aggressively participated in the	No significant variance

Item	Implementation Status			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
the performance evaluation is annually and periodically conducted?			Company's meetings, e.g. the Company's operating issues were comprehensively discussed in board meetings and shareholders' meetings, and continued their advanced studies in conjunction with statutory laws and regulations. However, the functions and authority to effectively control the Company's risks and cultivate high-rank managerial officers shall be reinforced.	
(4) Has the Company periodically evaluate the independence of its CPA(s)?	√		In order to enhance CPA's service efficiency and comply with the "Regulations Governing Performance Evaluation of Public Certified Accountants", a CPA's various evaluation indicators are required to be reviewed in the first board meeting of each year, and the results shall be reported to the board of directors. The evaluation indicators cover a CPA's independence, so the accounting office is required to provide the independence statement each year to certify the independence of its CPA. Furthermore, except for the expenses of certification and financial and taxation cases, the CPA confirmed by the Company shall have no other financial interests and business relationship with the Company, whereas the CPA's family members shall also not violate the request for independence. As such, the Company is convinced the independence of its appointed CPAs Lee, Tien-Yi and Tseng, Kuo-Hua at PwC Taiwan whereas the two CPAs are also not the related parties of the Company.	No significant variance
4. Has the Company set up any channels to communicate with its	√		The Company has configured its corporate website in Chinese and English and the information in relation to financial businesses, corporate governance and corporate social responsibility is posted on	No significant variance

Item	Implementation Status			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
stakeholders, established a stakeholder exclusive area on the Company's website, and properly responded to the important issues of corporate social responsibility concerned by stakeholders?			the website and is updated at any time for stakeholders to refer to. At the same time, the Company has also appointed dedicated personnel to appropriately respond to the issues concerned by stakeholders.	
5. Has the Company commissioned its shareholder meeting affairs to a professional stock affairs service agency?	√		The Company has commissioned the Stock Affairs Service Agency of Chinatrust Commercial Bank to assist the Company in processing its shareholder meeting affairs.	No significant variance
6. Information publication (1) Has the Company set up its website and disclosed its financial, business and corporate governance information?	√		The Company has already disclosed its financial business and corporate governance related information at the investor relation exclusive area on its corporate website.	No significant variance
(2) Has other information disclosure methods adopted by the	√		The Company has configured its corporate website in Chinese and English, and has one spokesperson and one deputy spokesperson. The Company's information have been collected and disclosed by its	No significant variance

Item	Implementation Status			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
Company? (e.g. set up an English website, designate dedicated personnel to collect and disclose information, fulfill the spokesperson system and post the proceeding of the institutional investor meeting on the Company's website, etc.)			dedicated personnel, whereas the information in relation to shareholders' meetings and institutional investor meetings have been disclosed at the shareholder exclusive column on the corporate website, and updated in a timely way.	
7. Has other important information which may help understand the operation of corporate governance? (e.g. employee's rights and interests, employee care, investor relations, supplier relations, the rights of interested parties, status of director and supervisor's	√		(1) Employee's rights and interests: The Company has established its employee welfare committee, carried out its pension system so as to protect the rights and interests of its employees, and held a labor coordination committee meeting every quarter to coordinate the labor relations. (2) Employee care: The Company has planned the employee group insurance, provided its employees with regular physical examinations, and offered a variety of employee educational training. It has placed a high premium on employee's physical and mental health as well as learning development. (3) Investor relations and the rights of interested parties: As	No significant variance

Item	Implementation Status			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
advanced studies, execution of the risk management policy and risk measurement standard, execution of the customer policy, and liability insurance purchased by the Company for its directors and supervisors, etc.):			regulated by statutory laws and regulations, the Company has honestly and publicly released its corporate information, so as to protect investor and interested parties' rights and interests and do its fair share of corporate responsibility for shareholders. (4) Supplier relations: The Company has kept a good relationship with its suppliers. (5) Status of director and supervisor's advanced studies: The Company's directors all have professional background and practical operating and management experience in the industry, and they have taken six hours of corporate governance related courses every year. (6) Execution of the risk management policy, risk measurement standard: The Company's internal control system and required management regulations have all been adopted by the board of directors or shareholders' meeting. (7) Execution of the customer policy: The Company strictly abides by the agreements it has signed with customers and related regulations, ensures customer's rights and interests, and provides quality services. (8)The liability insurance purchased by the Company for its directors and supervisors: As prescribed by its Articles of Incorporation, the Company shall purchase liability insurance for its directors which shall be literally executed. Also, the Company has reviewed the content of the insurance policy every year, so as to	

Item	Implementation Status			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
			reduce the risks assumed by directors and the Company and build a well-rounded corporate governance mechanism.	
8. Has the Company had any corporate governance self-evaluation report or the corporate governance appraisal report issued by a professional agency commissioned by the Company? (If yes, please provide the opinions of the board of directors, self-evaluation or outsourcing appraisal results, major defects or recommendations and improvement status)	√		The Company's CG6009 corporate governance system evaluation and accreditation was already passed in the 3rd quarter of 2014, and it was reported in the 2015 shareholders' meeting.	No significant variance

(5) Organization, Responsibilities and Operations of HMI's Remuneration Committee

1. Composition of HMI's Remuneration Committee

Status	Criteria / Name	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience: An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	Independence Qualification (note 1): 1	2	3	4	5	6	7	8	Number of other public companies concurrently serving as an independent director	Remark (Note 2)
Independent Directors	Hu, Han-Liang		√	√	√	√	√	√	√	√	√	√	0	N/A
Independent Directors	Liang, Kai-Tai			√	√	√	√	√	√	√	√	√	0	N/A
Independent Directors	Tu, Huai-Chi			√	√	√	√	√	√	√	√	√	0	N/A
Independent Directors	Kin, Lien-Fang	√		√	√	√	√	√	√	√	√	√	3	N/A

Note: For those directors and supervisors meeting the following terms two years prior to be elected and during their term in office, a "✓" is put in the space under the applicable term.

1. Not the Company's employee, or employee of the Company's affiliated companies.
2. Those who are not a director or supervisor of the Company or its affiliated companies (however, it is not limited to the independent director of the Company or its parent company or the subsidiary in which the Company directly or indirectly holds more than 50% of its voting shares).
3. The natural-person shareholder who does not hold more than 1% of the total outstanding stocks in their name or the name of their spouse, their minor children or others, or the shares held in their name or the name of their spouse, their minor children or others do not make them one of the Company's top ten shareholders.
4. Not the spouse, or the 2nd level kin or the 3rd level lineal relative of the parties mentioned in the previous 3 paragraphs.
5. Neither an employee, a director, nor a supervisor of corporate shareholders directly holding shares more than 5% of the total outstanding stocks; neither nor of the Company's top five shareholders.
6. Neither a director, supervisor, manager, nor shareholder holds over 5% shares of a company or institution that is financing or doing business with the Corporation.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultations to the company or to any affiliate of the company, or a spouse thereof; and
8. Not been a person of any conditions defined in Article 30 of the Company Act.

Note 2: If the member is a director, please explain if they comply with Paragraph 5 of Article 6 of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is listed on the Stock Exchange or Traded over the Counter".

2. Operation status of the Remuneration Committee

i. The Company's Remuneration Committee has 4 members.

ii. The tenure of HMI's term Remuneration Committee is from June 6, 2014 to June 5, 2017. The Remuneration Committee held 4 meetings (A) in 2015, in which Committee members' titles and attendance status are as follows:

Position	Name	Number of times of actual attendance (B)	Number of times of authorized attendance	Ratio of actual attendance (%) (B/A)	Remarks
Convenor	Hu, Han-Liang	4	0	100%	Jun.6,2014 Re-Elected
Member	Tu, Huai-Chi	4	0	100%	Jun.6,2014 Re-Elected
Member	Liang, Kai-Tai	4	0	100%	Jun.6,2014 Re-Elected
Member	Kin, Lien-Fang	4	0	100%	Jun.6,2014 Newly-Elected

Other Required Notes for Remuneration Committee:

1. In the case that the board of directors does not adopt or modify the recommendations from the Remuneration Committee, the board meeting date, term, bill content, board meeting resolution results and the Company' s handling of remuneration committee's opinions shall be described (if the remuneration adopted by the board of directors is better than what was recommended by the remuneration committee, the difference and reason shall be stated): Nil
2. For the resolutions adopted by the remuneration committee, if any of the committee members had opposed or qualified opinions either on the record or in a written statement, the remuneration committee meeting date, term, bill content, opinions from all the members and the Company's handling of the members' opinions shall be described: Nil

(6) Social responsibility fulfillment status (the systems and measures taken by the Company for its environmental protection, community communication, society contribution, social services, social welfare programs, protection of consumer rights and interests, human rights and safety as well as health and implementation of other activities related to social responsibility, and the fulfillment status):

Item	Implementation Status			Variance from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company
	yes	no	Summary	
I. Implementation of Corporate Governance (1) Has the Company set up its corporate social responsibility policy and system to review the implementation effect?	√		As a good corporate citizen, the Company has continued to pay attention to a variety of related issues and international development trends and value its share of social responsibility. It has already set up its corporate social responsibility policy with the content including good faith, morality, social care, the friendly working environment and environmental sustainability. At the same time, the Company has also reviewed the implementation effect and kept making improvement, in order to attain its goal for corporate sustainable operation.	No significant variance
(2) Has the Company periodically held social responsibility educational training?	√		The Company has invited professional CSR consultants to conduct corporate social responsibility educational training to the colleagues and the members of the corporate sustainability committee, and periodically promoted the related policies.	No significant variance
(3) Has the Company set up a unit to exclusively or concurrently promote corporate social responsibility, for which the board of directors shall authorize the high-rank management to handle the related cases and report the handling status to the board of	√		In order to promote corporate social responsibility, the Company set up a corporate sustainability committee in Feb. 2016. The duties of the committee include planning and promoting the corporate social responsibility policy, concretely executing related operations, preparing the corporate social responsibility report by the end of August each year, and reporting the execution results to the board of directors.	No significant variance

Item	Implementation Status			Variance from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company
	yes	no	Summary	
directors?				
(4) Has the Company set up a reasonable remuneration policy, combined it with the employee performance evaluation policy and the corporate social responsibility policy and established a specific and effective reward and punishment system?	√		The Company has already set up its remuneration policy, which has been periodically reviewed and revised by the members of its board of directors and Remuneration Committee. In addition, the reward and punishment system has been specifically included in the Company's working rules.	No significant variance
II. Development of a sustainable environment (1) Has the Company devoted to enhancement of utilization efficiency of various resources, and the Company's use of the renewable materials having low impact on the environment?	√		The most basic request is to comply with statutory laws and regulations. To ensure proper and safe disposal of the waste generated from the Company's operation and reduce the impact on the environment to the minimum, the Company has specific waste management rules. By following the rules, the Company has continued to increase its waste recycling ratio, outsourcing its waste recycling to qualified clearing/disposal firms. In so doing, in addition to properly cutting down on its waste clearing and disposal expenses, the Company can also reduce environmental pollution as a result of effective disposal of the waste.	No significant variance
(2) Has the the company set up the proper environmental management systems according to its industrial characteristics?	√		To reduce the impact on the environment and lower the accident ratio, the Company adopts the environment and safety management to control the pollution and potential hazards generated in the process, product and service operation. In	No significant variance

Item	Implementation Status			Variance from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company
	yes	no	Summary	
	√		addition, the Company also acquired the certificates of ISO 14001and OHSAS 18001 from the UL certification in November 2011 and November 2012 respectively. Given the fact that environmental protection is not merely a slogan and safety has to be solidly carried out, the Company adopts the following environmental safety and health policy to cultivate a safe and health working environment and protect the limited and precious earth resources: compliance with rules, energy conservation, health facilitation, and continuous improvement.	
(3) Has the Company paid attention to the influence of climate change on operating activities, to execute greenhouse gas inventory and set up its strategies for energy conservation and carbon reduction and greenhouse gas reduction?	√		The Company's air-conditioning temperatures are controlled in summer time. In addition, the Company also uses Low-E glass to reinforce thermal insulation, so as to effectively conserve energy and head for the goal of energy conservation and carbon reduction.	No significant variance
III. Social welfare maintenance (1) Has the Company abided by the related regulations, international human right convention to set up related management policies and procedures?	√		The Company abides by the related labor regulations, respects internationally recognized basic labor human right principles, and protects employees' legal rights and interests. For promotion of the Company's policies and understanding of employees' opinions, the Company has taken an open attitude for mutual communication.	No significant variance
(2) Has the Company set up an appeal mechanism and channel for its	√		In response to the rules of the "Company / Employee's Code of Conduct", the Company has specifically set up an "internal	No significant variance

Item		Implementation Status			Variance from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company
		yes	no	Summary	
	employees and handle them properly?			appeal" cannel, where colleagues are obligated to report any suspect of violation of ethics or code of conduct to the management or related units. The appeal shall be filed in writing, or via telephone which shall be followed by submitted a written explanation (including e-mail). Such matters shall be properly handled by the president's office or the administrative management division.	
(3)	Has the Company provided its employees with a safe and healthy working environment and implemented periodical education about safety and health?	√		Other than non-periodically conducting health education, the Company also arranges a periodical medical examination every year for its personnel. In addition, the Company also implements the operation environment test as regulated every half a year, so as to identify the hazards in the working environment, and take control measures. Employees shall attend environment safety and health related courses according to their tasks. In addition, the Company also has an emergency action team, which has routinely practiced every year.	No significant variance
(4)	Has the Company set up its employee periodical communication mechanism, and notified the employees under the reasonable method of the operating change which may possibly result in material influence?	√		The Company has already set up its employee communication mechanism, and provided a variety of communication networks for comprehensive communication with its employees, so as to facilitate harmonious labor relations. In addition, the employee quarterly meeting, supervisor seminar and labor-management meeting are periodically held, and the meeting minutes are also made. Employees will be notified of the status of any operating change which may possibly result in material influence by e-mail.	No significant variance

Item	Implementation Status			Variance from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company
	yes	no	Summary	
(5) Has the Company set up any effective career capacity development training plan for its employees?	√		The Company holds the promotion operation every year, so as to enhance its employee's development capacity. At the same time, the Company has also set up its technology training center to assist its technical personnel in elevating their professional capacity, in which the educational training procedure is combined with performance evaluation and career development to provide training in due time.	No significant variance
(6) Has the Company instituted any consumer interest protection policy and complaint procedure in relation to its R&D, procurement, production, operation and service processes?	√		The Company has a dedicated division to offer customer services, handle customer related issues in a timely way, define the "Enforcement Rules for the Operation of Invalidation Reporting, Rootedness Analysis and Corrective Actions", so as to ensure the product quality in the equipment installation and warranty period, and provide recommendations or measures for event investigation, analysis and review, so as to prevent error re-occurrence. Furthermore, the authorization and responsibility, operation process and content are further defined. As such, the operation procedure resulting from client quality events has been specifically regulated.	No significant variance
(7) Has the Company complied with related laws and regulations and international standards in terms of marketing and labeling of its products and services?	√		The Company has complied with related laws and regulations and international standards in marketing and labeling its products and services.	No significant variance

Item	Implementation Status			Variance from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company
	yes	no	Summary	
(8) Prior to developing a business relationship with any of its suppliers, did the Company evaluate if the supplier in question left any records of impact on the environment and society?	√		(1) In its supplier management procedure and safety and health management regulations, the Company has specifically requested its suppliers and contractors to follow the human rights prescribed by the Labor Standards Law, including prohibition of child labor, forced labor, etc. (2) In the process to promote ISO 14001/OHSAS 18000, the Company already notified its suppliers to comply with the safety and health clause and protect employees' safety in accordance with HMI's OHSAS 18000 policy. A total of 121 suppliers have been notified by the Company.	No significant variance
(9) Do the contracts between the Company and its major suppliers cover the clause required to terminate or remove a contract at any time when the supplier is involved in any violation of the Company's corporate social responsibility policy which significantly impacts the environment and society?	√		The Company has specifically stipulated that its suppliers and contractors shall follow the human rights prescribed by the Labor Standards Law, including prohibition of child labor, forced labor, etc. in its supplier management procedure and safety and health management regulations.	No significant variance
IV. Enhancement of Information Disclosure (1) Has the Company disclosed the data related to its relevant and reliable corporate social responsibility in its website and	√		The Company has disclosed its execution status of its relevant and reliable social responsibility in its website, Market Observation Post System, annual report and prospectus.	No significant variance

<table>
<tr><th rowspan="2">Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Variance from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company</th></tr>
<tr><th>yes</th><th>no</th><th>Summary</th></tr>
<tr><td>Market Observation Post System</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">V. If the Company has set up its corporate social responsibility best practice principles in accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company”, please describe the difference between the operation and the instituted principles:
HMI has already set up its corporate social responsibility best practice principles and is committed to carry out its corporate social responsibility.</td></tr>
<tr><td colspan="5">VI. Other important information which may help understand the operation of corporate social responsibility: The Company funded around NT$621,000 in 2015 for its corporate social responsibility, and the execution results are listed below:
(1) The Company has aggressively participated in social care and community affairs. It helps those in need, in the hope of creating a positive contribution.
● Care for education in remote areas and encourage the distinctive social activities.
a. Jianshi Junior High School: Sponsored a fund for the school students to go to Vietnam to participate in an international chorus competition at the end of April.
● Value cultivation of tertiary-education talent and periodically arrange academic exchanges.
b. National Chiao Tung University: Corporate visit to the Department of Electrophysics.
● Sponsored public interest performances and promoted high-quality art activities
a. Taiwan Hsinchu Philharmonic Chorus: Charitable concert.
b. Hsinchu City Chu-Ai Association: Chu-Ai Concert
c. The Chamber Music Society of Lincoln Center: Wind City Music Cruise
● Emergency Aid
a. Disaster relief donation for the Formosa Fun Coast explosion accident, New Taipei City
(2) In response to environmental protection, HMI has requested its employees to try to use e-mail documents instead of paper documents, reuse unneeded documents by making the best use of blank sides. In addition, it has long fulfilled its social responsibility and worked on social welfare programs, while making contribution to the public in due time.</td></tr>
<tr><td colspan="5">VII. Other information regarding products or “Corporate Social Responsibility Report” which are verified by certification bodies: None</td></tr>
</table>

(7) Status of the Company's fulfillment of integrity operating:

Item	Implementation Status			Variance from Ethical Corporate Management Best Practice Principles for TWSE/GTSM listed companies and reasons
	Yes	No	Summary	
I. Set up integrity operating policies and schemes (1) Has the Company explicitly indicated integrity operating policies in the Company's regulations, methods and documents for outsiders, and the promise of aggressive fulfillment of the commitment made by the board of directors and the management?	√		The Company has set up its "ethic corporate management best practice principles". With which, the Company has literally executed its internal management and external business activities in a fair, just and open manner, whereas it has also advocated and promoted the good faith conduct. The Company has a director's conflict of interest recusal system in its "rules of procedure for board of directors meetings", for which if a director or the Company that the director represents has any conflict of interest with the bill listed by the board of directors which may lead to damage to the Company's interests, or if a director thinks that he or she should enter recusal and the board of directors also resolves that the director should enter recusal, the director may give his or her opinions and answer questions, but cannot join discussion and resolution, while he or she shall enter recusal during the discussion and resolution. Furthermore, the director also cannot represent any other director to exercise the voting right.	No significant variance
(2) Has the Company instituted the scheme for prevention of dishonest behavior, stipulated schemes' operation procedure, conduct	√		In order to build its good-faith corporate culture, have a sound corporate development and provide a reference structure for establishing good business operation, the Company has already instituted its "ethic corporate management best practice principles" to specifically stipulate the operation procedure, conduct guide and violation punishment and	No significant variance

Item	Implementation Status			Variance from Ethical Corporate Management Best Practice Principles for TWSE/GTSM listed companies and reasons
	Yes	No	Summary	
guide and violation punishment and appeal system and carried out them?			appeal system, in the hope that the personnel across the board including directors and the management could aggressively carry out the good faith operating policy. Also, in order to prevent any dishonest conduct, the Company's dedicated unit in charge of internal material information will keep an eye on the requirements of relevant laws and regulations, and keep the directors, managerial officers and employees abreast of the information.	
(3) Has the Company taken any prevention measures for the operating activities with a higher degree of risk in the dishonest conduct defined in Paragraph 2 of Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" or within the business scope?	√		The Company has periodically provided its directors, managers, employees and substantive controllers with educational training and promoted the activity, whereas it has also invited those counterparties having the business relationship with the Company to participate in such activity so as to make them fully understand the Company's resolution to operate business with integrity, its policies and prevention schemes, and the consequence of violation of the integrity behavior.	No significant variance
II. Fulfillment of integrity operating (1) Has the Company evaluated the integrity record of its business counterparties and	√		In their employment period and after their departing from the Company, the Company's employees shall sign the "employment contract" and "ex-service personnel non-disclosure confirmation statement"	No significant variance

Item	Implementation Status			Variance from Ethical Corporate Management Best Practice Principles for TWSE/GTSM listed companies and reasons
	Yes	No	Summary	
has it explicitly included an integrity conduct clause in the contracts with its business counterparties?			respectively, abide by the “regulations governing customer business information protection and management” and commit their liabilities and obligations for protection of trade secrets and business information, so as to carry out integrity operating.	
(2) Has the Company set the board of directors to promote the dedicated (or part-time) unit for corporate integrity promotion, and reported to the board of directors for the execution status?	√		The Company’s administrative management personnel are responsible for supervising and executing corporate ethical operating related issues, and its audit office is in charge of periodical audit of the compliance with the preceding system and reports the audit results to the board of directors.	No significant variance
(3) Has the Company set up its policy to prevent interest conflict, provided proper channels for opinion expression and carried out them?	√		In order to enhance operation efficiency and effects and reinforce interactions among the Company’s employees, investors and other interested parties. Any doubt and conflict of interest shall be reported to the Company and the “Ethical Corporate Management Best Practice Principles” shall be followed.	No significant variance
(4) Has the Company set up its effective accounting system, internal control system for its integrity operating, and periodically auditing	√		In order to ensure its operating effects and efficiency, reliability of its financial reports and compliance with related laws and regulations, the Company has set up its accounting system and internal control system, so as to carry out its integrity operating spirit.	No significant variance

Item	Implementation Status			Variance from Ethical Corporate Management Best Practice Principles for TWSE/GTSM listed companies and reasons
	Yes	No	Summary	
conducted by the Company's internal unit and commissioned by CPA to execute the auditing?				
(5) Has the Company periodically held internal and external educational training for the integrity operating?	√		The Company has periodically provided its directors, managers, employees and substantive controllers with educational training and promoted the activity, whereas it has also invited those counterparties having the business relationship with the Company to participate in such activity so as to make them fully understand the Company's resolution to operate business with integrity, its policies and prevention schemes, and the consequence of violation of the integrity behavior.	No significant variance
III. The operation status of the Company's reporting system (1) Has the Company set up a specific reporting and incentive system, established convenient reporting channels and assigned appropriate dedicated handling personnel in accordance with the reported persons?	√		The Company has instituted its "employee working rules" for its employees to stick to the good faith principle in business execution, in which the punishment system for employees' violation of the integrity operating rules is also included. In case that the colleagues find any suspect of violation of ethics or code of conduct, they may report the case through the "internal appeal" channel set up by the Company. At the same time, the Company has also provided an area on its internal website for its employees and relevant personnel to report any misconduct. To protect the whistleblower, the Company will designate management personnel to handle the case, the whole process shall be	No significant variance

Item	Implementation Status			Variance from Ethical Corporate Management Best Practice Principles for TWSE/GTSM listed companies and reasons
	Yes	No	Summary	
(2) Has the Company set up the investigation standard operation procedure and relevant confidentiality mechanism to take care of the reported matters? (3) Has the Company taken any measures to protect the whistleblower from any improper punishment as a result of their reporting?			totally kept confidential and the principles shall be followed. Reporting format: In principle, the reporting shall be made in writing (including e-mail), and the following details shall be stated. Those who report by telephone shall submit their written explanation later on: 1. name of the reporter, 2. unit and title of the reporter 3. name of the person to be reported, 4. unit and title of the person to be reported, 5. fact occurrence day and content of the fact. The reporting channels are as follows: • Service line: 03-6669229 Ext. 6840/5179 • Service mail box: cpo_box@hermes-microvision.com • Documentation reporting: send the reporting document to the administrative management division by mail or transmission. To strengthen the supervision function of its board of directors and audit committee, the Company simultaneously reinforces the interaction between its audit committee and its employees, investors and other stakeholders and specifically sets up the “audit committee box”, which is posted on the Company’s internal and external websites, so stakeholders can put forth their recommendations to the Company’s management, directors and board of directors or have the channels available for them to lodge their complaints. For any complaint cases, the Company will file them as a project and handle them in a confidential way, whereas the results will be notified in a property or the expected response date shall	

Item	Implementation Status			Variance from Ethical Corporate Management Best Practice Principles for TWSE/GTSM listed companies and reasons
	Yes	No	Summary	
			be scheduled. The audit committee shall adopt the e-box to handle the recommendation and complaint cases.: auditcommittee@hermes-microvision.com	
IV. Enhancement of information disclosure (1) Has the Company set up a corporate website that publishesinformation relating to company's corporate conduct and ethics.	√		The Company has already set up an "investor relations" area on its corporate website, and put a "corporate governance" section under the area to disclose integrity operating related information.	No significant variance
V. If the Company has set up its integrity operating principles in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies", please describe the difference between the operation and the instituted principles: The Company has already set up its integrity operating principles and has continued to aggressively abide by the principles.				
VI. Other important information which may help understand the Company's Ethical Corporate Management Best Practice Principles status (e.g., reviewing as well as modifying its integrity operating principles). HMI has set up the "management operation procedures for handling material information and preventing insider trading" as the reference for handling its material information processing and disclosure mechanisms so as to avoid improper information leakage, ensure consistency and accuracy of the information externally released, and reinforce prevention of insider trading. HMI's internal information dedicated unit will keep inspecting the operation procedure to make sure its compliance with laws and regulations and the demand for practical management. When instituting the procedure or conducting ensuing revisions, HMI will notify all of its employees by e-mail, and place the details on HMI's internal website for managers and employees to review at any time. In addition, when giving new entrants orientation training, HMI will provide the courses regarding handling of material information and prevention of insider trading for promoting the issue. Furthermore, HMI will also non-periodically offer the related information to HMI internal personnel.				

(8) In the case that the Company has already set up its corporate governance principles and other related regulations, the enquiry method shall be disclosed.

The Company has already set up its internal control system, internal auditing system and a variety of management regulations, for which the audit personnel and external professionals (such as the CPA) will non-periodically give a random check on the execution status. In addition, a corporate website has also been set up for the public to better understand the Company. At the same time, the Company's material financial and business information has all been disclosed on the public information website by law in a timely manner for the general investors to review. Furthermore, the Company also discloses the status of its execution of enterprise social responsibility in its annual report and prospectus.

(9) Other important information which may enhance the understanding about the Company's governance operation status: None

(10) For implementation status of the internal control system, the following matters shall be disclosed:

1. Internal control system: Please refer to P. 140 of this year's annual report.
2. Those that entrust the CPA to audit the internal control system shall disclose the CPA's auditing report: None

(11) The punishment imposed on the Company and its internal personnel by law and the Company's punishment on its internal personnel who violated the internal control system regulations in the latest year and as of the date of printing of the annual report, and major defects as well as improvement status: None

(12) Major resolutions and execution status adopted by shareholders' meetings and board meetings in the latest year and as of the date of printing of the annual report:

1. Major resolutions adopted by shareholders' meetings:

Meeting date	Major resolutions
May 29, 2015	1. Adoption of the 2014 business report and financial statements Execution status: Adopted via resolution 2. Adoption of the 2014 earnings distribution Execution status: According to the resolution adopted in the shareholders' meeting, the cash dividend was NT$22 per share, in which the ex-div. base day was June 22, 2015, and the distribution was completed on July 21, 2015. 3. Amendment to the "Asset Acquisition or Disposal Handling Procedure" Execution status: According to the resolution adopted in the shareholders' meeting, the amendment was made accordingly and announced on the corporate website.

2. Major resolutions adopted by shareholders' meetings:

Meeting date	Major resolutions
Mar. 4, 2015	1. Approve the Company's 2014 business report and financial report (including the consolidated financial report). 2. Approve the allocation of director remuneration and employee bonus 3. Approve the Company's 2014 earnings distribution 4. Approve the lists of newly appointed managerial officers and internal personnel 5. Approve the investment in China 6. Approve the adjustment of the investment structure of the Company's subsidiaries in China. 7. Approve the addition to the budget for newly established plant in the Southern Taiwan Science Park and installation of plant systems and facilities. 8. Approve the issues in relation to holding of the 2015 shareholders' meeting and receipt of the proposals from the shareholders holding more than 1% of the Company's shares. 9. Approve the statement of the internal control system
Apr. 24, 2015	1. Approve the relocation of the Southern Taiwan Science Park branch 2. Approve the Company's re-investment
July 31, 2015	1. Approve the replacement of the CPA 2. Approve the appointment of the spokesperson 3. Approve the recommendations for managerial officer's 2015 salary raise and performance bonus distribution 4. Approve the plan to apply to the Zhuchun Branch of Mega Bank in Hsinchu Science Park for a short-term composite credit line. 5. Approve the plan to apply to the Hsinchu Branch of Chang Hwa Bank for a short-term composite credit line. 6. Approve the plan to apply to the Dongmen Branch of First Bank for a short-term composite credit line. 7. Approve the plan to apply to the Guandongqiao Branch of Taishin Bank for a short-term composite credit line.
Oct. 29, 2015	1. Approve the Company plans to issue employee stock option certificates 2. Approve the plan to retain key talent 3. Approve the amendment to the "Articles of Incorporation" 4. Approve the amendment to the "Regulations Governing Director Elections" 5. Approve the addition of the "Operation Procedure for Transaction Suspension and Recovery". 6. Approve the plan to apply to the Hsinchu Branch of E. Sun Bank for a short term credit line and the quotas of export bills purchase and credit exposure. 7. Approve the plan to apply to the Zhuke Branch of Shin Kong Bank for a short-term credit line.

Meeting date	Major resolutions
Dec. 22, 2015	1. Approve the 2016 budget and business plan. 2. Approve the ratification of the list of the recipients of the first-time issuance of employee stock option certificates in 2015 and the quantities eligible for the stock option 3. Approve the distribution of the 2015 employee and managerial officer year-end bonus distribution. 4. Approve the capital increase to the subsidiary in Korea. 5. Approve the completion of the self-evaluation of the financial report preparation capacity and related plans. 6. Approve the institution of the 2016 audit plan.
Mar. 1, 2016	1. Approve the allocation of director remuneration and employee remuneration 2. Approve the Company's 2015 business report and financial report (including the consolidated financial report). 3. Approve the Company's 2015 earnings distribution 4. Remains the adjustment of the investment and organization structure of the Company. 5. Approve the statement of the internal control system 6. Approve the Company's plan to apply to financial institutions for the short-term credit line of the renewal loans.
Apr. 29, 2016	1. Approve the recommendation for release of the first quarter's employee and managerial officer's prizes in 2016. 2. Approve the 2016 annual salary raise for managerial officers and payroll structure.

(13) The major content of the different opinions having been recorded or declared in writing from any director or supervisor on major resolutions adopted by board meetings in the latest year and as of the date of printing of the annual report: None

(14) Summary of resignation and dismissal status of financial report related personnel (including the chairman, president, accounting heads, financial heads, internal audit heads and R&D heads, etc.) in the latest year and as of the date of printing of the annual report: None

(15) The status of financial transparency related personnel's acquisition of the certificates requested by the competent authorities:

Out of the personnel in the financial division, one of them is the CPA of the Republic of China, and another of them is the CPA of the Unite States.

4. Information Regarding Fee for CPAs

The Name of the Office of CPA	The Name of the CPA		Audit Period	Remarks
PwC Taiwan	Lee, Tien-Yi	Cheng, Ya-Hui	Jan. 1, 2014～Mar. 31, 2015	-
PwC Taiwan	Lee, Tien-Yi	Tseng, Kuo-Hua	Mar. 31, 2015～Mar. 31, 2016	In conjunction with the internal adjustment of the office

Table of Range of Information Regarding Fee for CPAs

Unit: NTD1,000

Range of fee \ Fee Item		Audit Fee	Non-Audit Fee	Total
1	Less than NTD2,000 thousand		V	
2	NTD2,000 thousand (including)～NTD4,000 thousand			
3	NTD4,000 thousand (including)～NTD6,000 thousand			
4	NTD6,000 thousand (including)～NTD8,000 thousand	V		V
5	NTD8,000 thousand (including)～NTD10,000 thousand			
6	Over NTD10,000 thousand (including)			

(1) Those that have paid more than 25% of their total audit fee to the CPA or the firm of the CPA or those whose affiliated enterprises' non-audit fee is more than 25% of their total audit fee shall disclose the amounts of their audit fee and non-audit fee and the content of their non-audit services: The total audit fee is NT$6,300 thousand including NT$6,000 thousand for the audit and certification of the 2015 financial statements and business income tax and NT$300 thousand for the fee incurred by issuance of employee stock option. The total non-audit fee is NT$1,876 thousand covering NT$900 thousand for the transfer pricing report, NT$682 thousand for the industry and business registration and NT$294 thousand for the tax consultation.

(2) Those that have replaced their accounting firm and had less amount of their audit fee in the year after the replacement compared to the year prior to the replacement shall disclose the amounts of their audit fee incurred in the year prior to replacement and the year after replacement, and the reason for the decrease: None

(3) Those whose audit fee reduced by more than 15% from the previous year shall disclose the amount and ratio of the decrease and the reason for it: None

5. Information on CPA replacement

(1) Regarding the former CPA

<table>
<tr><td>Replacement date</td><td colspan="5">Apr. 1, 2015</td></tr>
<tr><td>Replacement reason and explanation</td><td colspan="5">The Company’s original CPAs were Lee, Tien-Yi and Cheng, Ya-Hui at PwC Taiwan. Due to internal personnel adjustment of PwC Taiwan, the Company’s CPAs have become Lee, Tien-Yi and Tseng, Kuo-Hua since the 2nd quarter of 2015.</td></tr>
<tr><td rowspan="3">Explain whether the appointer or the CPA terminated or refused renewal of the appointment.</td><td colspan="3">Parties concerned
Condition</td><td>CPA</td><td>Appointer</td></tr>
<tr><td colspan="3">Terminate the appointment</td><td>N/A</td><td>N/A</td></tr>
<tr><td colspan="3">Refuse renewal of the appointment</td><td>N/A</td><td>N/A</td></tr>
<tr><td>The opinions of the auditor’s report beyond the unqualified opinion issued over the past two years and the reasons</td><td colspan="5">No such condition</td></tr>
<tr><td rowspan="7">Are there any opinions different from those of the issuer?</td><td rowspan="5">Yes</td><td></td><td colspan="3">Accounting principles or practices</td></tr>
<tr><td></td><td colspan="3">Disclosure of financial reports</td></tr>
<tr><td></td><td colspan="3">Audit range or steps</td></tr>
<tr><td></td><td colspan="3">Other</td></tr>
<tr><td></td><td colspan="3"></td></tr>
<tr><td>None</td><td colspan="4">V</td></tr>
<tr><td colspan="5">Description</td></tr>
<tr><td>Other disclosure matters (The details prescribed by Point 4 of Item 1of Subparagraph 5 of Article 10 of the Standards shall be disclosed)</td><td colspan="5">None</td></tr>
</table>

(2) Regarding the successor CPA

Name of CPA Office	PwC Taiwan
Name of CPA	Lee, Tien-Yi, Tseng, Kuo-Hua
Date of Appointment	Apr. 1, 2015
Enquiry made prior to the appointment for the specific trading’s accounting handling method or accounting principle and the opinions on possible issuance of the financial report, and the results	No such condition
Different opinions in writing from the successor CPA against the former CPA	No such condition

(3) Letter from the former CPA to respond to the matter prescribed by Item 1 and 2-3 of Subparagraph 5 of Article 10 of the Standards: N/A.

6. **For the Company's chairman, president and managers in charge of financial and accounting affairs, and those who worked in the firm or affiliated enterprise of the CPA in the latest year, their names, titles and duration working in the firm or affiliated enterprise of the CPA shall be disclosed: None.**

7. **Net change in shareholding and net change in shares pledged by Directors, Supervisors, Managers and Shareholders with 10% shareholding or more**

(1) The status of equity transfer of directors, supervisors, managers and the major shareholders

Unit: shares

Position	Name	2015		As of Apr. 10, 2016	
		Increase (decrease) on Shareholding	Increase (decrease) on Pledged Shares	Increase (decrease) on Shareholding	Increase (decrease) on Pledged Shares
Chairman	Shu, Chin-Yung	(14,000)	—	—	—
Vice Chairman	Jau, Jack Ying Chia	—	—	—	—
Corporate Director	Hermes- Epitek Corp.	(1,500,000)	—	—	—
Representative of Corporate Director	Hwang, Ming-Chi	—	—	—	—
Director	Chen, Zhong-Wei	—	—	—	—
Director	Yang, Chyan	—	—	—	—
Independent Director	Tu, Huai-Chi	—	—	—	—
Independent Director	Hu, Han-Liang	—	—	—	—
Independent Director	Liang, Kai-Tai	—	—	—	—
Independent Director	Kin, Lien-Fang	—	—	—	—
President	Pan, Chung-Shih	—	—	—	—
Senior vice president	Liu, Kuo-Shih (note 1)	—	—	—	—
Vice President of Business Development	Su, Yung-Hang	(2,000)	—	—	—
Vice President of Finance Center	Shen, Hsiao-Lien	—	—	—	—
Vice president of Tech. Center	Lin, Wen-Sheng	—	—	—	—
Vice President of Administration Center	Liang, Wen-Cheng (note 2)	—	—	—	—
Manager	Wang, Yi-Hsiang	(106,000)	—	—	—

Note 1: On-board on Mar. 4, 2015

Note 2: Resigned on June 30, 2015

(2) The information on the fact that the counterparty of equity transfer from the director, supervisor, manager or shareholder holding more than 10% of the Company's shares is the related party: None.

(3) The information on the fact that the counterparty of equity pledge by the director, supervisor, manager and shareholder holding more than 10% of the Company's shares is the related party: None

8. Information on the fact that the top 10 shareholders are the related parties of each other, in a spousal relationship or within 2nd level of kinship as referred to in the International Accounting Standard No. 24.

Apr. 10, 2016

Name	Holding share		Holding share of spouse and minor children		Shares held by means of another party's name		Names and relationship of any of the top 10 shareholders are the related parties of each other, in a spousal relationship or within 2nd level of kinship as referred to in the International Accounting Standard No. 24.		Remarks
	Number of Shares	Rate of holding share	Number of Shares	Rate of holding share	Number of Shares	Rate of holding share	Name	Relationship	
Hermes-Epitek Corp. Responsible person: Hwang, Ming-Chi	5,605,000	7.89	–	–	–	–	Hwang, Ming-Chi	Responsible person of Hermes-Epitek Corp.	
Shan Chun Investment Co., Ltd. Responsible person: Juan, Ping-Chung	4,179,000	5.89	– –	– –	– –	– –	Hung Te Investment Co., Ltd. Sheng Hsi Investment Co., Ltd.	Spouse of responsible person of Shan Chun Investment Co., Ltd.	
Euro Pacific Growth Fund accounts hosted by Chase Bank	3,370,000	4.75	–	–	–	–	–	–	
Han Hsin Investment Co., Ltd. Responsible person: Wu, Ying-Lin	2,905,000	4.09	–	–	–	–	–	–	
Hung Te Investment Co., Ltd. Responsible person: Chen, Li-Kuei	2,884,000	4.06	–	–	–	–	Sheng Hsi Investment Co., Ltd. Shan Chun Investment Co., Ltd.	The same responsible person Spouse of the responsible person, Hung Te Investment Co., Ltd.	
Sheng Hsi Investment Co., Ltd. Responsible person: Chen, Li-Kuei	2,882,000	4.06	– –	– –	– –	– –	Hung Te Investment Co., Ltd. Shan Chun Investment Co., Ltd.	The same responsible person Spouse of the responsible person, Sheng Hsi Investment Co., Ltd.	
Hwang, Ming-Chi	1,973,000	2.78	1,486,000	2.09	–	–	Hermes-Epitek Corp.	Responsible person	
Han Hsin Investment Co., Ltd. Responsible person: Pieh, Feng-Hua	1,828,000	2.57	–	–	–	–	–	–	
B.V.I. Chin Tsai Co., Ltd. Director：Gary Wong	1,729,000	2.44	–	–	–	–	–	–	
Jau, Jack Ying Chia	1,620,000	2.28	–	–	–	–	–	–	

9. The shares of a same re-investment business held by the Company, its directors, supervisors, managers and the business directly or indirectly controlled by Company, and details of consolidated shareholding ratios:

Dec. 31, 2015；Unit: share; %

Re-investment business	The company's investment		Investments of directors, supervisors, managers and the business directly or indirectly controlled by Company		Syndicated Investments	
	Number of Shares	Rate of holding share	Number of Shares	Rate of holding share	Number of Shares	Rate of holding share
Hermes Microvision, Inc.(USA)	61,785,000	93.67%	65,000	0.10%	61,850,000	93.77%
HMI Holdings Inc.	28,146,822	100.00%	－	－	28,146,822	100.00%
Hermes Microvision Korea Inc.	500	100.00%	－	－	500	100.00%
Hermes Microvision Japan Inc.	2,980	100.00%	－	－	2,980	100.00%
Hermes Microvision Co., Ltd. (Beijing)	(Note)	100.00%	(Note)	－	(Note)	100.00%
HMI Investment Corp.	21,546,822	100.00%	－	－	21,546,822	100.00%

Note: Refers to a limited company, no number of Shares held.

IV. Capital raising status

1. Capital and Stocks

(1) Sources of Capital Stock

i. Capital Stock Formation

Unit: 1,000 shares: NTD1,000

Period	Price at issuance	Authorized capital		Paid in capital		Remarks		
		Number of Shares	Amount (NTD)	Number of Shares	Amount (NTD)	Sources of Capital Stock	Non-cash assets in lieu of stock payments	Other
May 2003	10	100	1,000	100	1,000	Set up capital NTD1,000,000	—	Note 1
May 2004	10	50,000	500,000	50,000	500,000	Increased the capital by cash NTD 499,000,000 through seasoned equity offering	—	Note 2
Oct. 2007	10	120,000	1,200,000	78,000	780,000	Increased the capital by cash NTD280,000,000 through the seasoned equity offering	—	Note 3
July 2008	10	120,000	1,200,000	41,000	410,000	Reduced the capital by NTD650,000,000 for making up losses and increasing the capital by cash NTD280,000,000 through seasoned equity offering	—	Note 4
Nov. 2010	40	120,000	1,200,000	60,000	600,000	Increased capital by cash NTD190,000,000 through seasoned equity offering	—	Note 5
May 2012	208	120,000	1,200,000	66,000	660,000	Increased capital by cash NTD60,000,000 through seasoned equity offering	—	Note 6
Nov. 2013	860	120,000	1,200,000	71,000	710,000	Increased capital by cash NTD50,000,000 through seasoned equity offering	—	Note 7

Note 1: Approved by doc. number Ching-shou-chung-tzu-ti-09232087440 on May 19, 2003.

Note 2: Approved by doc. number Yuan-shang-tzu-ti-0930013338 on May 21, 2004.

Note 3: Approved by doc. number Yuan-shang-tzu-ti-0960028831on Oct. 24, 2007.

Note 4: Approved by doc. number Yuan-shang-tzu-ti-0970020221 on July 21, 2008.

Note 5: Approved by doc. number Yuan-shang-tzu-ti-0990034911 on Nov. 18, 2010.

Note 6: Approved by doc. number Ching-shou-shang-tzu-ti-10101096060 on May 28, 2012.

Note 7: Approved by doc. number Ching-shou-shang-tzu-ti-10201240440 on Nov. 26, 2013.

ii. Type of Stock

Apr. 10, 2016; Unit: shares

Type of Stock	Authorized capital			Remarks
	Outstanding stock	Unissued stock	Total	
Common Stock	71,000,000	49,000,000	120,000,000	OTC stocks

(2) Shareholder Structure

Apr. 10, 2016; shares; %

Shareholder structure / volume	Government institution	Banks	Other corporation	Individuals	Foreign institutions and foreigners	Total
Number of persons	0	5	51	2,042	492	2,590
Number of holding share	0	3,187,000	21,740,574	7,898,569	38,173,857	71,000,000
Ratio of holding share	0.00	4.49	30.62	11.12	53.77	100.00

(3) Equity Distribution

Apr. 10, 2016

Holding share classification	Number of shareholders	Holding share	Ratio of holding share (%)
1 ~ 999	604	40,302	0.06
1,000 ~ 5,000	1,572	2,675,791	3.77
5,001 ~10,000	123	950,083	1.34
10,001 ~15,000	46	589,696	0.83
15,001 ~20,000	32	566,168	0.80
20,001 ~30,000	32	808,789	1.14
30,001 ~40,000	19	670,835	0.94
40,001 ~50,000	20	901,708	1.27
50,001 ~100,000	51	3,779,818	5.32
100,001 ~200,000	37	5,304,063	7.47
200,001 ~400,000	17	4,646,598	6.54
400,001 ~600,000	14	6,831,795	9.62
600,001 ~800,000	4	2,658,621	3.74
800,001 ~1,000,000	2	1,682,369	2.37
Over 1,000,001	17	38,893,364	54.79
Total	2,590	71,000,000	100.00

(4) Major Shareholders

All shareholders with a stake of 5 percent or greater, or the names of the top ten shareholders, specifying the number of holding shares and ratio held by each shareholder on the list:

Apr. 10, 2016

Major shareholders \ shares	Holding share	Ratio of holding share (%)
Hermes-Epitek Corp.	5,605,000	7.89
Shan Chun Investment Co., Ltd.	4,179,000	5.89
Euro Pacific Growth Fund accounts hosted by Chase Bank	3,370,000	4.75
Han Hsin Investment Co., Ltd.	2,905,000	4.09
Hung Te Investment Co., Ltd.	2,884,000	4.06
Sheng Hsi Investment Co., Ltd.	2,882,000	4.06
Hwang, Ming-Chi	1,973,000	2.78
Han Hsin Investment Co., Ltd.	1,828,000	2.57
B.V.I. Chin Tsai Co., Ltd.	1,729,000	2.44
Jau, Jack Ying Chia	1,620,000	2.28

(5) Stock Market Prices, Net Values, Earnings, Dividends, and Related Information

Unit: NTD; 1,000 shares:

Item/Year			2014	2015	Mar. 31, 2016
Market value per share	High		1,615	2,585	1210
	Low		860	1,005	720
	Average		1,280.80	1,540.01	885.90
Net value per share	Before appropriation		166.59	177.22	—
	After appropriation (Note 1)		144.59	161.22	—
EPS	Weighted average shares		71,000	71,000	71,000
	EPS (Note2)	Before adjustment	45.60	32.70	—
		After adjustment	45.60	32.70	—
Dividend per share	Cash dividend		22	16	—
	Stock dividend issuance	Shares allocated from earnings	—	—	—
		Stocks for capital reserve	—	—	—
	Unpaid stock dividend accumulated (Note 3)		—	—	—
ROI analysis	P/E ratio (Note 4)		28.09	47.10	—
	Dividend ratio (Note 5)		58.22	96.25	—
	Yield of cash dividend (Note 6)		0.02	0.01	—

Note 1: The status of 2015 earnings distribution which will be determined by the resolution to be made in the shareholders' meeting.

Note 2: For those that are required to be retroacted and adjusted as a result of the stock dividend issuance, the EPS before and after adjustment shall be listed.

Note 3: For equity securities, if the release terms require that the unreleased stock dividend of the year in question shall be accumulated and not be released until the year having surplus, the unpaid stock dividend accumulated as of the year in question shall be disclosed respectively.

Note 4: P/E ratio = each share's average closing price of the year in question / EPS

Note 5: Dividend ratio = each share's average closing price of the year in question / each share's cash dividend

Note 6: Yield of cash dividend = each share's cash dividend / each share's average closing price of the year in question.

(6) The Company's dividend policy and its execution status:

i. The dividend policy prescribed by the Company's Articles of Incorporation:

The latest amendment to the Articles of Incorporation adopted by the Company's board of directors is expected to be discussed in the 2016 shareholders' meeting. In case that the annual settlement of final accounts has any surplus, it shall be first used to pay the tax due, cover the loss accumulated in the past, and set aside 10% of the remaining amount as the legal surplus reserve, followed by allocating the special surplus reserve or reversal special surplus reserve according to the resolution adopted by the shareholders' meeting or the order of the competent authorities. For the distribution of the remaining dividend, the board of directors shall follow the dividend policy prescribed by Paragraph 2 of Article 20 of the Article of Incorporation to propose the earnings distribution which shall be resolved by the shareholders' meeting.

The industry we are in is still in its growth period. In conjunction with the industry's entire environment and characteristics, along with the Company's sustainable operating and pursuit for shareholders' long-term interests, the Company will take into account the actual operating status of the dividend release year and its next year's capital budget planning before working on distribution of shareholders' dividend, and will combine stock dividend and cash dividend for its dividend distribution, in which cash dividend shall not be less than 10% of the total shareholder's bonus amount.

ii. The dividend distribution planned to be discussed in this time of shareholders' meeting:

As proposed by the board of directors for the 2015 earnings distribution on Mar. 1, 2016, the details are as below:

	2015	
	Amount	
Legal surplus reserve	$	232,143,357
Cash dividends		1,136,000,000
Total	$	1,368,143,357

The aforesaid 2015 earnings distribution proposal will be processed as regulated after being adopted by the 2016 regular shareholders' meeting.

(7) Effects of the stock dividend issuance on Company Operating Performance and Earnings Per Share, as Resolved in the Shareholders' Meeting Resolution: Not Applicable

(8) Remuneration of Employees, Directors and Supervisors

i. Percentage or Range Remuneration of Employees, Directors and Supervisors stipulated at Articles of Incorporation

The latest amendment to the Articles of Incorporation adopted by the Company's board of directors is expected to be discussed in the 2016 shareholders' meeting. The Company shall distribute employment remuneration at an amount no less than 1% of the current year profit, and concurrently distribute director remuneration at an amount no less than 1% of the current year profit. If the Company has any accumulated loss, it shall recover the loss accordingly. The distribution of employee remuneration can be made by stock or cash, and the recipients of the stock or cash shall include the employees of its subordinate companies meeting certain terms. The preceding current year profit refers to the profit gained before deducting employee remuneration and director remuneration from the current year before-tax profit.

ii. If the actually distributed amount has any difference from the amount estimated for the current period's employee bonus and director and supervisor remuneration and calculated according to distribution of the shares of the stock bonus, it will be handled as follows:

For the expected costs of employee bonus and director and supervisor remuneration, they shall be recognized as expenses and liabilities when they are with legal or constructive obligation and the amounts can be reasonably estimated. When the actual distribution amount resolved by the shareholders' meeting later on has any difference from the estimated amount, the difference shall be listed in the next year's income statement.

iii. Information on the employee remuneration proposal adopted by the board of directors:

(1) In case that the amounts of the employee remuneration and director/ supervisor remuneration distributed by cash or stock have any variance with the estimated amounts in the year recognizing the expenses, the variance, the reason for causing the variance and handling status shall be disclosed:

The Company's 2015 earnings distribution was adopted by the board of directors on Mar. 01, 2016, in which the total employee cash remuneration was NTD132,273,823 and total director remuneration was NTD13,200,000. The aforesaid director remuneration is NTD27,382 less than the estimate listed in the 2015 account book. The difference will be handled according to the change in accounting estimation and listed in the 2016 income statement. In the case that the Company repurchases its shares, transfers or cancels its treasury shares, converts its convertible corporate bonds, exercises the share option or gives seasoned equity offering later on, which lead to change in the number of outstanding shares and the shareholder dividend rate, a proposal will be submitted to the board of shareholders for authorizing the board of director to handle the issue with full authority.

(2) The ratio of the employee remuneration amount distributed by stock to the aggregation amount of after-tax net profit of the current period individual entity or individual financial report and the total employee remuneration amount:

The employee remuneration adopted by the Company's board meeting held on Mar. 1, 2016 is the cash bonus.

iv. If the employee bonus and director and supervisor remuneration (including the number, amount and price of distributed shares) actually distributed in the previous year have any difference from the recognized employee bonus and director and supervisor remuneration, the difference amount shall be indicated and the reasons and handling status shall also be described:

Unit: NTD

Item of distribution	The amount distributed resolved by board of shareholders	The amount and the estimated figure for the fiscal year these expenses are recognized	Amount of difference	Reasons for the difference and handling status
Employee remuneration	79,995,433	79,995,433	-	-
Director remuneration	8,000,000	7,999,543	457	Given that the actual distribution amounts are rounded off to the nearest dollar, the case will be listed in 2015 income statement handled according to the change in the accounting estimate after being adopted by the board of shareholders.

(9) The Company's repurchase of its shares: None

2. Issuance of corporate bonds: None

3. Issuance of preferred stock: None

4. Status of overseas depositary receipt

Item \ Date issued (processed)			Nov. 12, 2013
Date issued (processed)			Nov. 12, 2013
Place of issuance and transaction			Luxembourg Stock Exchange
Total amount of issued certificates			USD291,700,000
Price on issuance per unit			USD29.17
Total units issued			10,000,000 units
Source of negotiable securities recommendation			The Company's common stock issued by seasoned equity offering in cash and the participation in issuance from the existing shareholders holding the issued shares.
Volume of negotiable securities recommendation			10,000,000 shares
Rights and obligations of the depositary receipt bearer			The same as the original common shares issued
Depository			none
Depository bank			BNY Mellon, U.S.A.
Custodian bank			Mega International Commercial Bank
Remaining unredeemed certificates non-exchange balance (Mar. 31, 2016)			438,938 units
Amortization of the issuance and validity period related fees			Issuance expenses: they shall be shared by the issuance company and the shareholders selling the shares Expenses incurred from the duration period: They shall be paid by the issuance company.
Key provisions of depository contract and custodian contract			See the details of depository contract and custodian contract
Market price per unit	2015	High	USD82.61
		Low	USD32.54
		Average	USD50.56
	As of Mar. 31, 2016	High	USD36.29
		Low	USD21.79
		Average	USD26.61

5. Process of employee stock warrants：

(1) The Company's employee stock option certificates not yet to expire as of the annual report publication date and the influence on shareholders' equity shall be disclosed.

Execution status of employee stock option certificate

Apr. 10, 2016

Cat. of employee stock option certificate	1st issuance of employee stock option certificates in 2015.
Effective registration date	Dec. 1, 2015
Issuance (execution) date	Dec. 22, 2015
Number of issuance units	750,000 shares
Ratio of the subscribable shares to the total issued shares	1.05634%
Share subscription duration	5 years
Performance method	New share issuance
Limitation to the share subscription period and ratio (%)	The accumulated ratios allowed to exercise the stock option at least two years, three years and four years after expiration of the stock option certificate grant period are 50%, 75% and 100% respectively.
The number of the shares which have been executed and acquired.	0 shares
The amount of the share subscription which has been executed.	$0
The number of subscription shares having yet to be executed	750,000 shares
Per-share subscription price for the subscription shares having yet to be executed	NTD 1,185/share
Ratio (%) of the subscription shares having yet to be executed to the total issued shares	1.05634%
Influence on the shareholders' equity	The stock option certificates issued this time will be executed in three installments two years after the issuance day, for which the original shareholders' equity will be diluted year by year, but the dilution effect is still limited.

(2) The names of the managerial officers acquiring the employee stock option certificates, and the top 10 employees acquiring the certificate subscribable shares as of the annual report publication date, and their acquisition and subscription status.

Apr.10,2016；Unit: 1,000 shares；NTD1,000

<table>
<tr><th rowspan="2"></th><th rowspan="2">Position</th><th rowspan="2">Name</th><th rowspan="2">Volume of subscription acquired</th><th rowspan="2">Ratio of volume of subscription acquired to total share issued</th><th colspan="4">Executed</th><th colspan="4">Not executed</th></tr>
<tr><th>Volume of subscription</th><th>Price of subscription</th><th>Amount of subscription</th><th>Volume of subscription acquired to total share issued</th><th>Volume of subscription</th><th>Price of subscription</th><th>Amount of subscription</th><th>Volume of subscription acquired to total share issued</th></tr>
<tr><td rowspan="8">Manager</td><td>Vice Chairman</td><td>Jau, Jack Ying Chia</td><td rowspan="8">84</td><td rowspan="8">0.11831%</td><td rowspan="8">0</td><td rowspan="8">-</td><td rowspan="8">0</td><td rowspan="8">0</td><td rowspan="8">84</td><td rowspan="8">1,185</td><td rowspan="8">99,540</td><td rowspan="8">0.11831%</td></tr>
<tr><td>Director</td><td>Chen, Zhong-Wei</td></tr>
<tr><td>President</td><td>Pan, Chung-Shih</td></tr>
<tr><td>Manager</td><td>Wang, Yi-Hsiang</td></tr>
<tr><td>Senior Vice President</td><td>Liu, Kuo-Shih</td></tr>
<tr><td>Vice President</td><td>Shen, Hsiao-Lien</td></tr>
<tr><td>Vice President</td><td>Su, Yung-Hang</td></tr>
<tr><td>Vice President</td><td>Liang, Wen-Cheng</td></tr>
<tr><td rowspan="23">Employees</td><td>Director</td><td>Chien-Hung Chou</td><td rowspan="23">234</td><td rowspan="23">0.32958%</td><td rowspan="23">0</td><td rowspan="23">-</td><td rowspan="23">0</td><td rowspan="23">0</td><td rowspan="23">234</td><td rowspan="23">1,185</td><td rowspan="23">277,290</td><td rowspan="23">0.32958%</td></tr>
<tr><td>Director</td><td>Wei Fang</td></tr>
<tr><td>Director</td><td>Xingfu Wang</td></tr>
<tr><td>Director</td><td>Yan Zhao</td></tr>
<tr><td>Director</td><td>Zhonghua Dong</td></tr>
<tr><td>Sr. Manager</td><td>Cynthia Gao</td></tr>
<tr><td>Sr. Manager</td><td>Xue Dong Liu</td></tr>
<tr><td>Sr. Manager</td><td>Yen Chang</td></tr>
<tr><td>Manager</td><td>Chia Wen Lin</td></tr>
<tr><td>Manager</td><td>Chuan Li</td></tr>
<tr><td>Manager</td><td>Fei Wang</td></tr>
<tr><td>Manager</td><td>Guofan Ye</td></tr>
<tr><td>Manager</td><td>Joe Wang</td></tr>
<tr><td>Manager</td><td>Jun Jiang</td></tr>
<tr><td>Manager</td><td>Ma Long</td></tr>
<tr><td>Manager</td><td>Michael Mai</td></tr>
<tr><td>Manager</td><td>Naoyuki Eguchi</td></tr>
<tr><td>Manager</td><td>Youjin Wang</td></tr>
<tr><td>Manager</td><td>Zhichao Chen</td></tr>
<tr><td>Sr. Scientist</td><td>Weiming Ren</td></tr>
<tr><td>Engineer</td><td>Jian Zhang</td></tr>
<tr><td>Engineer</td><td>Wen-Ting Tai</td></tr>
<tr><td>Engineer</td><td>Xuerang Hu</td></tr>
</table>

6. Status for issuance of restricted shares for employees: None

7. New share issuance for acquisition or assigned shares: None

8. Status of execution of the capital utilization plan

The securities which were issued or privately placed previously but the issuance has yet to be completed or has been completed in the last three years but the expected effects have yet to show up:

(1) 2013 overseas depositary receipt

1. Plan content

i. Date approved by the industry competent authorities and doc. ref. No.: Approved by the Financial Supervisory Commission on Sep. 3, 2013 via the doc. ref. Chin-Kuan-Cheng-Fa-Tzu No. 1020034994.

ii. Total amount of the capital required for this plan: NTD4,500,000 thousand.

iii. Capital sources: issuance of 5,000,000 units of the overseas depositary receipt (in recognition of 5,000,000 shares of common stock) for a total of USD145,850 thousand which is equivalent to NTD 4,300,000 thousand (based on the exchange rate of USD 1 = NTD29.48). The deficiency of the capital required by the plan will be made up by the Company's owned funds or other ways.

iv. The issuance and placement of this plan were finished on Nov. 12, 2013 and the information has been put on the Market Observation Post System.

v. The Plan's items and expected execution schedule are as below:

Unit: USD1,000; NTD1,000

Plan's items	Expected date of completion	Amount required		Expected execution schedule of funds												
				2013	2014				2015				2016			
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Introduce new products and technologies R&D project	Q4 of 2016	USD	150,000	10,900	12,700	12,800	13,800	11,100	12,400	9,400	10,200	10,200	11,100	11,100	12,100	12,200
		NTD equivalent (Note)	4,500,000	327,000	381,000	384,000	414,000	333,000	372,000	282,000	306,000	306,000	333,000	333,000	363,000	366,000
Total		USD	150,000	10,900	12,700	12,800	13,800	11,100	12,400	9,400	10,200	10,200	11,100	11,100	12,100	12,200
		NTD equivalent (Note)	4,500,000	327,000	381,000	384,000	414,000	333,000	372,000	282,000	306,000	306,000	333,000	333,000	363,000	366,000

Note: Exchange Rate of USD to NTD (1:30)

vi. Expected effects:

The EBI produced by the Company falls in the mid-stream of the entire semi-conductor industry. By integrating the components of precision machinery, E&M control, electronic optical imaging, IPC, etc. from the up-stream suppliers, the Company has developed EBI to upgrade its future profitability. The increase of its annual sales value, gross profit margin and operating profit is estimated as the table below:

Unit: NTD1,000

Plan's items	Year	Sales value	Gross profit margin	Operating profit
New product and technology development project	2014	6,150,000	3,997,500	2,460,000
	2015	6,723,000	4,571,640	3,025,350
	Total	12,873,000	8,569,140	5,485,350

Note: Estimated capital Payback period: about 1.67 years

2. Execution status

i. Capital execution schedule

Unit: USD1,000; NTD1,000

Plan's items	Execution status		Q1 of 2016		As of Q1 of 2016		Reasons for ahead of or behind schedule and improvement plan
			USD	NTD equivalent (Note)	USD	NTD equivalent (Note)	
New product and technology development project	Disbursement amount	Expected	11,100	333,000	114,600	3,438,000	As affected by customer demand, the overall product conversion schedule was slightly adjusted, which resulted in revision of related schedules. However, as a whole, the adjusted schedule does not have significant difference from the annual expected schedule.
		Actual	8,623	258,690	132,579	3,977,396	
	Execution schedule (%)	Expected	7.40%	7.40%	76.40%	76.40%	
		Actual	5.75%	5.75%	88.39%	88.39%	
Total	Disbursement amount	Expected	11,100	333,000	114,600	3,438,000	
		Actual	8,623	258,690	132,579	3,977,396	
	Execution schedule (%)	Expected	7.40%	7.40%	76.40%	76.40%	
		Actual	5.75%	5.75%	88.39%	88.39%	

Note: Exchange Rate of USD to NTD (1:30)

For the Company's participation in issuance of the overseas depositary receipt by issuing new shares in cash through seasoned equity offering in 2013, the placement was finished on Nov. 12, 2013, for which the actually raised amount was USD143,662 thousand, which is equivalent to NTD4,309,860 thousand, and, as of March 31, 2016, the actual disbursement amount was USD8,623 thousand, which is equivalent to NTD258,690 thousand, actual accumulated expense amount was USD132,579 thousand, which is equivalent to NTD3,977,396 thousand,

representing a completion rate of 88.39%. It was slightly ahead of original schedule as a result of slight adjustment of the overall product conversion schedule as affected by customer demand, which led to ensuing revisions of related schedules. However, as a whole, the adjusted schedule does not have significant difference from the annual expected schedule. By randomly checking the related certificates, no material irregularities have been found.

ii. By comparing expected effects and actual completion progress

Since the Company's new product and technology development project execution plan was slightly adjusted due to customer demand, the plan's effect achievement rate was also slightly adjusted accordingly. However, the schedule of the annual execution plan still remains unchanged. Hence, after sale of the trial products and launch of mass production, it is expected that the annual effects shall still be achieved as originally scheduled. The effects shown as of March 31, 2016 are as follows:

Unit: NTD1,000

Plan's items	Year		Sales value	Gross profit margin	Operating profit
New product and technology development project	2013	Expected	—	—	—
		Actual	187,036	121,573	74,814
	2014	Expected	6,150,000	3,997,500	2,460,000
		Actual	3,889,022	2,527,864	1,555,609
	2015	Expected	6,723,000	4,571,640	3,025,350
		Actual	3,781,861	2,571,665	1,701,837
	2016 Q1	Expected	—	—	—
		Actual	166,350	113,118	74,858
	total	Expected	12,873,000	8,569,140	5,485,350
		Actual	8,024,269	5,334,221	3,407,118
		Effectiveness	62.33%	62.25%	62.11%

iii. Influence on shareholders' equity and improvement plan:

The ceiling of the common stock issued by this time of seasoned equity offering was 5,000 thousand shares in cash, which diluted the original shareholders' shares by 7.04%. Even though this time of the Company's participation in issuance of the overseas depositary receipt by processing seasoned equity offering would slightly expand its capital, the capital raised in cash from seasoned equity offering will be used to pay for the new product and technology development project. Thus, it is a requisite for the Company to keep its future profits growing and shall have a positive effect on shareholders' equity.

V. Operational Highlights

1. The business content

(1) Scope of business

1. The main operational contents

A. CB01010 Machinery and equipment manufacturing.

B. CC01080 Electronic components manufacturing.

C. I 501010 Product design.

D. Research, development, design, manufacturing and sale of the following products: E-beam wafer inspection equipment (E-beam Inspection Tool) and its technical support and services.

2. Revenue Ratio

Unit: NTD1,000; %

Main products	2014		2015	
	Operating revenue	Operating revenue ratio	Operating revenue	Operating revenue ratio
E-beam Inspection Tool	6,905,683	96	6,201,335	93
Other	303,967	4	450,470	7
Total	7,209,650	100	6,651,805	100

3. Current company products (services)

A.eScan 300/310/315/320/500

B.eScan 380/Lite/400

C.Hot spot inspection series

D. eXplore

E. Supernova

F. In-line monitoring

4. New products (services) the Company plans to develop

A.In-line monitoring tools

B.Multi-column and Multi-beam

C.Saturn

(2) Industry Overview

1. The current industry status and development

Where the logic semiconductor process started to enter into the 16/14nm FinFET generation in 2015; the dynamic random access memory (DRAM) is making headway towards the 20nm technology node; along with the NAND flash manufacturers have aggressively investing in 3D NAND R&D, the technological requirement of process control has escalating. On the other hand, the adverse macroeconomic factors such as a slowdown in the growth of the smartphone consumer market and the weakness of the

global emerging markets' currencies against the US dollars have negatively impacted the end market consumption demand for electronic devices. As a result, semiconductor manufacturers have become more disciplined in their capital expenditure. According to the latest statistics of Gartner research, the total semiconductor capital spending was US$62.3 billion in 2015, posting a decline of 3.5% from 2014. Currently, Gartner forecasts that the semiconductor capital spending will continue to shrink in 2016 with 4.7% year over year decline. However, Wafer Fab Equipment is still the most heavily spent sector. Its expenditure amount in 2015 was US$31.9 billion, which was similar to that in 2014. As analyzing according to regional markets, Taiwan, Korean, North America and Japan are still the regions having the largest semiconductor equipment capital expenditure, although their semiconductor equipment sales amount has slightly declined. As estimated by SEMI, the capital expenditure amounts of major semiconductor suppliers in 2016 still show relatively conservative and the total expenditure amount of 2016 is expected to be equivalent to that of 2015.

When the semiconductor advanced manufacturing process is undergoing evolution, the semiconductor manufacturing companies are facing escalating costs in both research and development and the manufacturing. Therefore, the timeliness of ramping up an advanced technology and stable manufacturing yield rate management have become core competitiveness to semiconductor manufacturers. In order to achieve better process control and improve yield rate, the wafer fabrication manufacturers use inspection tools to first detect wafer defects and then bring defects found to review scanning electron microscopes for defect analysis and classification. Wafer inspection solutions are mainly darkfield optical tools, brightfield optical tools and e-beam. Before the nanometer technology generation, optical technology was used to perform defect detections. With the use of new semiconductor materials, new process technologies and the migration of semiconductor components into the 90 nm generation, the traditional optical inspection technologies (darkfield) started experiencing difficulties. Therefore, starting from 90nm, more advanced optical inspection technology (bright field) and e-beam inspection tools had played an increasing important roles in wafer inspection. From 28 nm, the resolution of optical tools had hit its bottleneck, so semiconductor manufacturers started to adopt more e-beam tools to capture defects optical missed. Currently, optical inspection equipment still dominates the wafer defect inspection in the production line. But with the advent of nanotechnology deployment, and the continuing migration of the semiconductor advanced process technology, we expect e-beam inspection market is with higher growth potential given its advantage in higher resolution.

To maintain HMI's leading position in the e-beam inspection market, our strategies are as follow.

A. Provide timely and efficient after-sales maintenance services to firmly secure our existing customer base.

As the semiconductor front-end inspection tools are critical for fab yield management, timely response to customer needs, close cooperation with customers

and designing equipment that meets the needs of customers to meet the various needs of each customer are very important. In order to provide timely service, HMI has set up 100% wholly owned subsidiary companies in Japan and Korea known respectively as HMI Japan and HMI Korea. Aside from its functions of selling and distributing our inspection equipments, those subsidiaries are also involved in after-sales maintenance services.

B. Continuous R & D and innovation, develop new customers and improve product profitability

The manufacturing processes of the semiconductor industry are progressing rapidly, the fabrication technologies are also continuously improving and diversifying, and it is only by continuous innovation in technology that HMI cannot be eliminated or be left behind by the market. HMI's technical team has a deep knowledge of the semiconductor industry, highly skilled and experienced, and has successfully developed more than one hundred patents in Taiwan and other countries in the world. We were also verified and accredited by numerous world-class semiconductor manufacturers and we continue to receive direct inquiries from our sales customers to cooperate and help develop their related e-beam inspection systems. HMI has good key components and developed technologies, and together with our foresight to grasp keen insight into the future development of the industry, and continuing research, development and innovative technologies, we are able to introduce new products with better performance. We are committed to developing more applications and advanced technologies to provide better solution to our clients.

C. Cooperate with the government industrial promotion policy

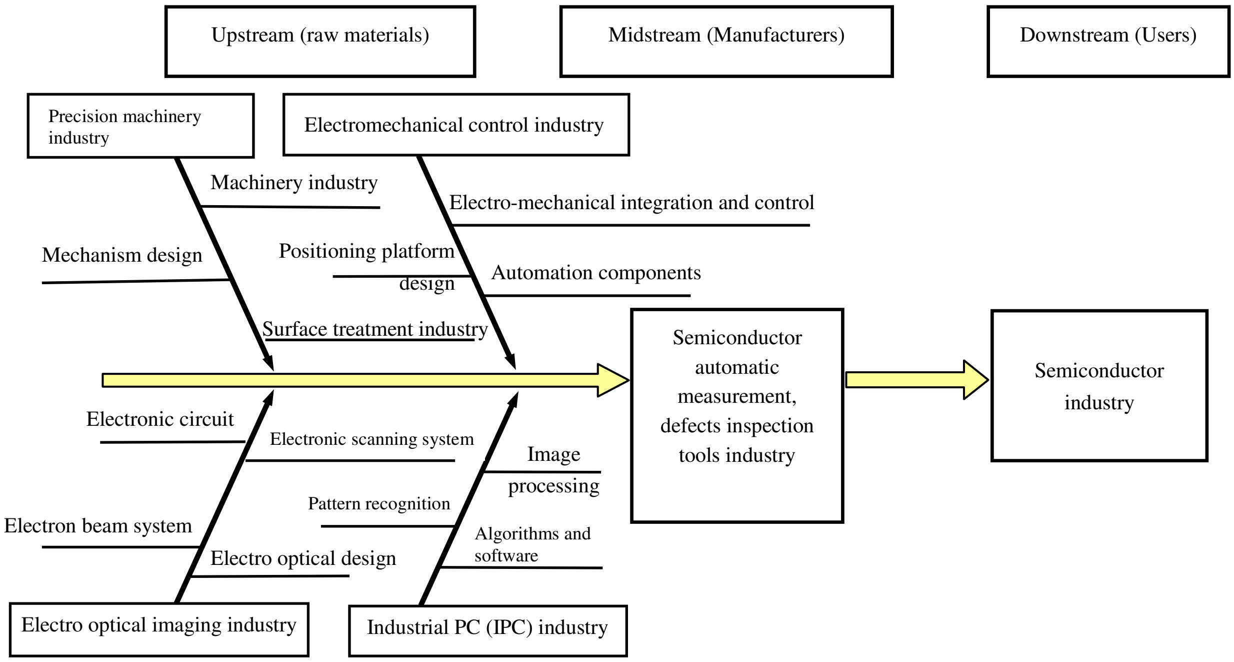
The Industrial Development Bureau, Ministry of Economic Affairs is actively promoting the localization of the semiconductor industry facilities. Localization of the equipment helps the wafer fabs reduce their manufacturing cost, shorten the delivery lead time, and improve the market share of the Taiwan branded equipment suppliers. HMI's business operation is in line with the government vision to accelerate the industrial upgrading and localization of the Taiwan process equipment industry and therefore, the government's drive to promote related industry assistance program will contribute to the future development of HMI. HMI will continue to support the government's industrial promotion strategy and expand the localization of our products and our market share in the global market for semiconductor equipment.

In summary, because the products of the Company belong to the front-end product development manufacturing process where it is required, it is not very much affected by the economic business cycle. Coupled with the semiconductor manufacturers' continuing development of high level manufacturing processes, the future development of the Company for the next coming two years shall continue to have high growth and the industry prospects for the future shall still be considered adequate.

Technology	Inspection source	Sensitivity	Inspection rate	Machine price
Dark Field	Laser	Medium	Fast	Low
Bright Field	Laser or visible light	High	Slow	Highest
E-beam	E-beam	Highest	Slowest	High

Early wafer inspection tools suppliers were the American companies like AMAT, KLA-Tencor and the Japanese company Hitachi, etc. who invested in R & D and production. However, due to the complex technology required, the need for a strong patent protection and the need for a lot of capital investments, most of the companies had already withdrawn from the wafer inspection tools market at present except for KLA-Tencor and the Company.

2. The industry upstream, midstream, and downstream relationship



The Company belongs to an industry that includes the manufacturing of components by the upstream companies, then supplied to the midstream companies that produce the semiconductor automatic measurement and defects inspection tools, and then eventually supplied to the downstream semiconductor manufacturing industry for the measurement and inspection of their production manufacturing. The e-beam inspection tools produced by the Company are in the midstream position of the overall semiconductor industry. We integrate the precision machineries,

electromechanical controls, electro optical imaging, industrial PC (IPC) and other component parts from the upstream manufacturers, develop and manufacture the e-beam inspection tools, and then through our overall distribution network, supply these tools to the downstream end-users. The downstream market consists mainly of the foundries and memory manufacturers.

3. Development trends of various products

The emergence of the e-beam inspection equipment is to gradually replace the optical defect inspection system. The main reason for the replacement is that, currently, with the 28nm technology, the optical system is coming to its bottleneck because the optical extremity is physically restrained by the optical wavelength, which results in a substantial drop of the graph identification rate for 28nm and below. While not being able to clearly identify the circuits and defects and acquire sufficient information, it is hard to quickly improve wafer yield rates from optical inspection.

The logic semiconductor process started to enter into the generation of 16/14nm FinFET mass production, 10nm R&D and pilot production in 2015 and 2016. Due to the node scaling and increase of process difficulty, the new FinFET structure results in many tiny physical defects such as defects buried in bottom layers and side-wall defects, so it is increasingly challenging to manage yield rates. On the other hand, the Dynamic Random Access Memory (DRAM) is also making headway towards 20nm process scaling and the NAND flash giant suppliers have aggressively put their effort into 3D NAND investment, so the demand for the inspection of both physical and voltage contrast defects generated in the 3D process have substantially increasing. For e-beam inspection tools to reach higher resolution and smaller pixel sizes, it must somehow sacrifice scanning speed. So in terms of scanning speed, e-beam is much inferior comparing to the optical system. However, the performance of an inspection tool is not merely measured by scanning speed. HMI's proprietary LeapNScan technology allows users to scan only the areas with high probability of defects and can jump from one spot to the next efficiently. Not needing to run through the wafer as under the traditional continuous mode scan, the LeapNScan mode help us to increase the throughput of trouble shooting defect thus can accelerate new product ramp-ups process of our customers. The introduction of e-beam inspection in the new generation of technology provides cost effective solution in the market. We will use the eScan500, eP4 and SkyScan5000 to further illustrate:

eScan500 is the latest generation multi-functions model evolving from eScan320 and eScan400. To better capture defects along with geometry migration, the image resolution of the eScan500 is enhanced by more than 30% compared to the eScan320. At the same time, it combines our LeapNscan technology and together with the Continuous Scan and hot spot inspection function, it allows our clients to have more flexibility and efficiency when doing wafer inspection, and eventually increase

productivity. eScan500 has been adopted by 14/16nm advanced logic wafer fab suppliers since 2014. Currently, it is still one of the Company's major flagship models for sale. It plays a very important role in improving client's process yield rates. To continue to advance its semiconductor technology, in addition to holding its existing e-beam inspection technology used for semiconductor process R&D and ramp up, the Company's strategy for its product deployment will also be put to enhance the inspection efficiency and expand the application dimension, so as to satisfy clients' requirements for high sensitivity resolution's in-line monitoring e-beam wafer inspection equipment in the wafer fab mass production stage, and continue to hold its leading position in the semiconductor inspection market.

HMI also successfully developed eP4 in 2014. eP4 is the next generation model of the eP 3. Aside from upgrading the image processing system, eP4 is equipped with the highest sensitivity of our e-beam products. The resolution of eP4 is 2nm, which is around 30% improvement comparing to its previous version product eP3. The mainstream application of eP4 will be in hotspot monitoring. The improvement in resolution opens the door for more application opportunities such as CDU (Critical Dimension Uniformity) and OVL (Overlay) monitoring. As geometry migrates to 1X nm technology, the shrink in line width and process complexity pose even higher difficulties in in-line monitoring of hotspot, CDU, and OVL. HMI will provide effective solutions for the eP4 applications for the customers.

SkyScan5000 is a new product developed in 2015. It was developed to meet the requirements for massive hotspot inspection in in-line monitoring with a hotspot inspection speed topping hundreds of thousands spots per hour at the most. It is, by far, the fastest e-beam hotspot inspection model in the industry. In conjunction with the advanced electron gun technology, vector scan, and massive deflection technology, it may execute quick and precise hotspot defect inspection according to the GDS graph and have the lowest electrical interference.

In 2016, the Company will continue to devote its efforts to enhancing the output speed of its e-beam inspection equipment, in the hope of reinforcing the application of the inspection equipment to the in-line monitoring in the wafer fab high volume manufacturing stage. Following the semiconductor process coming to the stage below 10nm, the process is becoming more complicated, and the optical inspection is facing resolution bottleneck. The high-throughput e-beam wafer inspection equipment can help major semiconductor manufacturers efficiently improve their yield rates, and execute their monitoring.

Based on the process of evolution of the semiconductor technology, or Moore's Law, it takes approximately 2 years to research and develop a new manufacturing process and another 2 years to go into volume production. During the 2 years volume production period, in order to come up on time with a new manufacturing process, the semiconductor manufacturing companies will invest related human resources and materials to research and develop the next generation of manufacturing processes during this same time frame. In order to cope up with the overlapping situation of

simultaneous research and development, and volume production of the semiconductor manufacturing companies, aside from actively investing in developing inspection tools for the new manufacturing processes, the Company also arranges at the same time the production line schedule in advance in order to handle the required machine units for the volume production.

For the Company to announce promptly the development of new products meeting the development schedule of the semiconductor manufacturing processes, we summarize below our expected development progress and related technology levels as follows:

Year / Item	2015			2016		2017/2018
Machine model	eP4	In-line monitoring	Multi-column	Multi-column	NanoScan	Multi-beam
Technology node	10 nm	10 nm	10 nm	10 nm	CDU	10/7 nm
Scan mode	HS	VS/HS	CS	CS	LS/HS	CS

HMI operates in coordination with the semiconductor manufacturing companies' advanced manufacturing processes and according to different manufacturing process stages, we develop products with different specifications or standards. Based on the above table, we can see that the present development progress and technologies of HMI are in line with the evolution of the semiconductor manufacturing processes. In the future, we shall continue to develop faster scanning speed, more sophisticated inspection resolution, and higher throughput machines to meet the demands of the market.

In summary, with the semiconductor advanced manufacturing processes advancing towards the 14/16 nm and 10 nm geometry, the demands for wafer and mask inspection will increase substantially. Besides the current wafer inspection products, we also have a mask inspection system especially designed for EUV (Extreme Ultraviolet) mask inspection. The Company has also closely cooperated with its clients and other semiconductor equipment suppliers to advance and expand its product application. HMI's future product development and strategy will also be based on the development and volume production time schedule of the semiconductor manufacturing process as an important basis of consideration. At the same time, we shall observe the changes in the circumstances of the related manufacturing processes, and according to the changes, research and develop new technical levels for a machine that will meet the semiconductor inspection demands.

4. Competition

Given that e-beam inspection equipment features the function of high resolution and electrical defect inspection, it plays an indispensable role in semiconductor's

advanced process development and mass production, and the role is becoming more important day by day. In earlier days, wafer inspection tools suppliers were such as Applied Materials, KLA-Tencor and the Hitachi High Tech, etc. all invested in R&D and production of e-beam inspection tools. However, due to high technology entry barrier and high capital intensity, currently, except for Applied Materials and HMI, many suppliers have bowed out of the e-beam inspection market. HMI has been dedicated to e-beam wafer inspection equipment for close to two decades. We have established numerous propriety hardware designs and application developments through comprehensive collaboration with clients. With prominent position in e-beam inspection, dominant installation base, and profound collaboration with clients, we’ re able to gather client feedback and market demand timely, which enables us to leverage those know-hows to enhance the tool performance and eventually further enhance our market position.

(3) **Technology and R&D Status**

1. The technology level, and research and development of the business operations

The conventional optical defect inspection technology is encountering a great challenge with new semiconductor materials, the use of new manufacturing process technologies, and the trend of migration of the semiconductor geometry. In order to improve the manufacturing yield rate timely, the new generation defect inspection technology must be able to capture and automatically classify various defects with faster throughput and higher sensitivity. The main defect inspection methods optical (including dark field and bright field) and electron beam (E-beam).

A. Dark Field

Dark Field inspection tools usually use laser as the light source. The sensitivity is limited while the inspection speed is fast, and the cost is low. When installed in a lower position in an inclined angle, it can easily detect surface defects. It is more sensitive to the pattern and HAR defects when perpendicular or near perpendicular to the wafer surface.

B. Bright Field

Bright Field inspection tools use visible light or laser as the light source. The sensitivity is decent, but the inspection speed is slower than Dark Field and the cost is higher. The incident lights and inspection signals of the bright field inspection tools are identical. They are all perpendicular to the wafer surface. When the incident light illuminates the defect areas, the defect signal will be darker than the brighter background formed by reflection. The pixel size (< 1 micron) during bright field inspection is very small. It is very sensitive to pattern defects, HAR defects and very small plane defects. It is usually used in FEOL, ADI, AEI and other inspection sites. Despite the fact that small pixels can improve the bright field inspection sensitivity, the inspection speed is slower due to the huge amount of data signals. Following the use of UV/DUV light source and the inspection pixels continuing to become smaller,

the inspection sensitivity of the bright field inspection also continually improves. The new generation of bright field inspection tools can, under the situation where it is not going to affect the inspection speed, capture very small defects (20 x 40 nanometers) and satisfy the demands of the 65 nanometer and below manufacturing process technologies.

C. E-beam

E-beam inspection uses a focused electron beam as the inspection source. The sensitivity is the highest, but the inspection speed is the slowest and the cost is between cheaper than Bright Field but more expensive than Dark Field. When using an e-beam for inspection, the incident e-beam excites secondary electrons, and then through the collection of the secondary electrons signals and image processing, we can see a clear image of wafer. The scanned image presented by the machine is used to analyze and capture the defects that an optical inspection tool is unable to inspect. For example, when the Contact, VIA, HAR or such other structures weren't sufficiently etched (Contact Open), and due to the fact that the defects were in the bottom of the structure, it is therefore very hard for dark field or bright field inspection tools to detect. However, because the defects can impact the transmission of the incident electron, it will therefore form a Voltage Contrast image and detects the various defects affecting the electrical properties caused by the HAR structure abnormalities. Furthermore, since e-beam is the inspection source, the inspection results are not affected by certain surface physical properties such as color anomalies, changes in thickness, or front layer defects. Therefore, the e-beam inspection technology can also be used in inspecting small physical defects such as gate etching residue, etc.

In general, the defects that impact the yield are usually derived from the physical defects of the partial or entire component. As the pixel size of the e-beam is smaller than the optics, the e-beam inspection can detect very small physical defects that the optical inspection cannot. Aside from the physical defects, the e-beam inspection can also detect the voltage contrast caused by the abnormal current created by the electrical defects of part of the component or of the entire component. The e-beam caused the wafer surface to be electrically charged, so that a voltage difference will appear in the defective location and impact the wafer surface secondary electron escape rate. The resulting difference in image can then be detected. Typically such defects cannot be seen from an optical instrument but it can be found through an e-beam inspection system, especially in the Front-end-of-line (FEOL) manufacturing process of many cutting-edge components. Residual Poly, Contact Hole Etch Stopping, SAC Hole Punch-Through, Dielectric Gap-filling Void, defects in Substrate, abnormal Ion Implant, etc. are all considered these kinds of critical defects. These defects will cause component failures and will have a negative effect on the yield rate. Using conventional inspection methodology to inspect these defects is a very difficult challenge. However, the general voltage contrast defects inspection, oftentimes, can only be carried out after the manufacturing processes and the feedback time was usually very long. In contrast, the use of e-beam inspection technology not only

shortens the feedback time, it can also effectively reduce the learning time to confirm and exclude the various manufacturing process issues as well as reduce the risk of wafer cost. After a problematic manufacturing process, the fab can use the e-beam inspection system to immediately collect critical information on the locations of the defects, feedback data of the optimized manufacturing processes, and such other crucial information to accelerate the development and trial production.

2. The invested Research and Development expenses from recent year till the annual report publication date

Unit: NT$1,000; %

Item	2015	As of Mar. 31, 2016
R&D expense (A)	1,194,282	209,643
Operating Revenue (B)	6,651,805	986,221
Percentage (A)/(B)	17.95%	21.26%

Note: With the adoption of the International Financial Reporting Standards, all the disclosures are on consolidated basis starting year 2013.

3. Successfully developed products

Year	Product	Description
2006	eScan 310	eScan 310 is the upgraded model of eScan 300. It is the first and only leap scan system (Leap Scan) in the industry. It expands the electro-optical system scanning field, achieving the market's unique large-field scanner with 600 x 600 microns (Large FOV - Field of View). It moves the wafer to the area to be scanned, allowing the wafer to be scanned in a stationary state, and reached the market's highest resolution e-beam scanner imaging system and under the same conditions, with a higher signal to noise ratio (S/N).
	eScan 380	eScan 380 is a continuous scanning system (Continuous Scan). It was aimed at customers manufacturing memory components and provided them with a large area continuous scanning machine. Using a similar method like the optical defect inspection tools, it proceeds to carry out scanning while the wafer is in a motion state. At the same time, the high resolution electron gun (e-Gun) has a much higher signal to noise ratio (S/N ratio) under the same conditions.

Year	Product	Description
2008	eScan 315	eScan 315 is the next generation model of eScan 310. It is an entirely new designed electro optical and image processing system with a more convenient user interface and with a unique leap scan type of scanning system (Leap Scan). It is the highest resolution e-beam inspection system in the market and it helps improve the semiconductor product yield more efficiently and became the world's semiconductor manufacturing companies' main models of defect inspection tools.
	eScan Lite	eScan Lite is the subsequent model after eScan 380. After improving the design, it has a more stable scanned image and it was directed at the demands of the NAND Flash memory manufacturers. With the exclusive patented Lightning Scan that we developed and under the same defect inspection sensitivity conditions, it can reach 4 times the speed of other equipment and effectively reduce the cost of the semiconductor manufacturing companies.
	eP2	eP2 was aimed at the hot spot produced as a result of the lack of capabilities of the designed components and the manufacturing process by the advanced manufacturing processes. In connection with these hot spots, it uses the high resolution e-beam to carry out high speed image capture or use the Gray Level to measure the divergence of the measurement analysis produced by each manufacturing process between each wafer and pattern matching, and then find the location of the abnormalities and proceed to monitor the manufacturing process of the production line.
2009	eScan 400	eScan 400 is the next generation model of eScan Lite. Through the new generation electron gun, the optical electronic lens system, more stable wafer carrier operating system and powerful computing, the equipment now has a fast continuous scanning (Continuous Scan) and very high resolution. It satisfies the customer's need for an equipment that has the capability for the development of the new generation memory component manufacturing process and yield enhancement while at the same time being economical and has an inspection capability.
2010	eScan 320	eScan 320 is the next generation model of eScan 315. It has the world's highest resolution e-beam defect inspection system. The wafer defect inspection rate was increased by 30% as compared to the previous generation models, the speed was improved 1.7 times, and it has efficiently helped the development of cutting-edge semiconductor and yield improvement.

Year	Product	Description
	eManager Workstation	eMW is an advanced computer analysis system developed and manufactured by the Company. It has the capability of analyzing the hot spots of semiconductors, and assist semiconductor manufacturing companies in effectively identifying the hot spots in order to increase yield.
	Supernova	Supernova is a world-class computing system developed and manufactured by the Company. It has a formidable computing capability to compare and analyze the wafer defects and design pattern matching and with the eScan, eP and eXplore systems of the Company, it is an indispensable equipment for the analysis and improvement of the yield of the advanced manufacturing processes.
	eXplore	eXplore is the first design specially made for the mask manufacturing companies' e-beam defect inspection system. Its defect inspection technology provides the highest resolution and defect inspection rate for the extreme ultraviolet (EUV) mask and nanoimprint lithography system. It provides the most immediate solution for the EUV mask defect inspection technology needed by the future 16 nanometer wafer manufacturing process.
2011	eP3	eP3 is the next generation model of the eP2. It is the new generation electro optical system and has a more stable wafer carrier operating system and has the industry's highest resolution image. In connection with the hot spots generated by the lack of capabilities of the designed components and the manufacturing process by the advanced manufacturing processes, it uses the high resolution e-beam to carry out high speed image capture or use the gray level to measure the divergence of the measurement analysis produced by each manufacturing process between each wafer and pattern matching, and then find the location of the abnormalities and proceed to monitor the manufacturing process of the production line. By using it together with the Supernova system, it can be applied in confirming the lithography optical pattern correction field.
2013	eScan500	eScan500 is the next generation model for the current flagship models eScan320 and eScan400 of Hermes Microvision Inc. Along with the continuing geometry migration, the semiconductor manufacturers are asking for superior technical performance in resolution and sensitivity of wafer inspection tools. To fulfill their demand, the resolution of the eScan500 is enhanced by more than 30% compared to the eScan320. At the same time, it is bundled with a more flexible "LeapNScan" leap scanning system and together with the Continuous Scan system, it will improve the efficiency of the wafer defect inspection and hence, increase

Year	Product	Description
		the FAB productivity.
2014	eP4	eP4 is the next generation model of the eP 3. Aside from upgrading the image processing system, eP4 is equipped with the highest sensitivity of our e-beam products. The resolution of eP4 is 2nm, which is around 30% improvement comparing to its previous version product eP3. The mainstream application of eP4 will be in hotspot monitoring. The improvement in resolution opens the door for more application opportunities such as CDU (Critical Dimension Uniformity) monitoring and OVL (Overlay) monitoring. As geometry migrates to 1X nm technology, the shrink in linewidth and process complexity pose even higher difficulties in in-line monitoring of hotspot, CDU, and OVL.
2015	SkyScan5000	SkyScan5000 is a new product developed in 2015. It was developed to meet the requirements for massive hotspot inspection in in-line monitoring with a hotspot inspection speed topping hundreds of thousands spots per hour at the most. It is, by far, the fastest e-beam hotspot inspection model in the industry. In conjunction with the advanced electron gun technology, vector scan, and massive deflection technology, it may execute quick and precise hotspot defect inspection according to the GDS graph and have the lowest electrical interference. Following the semiconductor process coming to the stage below 10 nm, the process is becoming more complicated, and the optical inspection is increasingly difficult. SkyScan5000 can provide more efficient resolutions for clients' hotspot defect inspection.
2016	NanoScan3000	Nanoscan3000 is a brand new electronic-optical system. Other than enhancing image resolution, it is a quick inspection system to inspect advanced process' high aspect ratio pattern product components, buried defect, critical dimension uniformity at the bottom of deep holes and multi-layer overlay in-line monitor. The speed of its measurement can be more than 10 times faster than that of traditional CD measurement. Hence, it can provide a quicker and more efficient way for clients to inspect the production line of the advanced process and control lithography.

As of Mar. 31, 2016, the summary of HMI's approved and licensed patents and patent under applications are as follows:

Status \ Region	Taiwan	USA	China	Japan	Korea	Singapore	Israel	UI	Total
Approved & Licensed	56	136	4	6	2	1	1	0	206
Under Application	3	65	0	0	0	0	2	3	73
Total	59	201	4	6	2	1	3	3	279

The above table shows that the Company's patent application strategy is to prioritize our applications in the United States and this was due to the fact that the equipment production facilities of the Company's main competitors are located in the United States. As the protection of a patent is to prevent other parties from manufacturing without consent, using, offering for sale, or selling receives the protections of a patented product, or receives the protection of a product produced by a patented manufacturing process, so it is generally the practice to choose the place of manufacture as a priority consideration for applying a patent. In order to avoid the advance patents owned by the Company be subjected to the infringement by the major competitors and to keep abreast with the patent information on the related products of our competitors, the Company considered the most efficient and convenient place of law enforcement to apply for patent is in the United States. Should there be any patent disputes in the place of manufacture of major competitors, it is then possible to stop their business operations on all their global sales offices (including the United States, Europe, Japan, Korea and Taiwan). Therefore, the Company's main location of patent strategy is in the United States.

In Taiwan, as US approved patents need to go through translation, proofreading, internal audit, consultation with lawyers and such other procedures, and it also needs to go through the review and approval of the competent government authorities before licensing, the application process is much slower. At present, we commissioned Hitek International Patent and Trademark Office and WPAT, P.C., Law Group to handle these cases and they report back to us the status of these cases monthly. While in other countries like China, Japan, Korea, Europe and Singapore, as they are not the major manufacturing base of the Company and our competitors and the application procedures take a long time, our patent application cases in these countries are less but it is not going to have a material impact on the Company's operations.

(4) HMI’s Long and Short Term Business Development Plans

1. Short Term Development Plan
   A. Cultivate existing customers, and provide the customers with a total solution
   B. Enhance productivity and shorten the production cycle
   C. Continue to reduce production costs and enhance our competitiveness
2. Long Term Development Plan
   A. Develop new technologies and products, in order to maintain our market competitiveness.
   B. To cultivate outstanding research and development, and production management personnel.

2. Market and Sales Status

(1) **Market Analysis**

1. Areas of sales (supply) of the Company's major products (services)

Unit: NT$1,000; %

Area/Year		2013		2014		2015	
		Amount	%	Amount	%	Amount	%
Export	Asia	1,678,772	31.44	1,682,441	23.34	2,896,800	43.55
	America	1,791,602	33.55	3,136,454	43.50	1,367,752	20.56
	Europe	—	—	2,224	0.03	13,415	0.20
	Sub-total	3,470,374	64.99	4,821,119	66.87	4,277,967	64.31
Domestic Sales		1,869,669	35.01	2,388,531	33.13	2,373,838	35.69
Total		5,340,043	100.00	7,209,650	100.00	6,651,805	100.00

2. Market Share

In the early years, optical inspection tools were the major inspection equipment used in production line while the e-beam inspection tools were used mainly in the research and development and ramp up processes. E-beam market share accounted for less than 5% of the entire wafer fab equipment market. However, in the 90 nm and below manufacturing process, the optical inspection tools started encountering bottlenecks. While in the 28 nm, it is very difficult for optical inspection tools to generate a clear image of the wafer and e-beam inspection tools are considered as a more supportive technology due to higher resolution and sensitivity. Therefore, the market for the e-beam inspection tools is increasing along with technology migration. HMI not only had successfully introduced advanced tools into the market, but also gained the recognition of a lot of world-class semiconductor manufacturers.

The main product of the Company is the e-beam inspection tools and is mainly used for research and development purposes by the wafer fabrication manufacturing companies. In earlier days, wafer inspection tools suppliers were such as Applied Materials, KLA-Tencor and the Hitachi High Tech, etc. all invested in R&D and production of e-beam inspection tools. However, due to high technology entry barrier and high capital intensity, currently, except for Applied Materials and HMI, many suppliers have already withdrawn from the e-beam inspection market.

Due to the difficulty of obtaining the statistical information of our competitors, we therefore made our own estimation of our market share. In 2015, based on the total e-beam inspection tools installed, we estimated that HMI’s market share for the overall e-beam inspection tools is about 85%.

3. The future market supply and demand situation and growth

Though the electronic products are turning towards the lighter, thinner and smaller trend, the demands for higher quality by Taiwan and other developed countries are now much higher. With the trend in the miniaturization of the semiconductor manufacturing processes, the semiconductor inspection tools will turn towards the development of more precise and higher speed equipment. As the

conventional optical defect inspection tools are unable to effectively detect much smaller defects, the demand for more sophisticated e-beam defect inspection tools will definitely increase.

For the past two years, the foundry industry has significantly increased their capital expenditures, and it is primarily related to the development and expansion of the advanced manufacturing processes capacities. The research and development expenses of the advanced manufacturing processes of the 40 nm and below technology are astonishingly high (it has a positive correlation with lithography equipment), and a significant portion of the capital expenditure increases in recent years were closely related to the advanced manufacturing processes. As the advanced manufacturing processes development and plant expansion require a large amount of funding, the industry leaders, by virtue of high profit and possessing a high capital expenditure condition, can increase capital expenditures to lay the ground for the advanced manufacturing processes. Through high profit margin and high market share gained from the expansion of advanced manufacturing processes, they further pressure the competitor's profitability and market share and eventually, force the competitors out of the market. We anticipate that, in the future, in considerations of obtaining leading technologies by the various foundries and cost considerations by customers, capital expenditures will continue to grow, enabling the future development of the semiconductor equipment industry.

4. Competitive strength

A. Experienced management team

HMI's management team members used to work with well-known semiconductor companies both locally and abroad. Each of the major department heads has more than 10 years of related industry work experience and qualifications. They have considerable experience in the semiconductor industry, IC equipment industry and related knowledge of software development and the development of international customers. They also have enough confidence in the future overall competitiveness and sustainable management of the Company.

B. Strength of a strong R & D team

The research and development team includes the industry's outstanding talents in the applications of e-beam (E-beam) and image processing. They successfully developed the first unit of "E-beam inspection machine- eScan", leading the world with the exclusive leap scan inspection and stable electron gun technology, providing more advanced inspection tools and technologies, effectively improving the inspection instruments and equipment efficiencies, and enhancing the Asian semiconductor equipment technology level for it to be able to enter into the world of high technology equipment and components supply chain.

C. Fast and immediate efficient after-sales maintenance services

As the semiconductor front-end inspection tools are ciritical for fab yield management, rapid response to customer needs, close cooperation with customers, and designing equipment that meets the needs of customers to meet the various needs of each customer are very important. In order to provide timely service, HMI has set up 100% wholly owned subsidiary companies in Japan and Korea known respectively as HMI Japan and HMI Korea. Aside from its functions of selling and distributing our inspection equipments, those subsidiaries are also involved in after-sales maintenance services.

5. The long-ranged view of favorable and unfavorable development factors and countermeasures

A. Advantage factor

(A) Inspection tool demands continued to expand

The flourishing global consumption for electronic devices results in a significant increase in the demands for IC products. With the application of new semiconductor materials, new manufacturing process and the miniaturization trend of semiconductor components, the conventional optical inspection technology will start experiencing bottlenecks. Both logic and memory semiconductor manufacturers will continue to invest in advanced technology nodes in order to lower the wafer cost, reduce risk and improve yields. The demand for inspection will continue to increase and the requirements for e-beam inspection tools will also increase.

In recent years, Taiwan government has also actively promoted the localization of the semiconductor equipment. In order encourage the localization of semiconductor wafer front-end manufacturing equipment and allow the domestic semiconductor industry supply chain to be more robust and complete, the Council for Economic Planning and Development (CEPD) plans to provide a NT$ 330 million subsidy within 4 years starting 2013 to help the domestic equipment manufacturers strengthen their R&D capabilities, increase their scale of operations, and at the same time, the IC foundries and other manufacturers can take this opportunity to reduce the risk on supply chain concentration and achieve the goal of decentralizing procurement concentration, and strengthen their bargaining power with the leading equipment manufacturers and such other targets. Localization of FAB equipment not only helps to reduce the costs of the wafer fabrication companies, it also strengthens the partnerships, and also enhances the market share of Taiwan's branded equipment suppliers and the manufacturing capabilities of the OEM manufacturers. This is a positive factor in the future growth of the Company. The company is committed to the development of

functional and superior quality e-beam inspection tools and will actively market our products to master the market trend.

(B) High barriers to enter this industry

As the e-beam inspection tools need to integrate electronic, optical, mechanical, materials, software and hardware integration of information and system, application engineering and other areas of high-end technologies in order to complete the manufacturing of the equipment, it is necessary to recruit talents from all sectors and at the same time invest heavily in R&D. Therefore creates high entry barrier for the new comers.

(C) Strong R&D team and command the ability to research and develop key technologies

HMI has already successfully filed of hundreds of patents domestically and internationally. We were also verified and accredited by numerous world-class semiconductor manufacturers and we continue to receive direct inquiries from our customers to cooperate and help develop their own e-beam inspection system. The key components of wafer inspection tools such as electron gun, secondary electron detector (Detector) and electronic aperture (Aperture), etc. are the main core of our research and development technologies. For this reason, having the research and development capabilities to master the crucial technologies are the key factors in upgrading our technology levels and customization capabilities, and maintaining the favorable factors of competitive advantage and high profit margins.

B. Disadvantage factor & Countermeasures

(A) Competition of foreign manufacturers

Compared to other foreign companies engaged in semiconductor equipment manufacturing like KLA-Tencor who were involved in the development of this technology, the Company started late and cannot compare in scale of operations with these large foreign companies as our financial resources are likewise relatively weaker.

<u>Countermeasures:</u>

a. Take the advantage of flexible operations as the small-medium size enterprise. Use problem solving as the direction of development, and cooperate with the semiconductor companies in the pursuit of research and development of the overall manufacturing processes.

b. Through superior technology and diversification of industry risk, develop the most optimized production model in order to achieve the advantage of cost reduction.

c. Provide products with short development time, fast delivery, high quality and strong integration capability. Provide the customers with diversified and comprehensive solutions, and with the most immediate and best quality service as the goal, build up a partnership with the customers.

(B) Existing product line is confined within the semiconductor industry

After long term development of the semiconductor industry, and undergoing technological resolution, the industry development is likely to encounter a structural change.

Countermeasures:

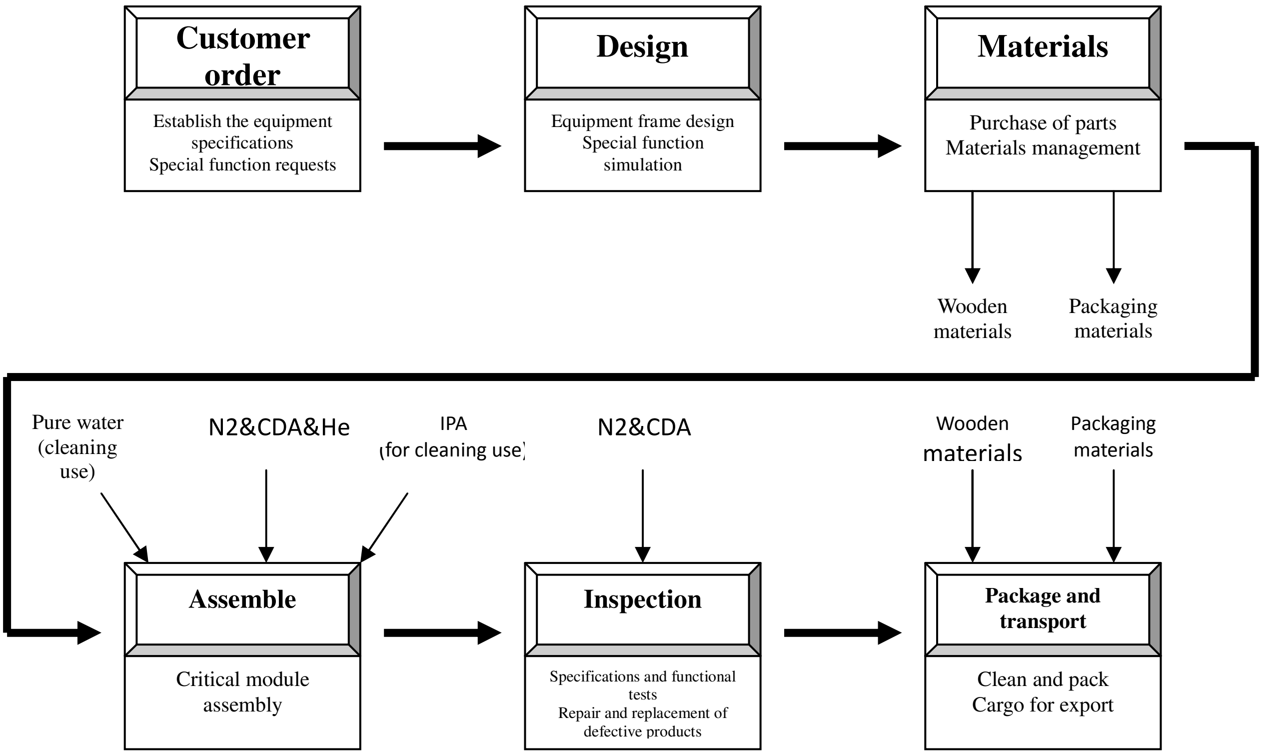
With the existing successful e-beam inspection technology, develop usage in different other industries such as the medical industry. Increase the types of applications in different industries and proceed to expand the sales of the products in the market.

(2) Application of HMI's main products and production process

1. Application of HMI's main products

HMI mainly produces e-beam inspection tools. Our product application areas include inspection of defects through scanning of the wafer, and feedback the defect density and distribution areas to the users so that manufacturing process monitoring and optimization can be carried out.

2. The manufacturing process of main products:



(3) Supply for main materials

HMI specializes in e-beam inspection tools and they are mainly used in the inspection of defects through scanning of the wafer. The e-beam related modules are the key modules of HMI. It mainly consists of the power supply and the electron gun module. We proprietary design 80% of our e-beam inspection system and manufacture 80% of our key

components in-house. The main items of materials purchased are the wafer transfer mechanics module, e-beam assembly components, and the vacuum system components.

HMI owns 94% and 100% of the shares of HMI USA and HMI Beijing respectively and we have complete control over our subsidiary companies. After we received orders from our customers, we will then coordinate HMI USA and HMI Beijing to produce the electron gun module and power supply module respectively. And upon receiving the orders from HMI, HMI USA and HMI Beijing will proceed on its own to plan and schedule the production. Since HMI has control over these two companies, we also have effective control over its production and supply situation. So far, the supply situation of the power supply devices and electron gun modules can meet the production demands of our e-beam inspection tools and the supply situation is stable and good. In order to control the risks with regard to the supply stability of the power supply device and the electron gun module, we also have a backup facility in our Tainan factory for the maintenance and production capability of power supply device and electron gun modules. This is in case HMI USA and HMI Beijing encountered any kind of production issue, we shall have back up plan and reduce the risk of supply shortage of these related modules.

HMI’s purchases plan of materials and components based primarily on the sales forecasts, R&D production plan, the inventory level, and proceed to order from our suppliers. This is to avoid excessive or inadequate procurements from happening. When making any procurement, aside from following the normal procedure of price inquiries and comparisons to select the best quality products and good stable supply sources of vendors, HMI also always observes the changes in the market enviornmnet to observe reasonable market price. From time to time, we conduct price negotiations with our existing suppliers to reduce our purchase costs.

Overall, the main raw material suppliers of HMI are our own subsidiary companies or companies with a good and long term cooperation with us. From the last three years up to the publication date of the annual report, we have not encountered any supply shortage or interruption situation and hence, our supply sources and the supply situation are stable and good.

(4) Key suppliers and Customers

1. Names of suppliers accounting for more than 10% of the total purchase in any of the previous two years:

Unit: NTD1,000；%

2014				2015				Q1 of 2016			
Name	Amount (NT$ 1,000)	% of total net purchase	Relation	Name	Amount (NT$ 1,000)	% of total net purchase	Relation	Name	Amount (NT$ 1,000)	% of total net purchase	Relation
—	—	—	—	—	—	—	—	Super Micro Computer, Inc.	20,944	14.84	—
Other	1,126,957	100.00	—	Other	1,424,181	100.00	—	Other	120,216	85.16	—
Net purchase	1,126,957	100.00	—	Net purchase	1,424,181	100.00	—	Net purchase	141,160	100.00	—

Reasons for change:

The items purchased by the Company from Super Micro Computer, Inc. in the first quarter of 2016 were mainly components, and the purchase was made according to the equipment assembly schedule. But there was no single supplier with the amount of purchase over 10% of the total purchase in credits to stable supply of materials and better control of inventory level in 2014 and 2015.

2. Names of customers accounting for more than 10% of the total sales in any of the previous two years:

Unit: NTD1,000；%

No.	2014				2015				Q1 of 2016			
	Name	Amount (NT$ 1,000)	% of total net sale	Relation	Name	Amount (NT$ 1,000)	% of total net sale	Relation	Name	Amount (NT$ 1,000)	% of total net sale	Relation
1	S company	1,397,914	19	None	B company	1,195,535	18	None	B company	692,686	70	None
2	B company	1,343,920	19	None	T company	718,543	11	None	K company	196,149	17	None
3	—	—	—	—	K company	638,365	10	—	—	—	—	—
4	—	—	—	—	—	—	—	—	—	—	—	—
5	Other	4,467,816	62	None	Other	4,099,362	61	None	Other	97,386	13	None
	Net sale	7,209,650	100.00	—	Net sale	6,651,805	100.00	—	Net sale	986,221	100.00	—

Reasons for change:

1. S Company

The Company began its business relationship with S company in 2013, and became its regular inspection equipment supplier in 2014. Following S company's requirement for the mass production of the advanced process, its demand for the Company's e-beam inspection instrument has increased accordingly, As a result, the Company's sales to S company topped NT$1,397,914 thousand in 2014, making S company become the Company's top one client in 2014. However, as affected by a decline in the terminal demand, S company's capital expenditure reduced in 2015, which led to reduction of the Company's

sales to S company. The Company's net sales to S company in 2014 and 2015 were NT$1,397,914 thousand and NT$341,780 thousand respectively.

2. B Company

The Company started its business relationship with company B in 2004. Given that company B has expanded its production capacity every year, it has purchased eScan and ePointer series of products from the Company for its wafer inspection. The Company's net sales to B company in 2014, 2015 and Q1 of 2016 were NT$1,343,920 thousand, NT$1,195,535 thousand and NT$692,686 thousand respectively.

3. T Company

Given that T company is a semiconductor supplier, the Company has had a business relationship with it since 2012. The sales to it have mainly been the products of the ePointer series and eScan series. T company expedited its advanced process development in 2015, so the Company sales to T company stably grew in 2015. The Company's net sales to T company in 2015 was NT$718,543 thousand.

4. K Company

The Company started its business relationship with company K in 2011. The purchases from it have mainly been the products of the eScan and eP series. The Company's net sales to K company in 2015 and Q1 of 2016 were NT$638,365 thousand and 196,149 thousand respectively.

(5) Production Volume and value in the past 2 years

Unit: set; NT$1,000

Year / Production Volume and value / Main product	2014			2015		
	Production capacity	Production volume	Production amount	Production capacity	Production volume	Production amount
e-Beam inspection equipment	—	2,320	6,849,168	—	1,440	6,319,215
Total	—	2,320	6,849,168	—	1,440	6,319,215

Note: Given that the Company is an equipment manufacturer, other than a few processing machines and pieces of R&D equipment, it puts its focus on labor fabrication, so it shall not be subject to calculation of equipment's production capacity.

(6) Sales Volume and value in the past 2 years

Unit: set; NT$1,000

Year	2014				2015			
Sales volume / Main product	Domestic sales		Export sales		Domestic sales		Export sales	
	volume	Value	volume	Value	volume	Value	volume	Value
e-Beam inspection equipment	480	2,256,333	1,840	4,649,349	520	2,250,083	920	3,951,252
Other	—	132,198	—	171,770	—	123,755	—	326,715
Total	480	2,388,531	1,840	4,821,119	520	2,373,838	920	4,277,967

Note: The aforesaid “others” are mainly the income of sales of parts and components, and services for maintenance. Due to varying characteristics of the sales items, quantification of the volume is not applicable.

3. Personnel Information in the latest 2 years

Year		2014	2015	As of Mar. 31, 2016
Number of employees	Manufacturing personnel	199	211	195
	Management & sales personnel	199	196	211
	R &D personnel	237	259	241
	Total	635	666	647
Average age		37.00	36.18	36.95
Average year of service		5.31	5.50	5.82
Education (%)	Doctoral	8.98%	10.36%	10.51%
	Master	35.59%	35.14%	35.70%
	University / College	47.09%	48.50%	47.76%
	High School	7.56%	4.95%	4.95%
	Below high school	0.79%	1.05%	1.08%

Note: Given that IFRSs conversion has been applicable since 2013, the disclosure is made according to the consolidated data.

4. Environmental Conservation Expense

(1) The total amount of the losses (including remuneration) and penalties resulting from environmental pollution in the latest year and as of the date of printing of the annual report: None.

(2) Countermeasures (including improvement measures) and the total estimated amount of the possible expenditures (including possible losses, penalties and remuneration resulting from not taking countermeasures, for which, if the amount cannot be reasonably estimated, its reason shall be explained): The Company’s major product is E-beam inspection equipment and no environmental pollution has occurred in the product process, so this issue is not applicable to the Company.

5. Employee Relations

(1) HMI is committed to offering our employees an environment to develop their capabilities. Our employee welfare measures, advanced studies, training, retirement system and other measures to protect employees’ rights and interests as follows.

1. Welfare measures and their implementation status

HMI has worked hand in hand with its employees, and both sides have developed a consensus on joint growth. As such, employees are making every effort to do their job

and create good performance, whereas HMI is providing sound remuneration to return hard-working employees' contribution. In addition, HMI has also set up its employee welfare committee, and has monthly contributed the welfare fund and taken care of related welfare issues. HMI's major employee welfare benefits include: group insurance, annual periodical physical examination, wedding, funeral and birth allowances, employee traveling subsidy, club expense subsidy, annual traveling activity, year-end, various clubs activities and, employee educational training.

2. Continuing education and training system
   In order to elevate HMI's employees' capability and enhance their working efficiency and quality, HMI has provided orientation training for its new entrants. Also, during the employment period, HMI has also non-periodically provided our employees with professional education training (including internal training and external training) or the opportunity for advanced studies. In addition, HMI has also registered all the educational training actually received by employees for management, in the hope of cultivating professional talent, effectively developing its employee's potential and making the best use of the talent.

<table>
<tr><th>Type of training</th><th>Genre</th><th>Class</th><th>No. of attendance</th><th>No. of trained personnel</th><th>Training hours</th><th>Training expense</th><th>Rate of trained personnel</th><th>Average training hour/ppl</th><th>Average training expense/ppl</th></tr>
<tr><td rowspan="4">Internal training</td><td>Professional</td><td>57</td><td>514</td><td>416</td><td>10,078</td><td>50,420</td><td>81%</td><td rowspan="8">37.8</td><td rowspan="8">505</td></tr>
<tr><td>Occupational</td><td>36</td><td>571</td><td>565</td><td>726</td><td>0</td><td>99%</td></tr>
<tr><td>Language</td><td>4</td><td>4</td><td>2</td><td>114</td><td>11,100</td><td>50%</td></tr>
<tr><td>Sub-total</td><td>97</td><td>1,089</td><td>983</td><td>10,917</td><td>61,520</td><td>90%</td></tr>
<tr><td rowspan="3">External training</td><td>Professional</td><td>26</td><td>27</td><td>27</td><td>2,356</td><td>71,125</td><td>100%</td></tr>
<tr><td>Occupational</td><td>17</td><td>46</td><td>46</td><td>420</td><td>50,030</td><td>100%</td></tr>
<tr><td>Total</td><td>43</td><td>73</td><td>73</td><td>2,775</td><td>121,155</td><td>100%</td></tr>
<tr><td colspan="2">Total</td><td>140</td><td>1,162</td><td>1,056</td><td>13,693</td><td>182,675</td><td>91%</td></tr>
</table>

3. Retirement System and Implementation Status
   In order to protect employees' rights and interests, care for their retirement lives, and enhance labor relations, HMI has established its "labor pension supervision committee" and monthly contributed the pension reserve to Standard Chartered Bank for exclusive use. In addition, starting from July 2005, HMI has also followed the "Labor Pension Act" to monthly contribute the pension for its employees and deposit it in the labor pension personal account set up by the Bureau of Labor Insurance, in the hope of providing more protection for its employees' retirement lives. No employees have retired since HMI's establishment.

4. Labor Agreements & Employees' Right Protection
   HMI has set up an internal control system – the payroll cycle, which gives integrated planning ranging from employee recruitment, employment, promotion and transfer to

retirement, and is used as the common rules of HMI and our employees. In addition, HMI has also non-periodically held meetings to have opinion exchanges with its employees. As such, HMI has harmonious labor relations and, with which, no disputes with its employees have ever occurred.

5. Protection measures applied to the working environment and personnel

Item	Content
Access security	1. Around the clock strict monitoring system 2. All colleagues must use identification cards to gain passage in going in and out of the office or important storehouse or warehouse. 3. We contracted a private security company to secure and maintain the safety of the Company premises during night time and holidays. 4. We cooperate with the community management committee (CMC) and coordinate with the building security to have a direct alert communication link.
Maintenance and inspection of all facilities	1. In accordance with the building public safety attestation and report related regulations, the landlord, Hermes-Epitek Corp., shall commission a professional company to conduct a public safety inspection every two years. 2. Based on the provisions of the Fire Services Act, the Company shall commission a qualified company to conduct an annual fire inspection of the leased premises. 3. Based on the automatic inspection method and provisions of the Company "Factory Service Facilities Management Program", we shall conduct inspection and maintenance of all our facilities like electrical power system, air conditioning, fire-fighting facilities, dangerous machineries and equipment on a daily, monthly, semi-annual or annual basis. 4. Based on the provisions of the Labor Safety and Health Act, the Company shall commission a qualified inspection company to conduct operational environment evaluation of the Company including noise, lighting, CO2 concentration, chemical concentration, etc. every six months.
Disaster preparedness and response measures	1.The company has established the "Emergency Preparedness and Response Program Manual", "Event Processing and Investigation Procedures", "Code of Practice on Occupational Safety and Health", "Hazard Identification and Risk Assessment Procedures", and "Health and Safety Operational Control Procedures" and such other disaster prevention, event handling, and incident reporting procedures and clear standards for all personnel of the Company on the roles they have to play and the task contents when faced with an emergency, major event, general accident and other unexpected situations. We conduct emergency evacuation drills once every six months. 2. We established a self-defense firefighting group subdivided into firefighting; fire reporting, evacuation guidance, safety and protection, and first aid groups.

Item	Content
	Together with the emergency evacuation drills, we carry out practice every six months and invite competent firefighting authorities to conduct disaster preparedness workshops. 3. To maintain employee safety and health, and to implement safety and health management, we set up the Occupational Safety Office as the 1st organizational unit. To promote environmental health and safety services, we appointed two persons in charge of the type A labor safety matters (on a part-time position) and a Type A Labor Health Management Officer (full-time) and have submitted to the Northern Region Labor Inspection Office and the Tainan Administration Bureau for approval.
Reporting the damage caused by operations of the contractors	The company has set up the "Contractor Environment Safety and Health Management Regulations" and supervises the contractors to comply with the following: 1. The contractor shall, according to the scale and nature of its operations, put up a qualified safety and health management officer or an on-site person in charge of implementing safety and health management. 2. All the personnel employed by the contractor entering the Company premises to work shall be insured with the labor insurance policy and the National Health Insurance. 3. The laborers employed by the contractor or its subcontractors shall go through the Company's "Contractor Hazard Information Training Course" first before they are allowed to start work in the Company. 4. Only properly trained and qualified personnel shall operate any dangerous machineries or equipment. They should prepare the "Machine and Equipment Inspection Certificate" and the "Operator Training Certificate" ready for inspection. 5. The contractor shall conduct construction safety assessment first when they enter our factory before performing any construction and they shall provide a construction application form (and shall clearly fill out the job classifications, job sites, and the names of the construction workers).
Environment Management And Occupational Health and Safety Assessment Series (OHSAS) Certification	1. The company passed the ISO 140001 and the OHSAS 18001 international certification in 2011 and 2012 respectively. During the operational procedures in the performance of the Company's manufacturing processes, products and services, the Company was able to effectively manage any negative impact on the environment, the unacceptable risks involved in safety and health, or the matters that do not conform to the demands of the environment, safety and health regulations. The company also continues to improve the overall environment, safety and health performance of the Company. 2. The business commitment of the Company is to actively implement our promise to protect the environment, safety and health of our personnel. Our

Item	Content
	environment, safety and health policies are: to comply with the regulations, implement energy conservation, promote safety and health, and continue to improve our performance in these areas.
Physical Health	1. Physical check-up: provide assistance for the physical check-up of new employees; annual regular physical checkups in accordance with the Occupational Safety and Health Act for all regular employees. 2. Work Environmental Health: hired a full-time cleaning staff to clean the premises, banned smoking in the place of work, set up a smoking area, hold health lectures, CPR first aid training, regular carpet cleaning and disinfection in the office area.
Psychological Health	1. Educational Training: provide pressure (emotional) management and communication skills courses, publicize related counseling activities and articles 2. Expression of opinions: Set up a dedicated discussion forum on the internet website. Aside from providing information for the retrieval of our colleagues, it also provides a learning channel for the discussions, expression of opinions, venting of emotions, and interactions. 3. Employees Assistance Program (EAP): In cooperation with the Hsinchu Lifeline Association and through third party professional consulting service, our colleagues can request for assistance in handling psychological, legal, financial, medical, management, and other matters related to the daily life or work activities of the employees. Each employee is given three consultation service opportunities for free.
Insurance and Medical Benefits	1. In accordance with the provisions of the Labor Insurance Act, we insure all our employees with the government labor insurance (including occupational accident insurance) and health insurance. We arrange with private insurance companies to provide our employees with life insurance, accident insurance and medical insurance, hospital and cancer medical insurance and other group insurance protection and the Company pays the whole amount of the insurance policy premium. 2. The insurance company provides hospitalization and cancer treatment insurance for the employees' spouses and children, and hospitalization daily allowance insurance for the employees' parents, and the Company provides subsidy of up to 66% of the insurance premium. If the employees' spouses, children and parents become sick, then the insurance claims will provide relief and help to the employees and their dependents. 3. The company insured all the employees with an accident insurance coverage of NT$ 3 million. If the employees became disabled or died because of an accident while in the performance of duties, the insurance claims will provide relief and help to the employees or their heirs.

6. Code of Conduct

HMI has prepared and established an employee code of conduct or code of ethics for the compliance of the employees and observance of proper behavior during their daily work. We advocate this in the course of new employee training and to our regular employees from time to time. This is to strengthen the employees' integrity and values and for each and every one to observe.

(2) For the most recent fiscal year up to the publication date of the annual report, losses suffered as a result of labor disputes and the estimated monetary amount involved in the disclosure of present and future possible occurrences and their corresponding countermeasures. If it is not possible to come up with a reasonable estimate, then the reasons for being unable to provide the estimate shall be provided:

Both the employers and the employees of this company use the Labor Standards Act as the basis. We adopt humane management system in our organization and the relationship between labor and management is harmonious and there were no labor disputes that created losses for the Company. From here on, with the labor and management maintaining a mutual cooperation and growth to nurture the relationship, we expect that there will be no labor disputes and should see no danger of suffering any losses.

6. Key Contracts

Type of Contract	Principal	Year of Contract	Validity period	Purpose
Technical Cooperation Agreement	Hermes Microvision, Inc. (USA)	Jan. 1, 2015~Dec. 31, 2016	Research & Development Contract - Hermes Microvision, Inc. (USA) to perform all technology development, and the development results and technologies belongs to this company	None
Tenancy Agreement	Wei Shan Investment Co., Ltd.	May 1, 2015~Apr. 30, 2016	Leasing of De-an 7th Floor Office	None
		May 1, 2016~Apr. 30, 2017		
Tenancy Agreement	Southern Taiwan Science Park Bureau	May 1, 2013~Apr. 30, 2033	Southern Taiwan Science Park Administration land lease (new factory building)	None
Product Agency Agreement	Yarbrough Southwest	Jan. 1, 2016~Dec. 31, 2016	Product sales agreement	None

VI. Financial Status

1. Simplified Balance Sheets and Statements of Income for the Last 5 Years

(1) Simplified balance sheet –ROC GAAP

Unit: NT$1,000

Item \ Year		Last 5 years' financial data (Note 1)				
		2011	2012	2013 (Note 2)	2014 (Note 2)	2015 (Note 2)
Current assets		2,237,300	4,607,056			
Funds and investments		479,107	585,271			
Property, plant and equipment		100,919	110,596			
Intangible assets		22,615	21,676			
Other assets		49,030	27,267			
Total assets		2,888,971	5,351,866			
Current liabilities	Before appropriation	1,446,148	1,369,563			
	After appropriation	1,710,148	2,161,563			
Long-term liabilities		—	—			
Other liabilities		35,996	42,362			
Total liabilities	Before appropriation	1,482,144	1,411,925			
	After appropriation	1,746,144	2,203,925			
Capital stock		600,000	660,000			
Capital surplus		—	1,234,348			
Retained earnings	Before appropriation	797,137	2,049,737			
	After appropriation	533,137	1,257,737			
Unrealized gain/loss on financial merchandise		—	—			
Cumulative translation adjustment		9,690	1,554			
Unrecognized net loss of pension cost		—	(5,968)			
Total Shareholder Equity	Before appropriation	1,406,827	3,939,941			
	After appropriation	1,142,827	3,147,941			

Note 1: The Company financial data from 2011 to 2012 were audited and certified by the CPA.

Note 2: The Company prepared its 2013 financial statements in accordance with the IFRSs.

(2) Consolidated Simplified Balance Sheet -ROC GAAP

Unit: NT$1,000

Item \ Year		Last 5 years' financial data (Note 1)				
		2011	2012	2013	2014 (Note 2)	2015 (Note 2)
Current assets		2,523,151	4,971,559			
Funds and investments		—	—			
Property, plant and equipment		149,988	170,246			
Intangible assets		27,080	26,926			
Other assets		56,292	35,137			
Total assets		2,756,521	5,203,868			
Current liabilities	Before appropriation	1,291,480	1,185,082			
	After appropriation	1,555,480	1,977,082			
Long-term liabilities		37,123	45,834			
Other liabilities		—	—			
Total liabilities	Before appropriation	1,328,603	1,230,916			
	After appropriation	1,592,603	2,022,916			
Capital stock		600,000	660,000			
Capital surplus		—	1,234,348			
Retained earnings	Before appropriation	797,137	2,049,737			
	After appropriation	533,137	1,257,737			
Unrealized gain/loss on financial merchandise		—	—			
Cumulative translation adjustment		9,690	1,554			
Unrecognized net loss of pension cost		—	(5,698)			
Total Shareholder Equity	Before appropriation	1,427,918	3,972,952			
	After appropriation	1,163,918	3,180,952			

Note 1: The Company financial data from 2011 to 2012 were audited and certified by the CPA.

Note 2: The Company prepared its 2013 financial statements in accordance with the IFRSs.

(3) Individual Simplified Balance Sheet -IFRSs

Unit: NT$1,000

Item \ Year		Last 5 years' financial data (Note 1)				
		2011	2012	2013	2014	2015
Current assets			4,607,056	10,716,351	13,141,462	13,960,025
Property, plant and equipment			110,596	268,730	681,954	907,315
Intangible assets			5,467	5,028	8,392	21,623
Other assets			611,605	869,194	999,609	1,133,575
Total assets			5,334,724	11,859,303	14,831,417	16,022,538
Current liabilities	Before appropriation		1,382,210	2,080,797	2,914,483	3,306,951
	After appropriation		2,174,210	3,216,797	4,476,483	4,442,951 (Note 2)
Non-current liabilities			85,482	84,100	89,073	132,689
Total liabilities	Before appropriation		1,467,692	2,164,897	3,003,556	3,439,640
	After appropriation		2,259,692	3,300,897	4,565,556	4,575,640 (Note 2)
Equity attributable to owners of the parent			Not applicable			
Capital stock			660,000	710,000	710,000	710,000
Capital surplus			1,234,348	5,427,023	5,431,196	5,436,908
Retained earnings	Before appropriation		1,980,820	3,542,426	5,637,015	6,364,667
	After appropriation		1,188,820	2,406,426	4,075,015	5,228,667 (Note 2)
Other equity			(8,136)	14,957	49,650	71,323
Treasury stock			—	—	—	—
Non-controlling interest			—	—	—	—
Total equity	Before appropriation		3,867,032	9,694,406	11,827,861	12,582,898
	After appropriation		3,075,032	8,558,406	10,265,861	11,446,898 (Note 2)

Note 1: The Company has adopted IFRSs to prepare its financial reports since 2013, whereas The Company financial data from 2012 to 2015 were audited and certified by the CPA.

Note 2: The Company's 2015 earnings distribution was already adopted by the board of directors, which will be resolved by the shareholders' meeting.

(4) Consolidated Simplified Balance Sheet -IFRSs

Unit: NT$1,000

Item \ Year		Last 5 years' financial data (Note 1)				
		2012	2013	2014	2015	Q1 - 2016
Current assets		4,971,559	11,444,474	14,297,574	15,606,443	15,536,116
Property, plant and equipment		170,246	334,590	749,531	975,021	1,005,121
Intangible assets		10,717	10,632	12,357	25,203	23,457
Other assets		35,137	61,841	67,014	98,614	99,765
Total assets		5,187,659	11,851,537	15,126,476	16,705,281	16,664,459
Current Liabilities	Before appropriation	1,198,662	2,034,405	3,162,439	3,936,325	3,625,016
	After appropriation	1,990,662	3,170,405	4,724,439	5,072,325 (Note 2)	4,761,016 (Note 2)
Non-current liabilities		88,954	84,100	89,073	132,689	133,029
Total liabilities	Before appropriation	1,287,616	2,118,505	3,251,512	4,069,014	3,758,045
	After appropriation	2,079,616	3,254,505	4,813,512	5,205,014 (Note 2)	4,894,045 (Note 2)
Equity attributable to owners of the parent		3,867,032	9,694,406	11,827,861	12,582,898	12,851,587
Capital stock		660,000	710,000	710,000	710,000	710,000
Capital surplus		1,234,348	5,427,023	5,431,196	5,436,908	5,465,692
Retained earnings	Before appropriation	1,980,820	3,542,426	5,637,015	6,364,667	6,616,468
	After appropriation	1,188,820	2,406,426	4,075,015	5,228,667 (Note 2)	5,480,468 (Note 2)
Other equity		(8,136)	14,957	49,650	71,323	59,427
Treasury stock		—	—	—	—	—
Non-controlling interest		33,011	38,626	47,103	53,369	54,827
Total equity	Before appropriation	3,900,043	9,733,032	11,874,964	12,636,267	12,906,414
	After appropriation	3,108,043	8,597,032	10,312,964	11,500,267 (Note 2)	11,770,414 (Note 2)

Note 1: The Company has adopted IFRSs to prepare its financial reports since 2013, whereas The Company financial data from 2012 to 2016 Q1 were audited and certified by the CPA.

Note 2: The Company's 2015 earnings distribution was already adopted by the board of directors, which will be resolved by the shareholders' meeting.

(5) Individual Simplified Statements of Income -ROC GAAP

Unit: NT$1,000

Item \ Year	Last 5 years' financial data (Note 1)				
	2011	2012	2013	2014	2015
Operating revenue	2,646,436	4,174,028			
Gross profit margin	1,660,976	2,843,457			
Operating profit or loss	743,497	1,609,556			
Non-operating revenue & profit	124,310	109,758			
Non-operating expenses & losses	139,713	74,031			
Profit or loss before taxes of continuing operations	728,094	1,645,283			
Profit or loss of continuing operations	652,242	1,516,600			
Profit or loss of discontinued operations	—	—			
Extraordinary gain or loss	—	—			
Cumulative effect of changes in accounting principles	—	—			
Profit or loss for the period	652,242	1,516,600			
EPS (Note 2)	10.87	23.34			

Note 1: The Company financial data from 2011 to 2012 were audited and certified by the CPA, whereas the Company has adopted IFRSs to prepare its financial statements since 2013.

Note 2: The calculation was made according to the weighted average number of the outstanding shares of the year in question.

(6) Consolidated Simplified Statements of Income -ROC GAAP

Unit: NT$1,000

Item \ Year	Last 5 years' financial data (Note 1)				
	2011	2012	2013	2014	2015
Operating revenue	2,677,955	4,179,904			
Gross profit margin	1,808,129	2,980,848			
Operating profit or loss	689,685	1,706,749			
Non-operating revenue & profit	95,310	34,579			
Non-operating expenses & losses	(39,673)	(74,825)			
Profit or loss before taxes of continuing operations	745,322	1,666,503			
Profit or loss of continuing operations	654,232	1,519,863			
Profit or loss of discontinued operations	—	—			
Extraordinary gain or loss	—	—			
Cumulative effect of changes in accounting principles	—	—			
Profit or loss for the period	654,232	1,519,863			
EPS (Note 2)	10.87	23.34			

Note 1: The Company financial data from 2011 to 2012 were audited and certified by the CPA, whereas the Company has adopted IFRSs to prepare its financial statements since 2013.

Note 2: The calculation was made according to the weighted average number of the outstanding shares of the year in question.

(7) Individual Simplified Statements of Comprehensive Income - IFRSs

Unit: NT$1,000

Item \ Year	Last 5 years' financial data (Note 1)				
	2011	2012	2013	2014	2015
Operating revenue		4,174,028	5,487,228	7,390,177	6,724,191
Gross profit margin		2,843,457	3,548,866	4,893,321	4,374,411
Operating profit or loss		1,607,847	2,241,286	3,101,293	2,281,258
Non-operating revenue & expense		38,002	279,299	490,005	350,756
Net profit before tax		1,645,849	2,520,585	3,591,298	2,632,014
Net income for the period of continuing operations		1,517,166	2,343,600	3,237,928	2,321,434
Loss of discontinued operations		—	—	—	—
Net profit (loss) for the period		1,517,166	2,343,600	3,237,928	2,321,434
Other comprehensive profit or loss for the period (Net profit after tax)		(34,548)	33,099	27,354	(10,109)
Total comprehensive profit or loss for the period		1,482,618	2,376,699	3,265,282	2,311,325
Net income attributable to owners of the parent		Not applicable			
Net income attributable to non-controlling interest					
Comprehensive profit or loss attributable to owners of the parent					
Comprehensive profit or loss attributable to non-controlling interest					
EPS (Note 2)		23.34	35.09	45.60	32.70

Note 1: The Company has adopted IFRSs to prepare its financial reports since 2013, whereas The Company financial data from 2012 to 2015 were audited and certified by the CPA.

Note 2: The calculation was made according to the weighted average number of the outstanding shares of the year in question.

(8) Consolidated Simplified Statements of Comprehensive Income - IFRSs

Unit: NT$1,000

Item \ Year	Last 5 years' financial data (Note 1)				
	2012	2013	2014	2015	2016- Q1
Operating revenue	4,179,904	5,340,043	7,209,650	6,651,805	986,221
Gross profit margin	2,980,848	3,758,459	5,065,765	4,676,369	695,654
Operating profit or loss	1,707,316	2,411,521	3,228,280	2,470,746	279,764
Non-operating revenue & expense	(40,247)	144,010	426,263	291,588	2,780
Net profit before tax	1,667,069	2,555,531	3,654,543	2,762,334	282,544
Net income for the period of continuing operations	1,520,429	2,347,275	3,241,936	2,321,748	253,135
Loss of discontinued operations	—	—	—	—	—
Net profit (loss) for the period	1,520,429	2,347,275	3,241,936	2,321,748	253,135
Other comprehensive profit or loss for the period (Net profit after tax)	(35,846)	34,003	30,011	(5,147)	(11,772)
Total comprehensive profit or loss for the period	1,484,583	2,381,278	3,271,947	2,316,601	241,363
Net income attributable to owners of the parent	1,517,166	2,343,600	3,237,928	2,321,434	251,801
Net income attributable to non-controlling interest	3,263	3,675	4,008	314	1,334
Comprehensive profit or loss attributable to owners of the parent	1,482,618	2,376,699	3,265,282	2,311,325	239,905
Comprehensive profit or loss attributable to non-controlling interest	1,965	4,579	6,665	5,276	1,458
EPS (Note 2)	23.34	35.09	45.60	32.70	3.55

Note 1: The Company has adopted IFRSs to prepare its financial reports since 2013, whereas The Company financial data from 2012 to 2016 Q1 were audited and certified by the CPA.

Note 2: The calculation was made according to the weighted average number of the outstanding shares of the year in question.

(9) Names of the CPAs and their audit opinions over the last five years:

Individuals

Year	The Name of the CPA	The Name of the Office of CPA	Audit Opinion
2011	Tseng, Kuo-Hua, Wang, Wei-Chen	PwC Taiwan	Unqualified opinion
2012	Cheng, Ya-Hui, Wang, Wei-Chen	PwC Taiwan	Unqualified opinion
2013	Cheng, Ya-Hui, Lee, Tien-Yi	PwC Taiwan	Unqualified opinion
2014	Lee, Tien-Yi, Cheng, Ya-Hui	PwC Taiwan	Unqualified opinion
2015	Lee, Tien-Yi, Tseng, Kuo-Hua	PwC Taiwan	Unqualified opinion

Consolidated

Year	The Name of the CPA	The Name of the Office of CPA	Audit Opinion
2011	Tseng, Kuo-Hua, Wang, Wei-Chen	PwC Taiwan	Unqualified opinion
2012	Cheng, Ya-Hui, Wang, Wei-Chen	PwC Taiwan	Modified unqualified opinion
2013	Cheng, Ya-Hui, Lee, Tien-Yi	PwC Taiwan	Unqualified opinion
2014	Lee, Tien-Yi, Cheng, Ya-Hui	PwC Taiwan	Unqualified opinion
2015	Lee, Tien-Yi, Tseng, Kuo-Hua	PwC Taiwan	Unqualified opinion

2. Analysis for The Last 5 years' Financial Status

(1) Analysis for the last 5 years' Individual Financial Status –IFRSs

Categories	Year (Note 1)	Analysis for the last 5 years' Financial Status (Note 1)				
		2011	2012	2013	2014	2015
Financial structure (%)	Ratio of liabilities to assets		27.51	18.25	20.25	21.47
	Ratio of long-term investment to property, plant and equipment		3,574	3,639	1,747	1,401
Solvency %	Current ratio		333.31	515.01	450.90	422.14
	Quick ratio		267.6	473.23	422.27	374.66
	Times interest earned		283.6	9,405,169	—	—
Operation capacity	Receivables turnover ratio (times)		4.12	3.66	3.32	3.36
	Average collection days		89	100	110	109
	Inventory turnover ratio (times)		1.51	2.22	2.98	1.67
	Payables turnover ratio (times)		6.37	6.34	9.22	13.79
	Average sales days		242	165	123	219
	Property, plant and equipment turnover ratio (times)		37.74	20.42	10.84	8.46
	Total assets turnover ratio (times)		0.78	0.46	0.50	0.44
Profitability	Return on assets (%)		30.82	27.26	24.26	15.05
	Return on equity (%)		58.12	34.56	30.09	19.02
	Ratio of net profit before tax to paid-in capital (%) (note 7)		249.37	355.01	505.82	370.71
	Net profit ratio (%)		36.35	42.71	43.81	34.52
	EPS (NTD)		23.30	35.04	45.55	32.70
Cash flows	Cash flow ratio (%)		118.15	112.88	107.47	102.53
	Cash flow adequacy ratio (%)		316.20	284.63	240.79	200.78
	Cash re-investment ratio (%)		33.68	15.78	16.59	14.22
Leverage	Degree of operational leverage		1.03	1.02	1.01	1.03
	Degree of financial leverage		1.00	1.00	1.00	1.00

Reasons for changes of a variety of financial ratios over the latest two years (for those that have more than 20% increase or decrease)

1. Reduction in the ratio of long-term capital to real estate, plants and equipment: It mainly resulted from the expansion of the new plant in South Taiwan Science Park and increase in real estate, plants and equipment in 2015.
2. Operating capacity related ratios: Mainly due to the worse business performance in the whole 2015 compared with 2014, the inventory turnover ratio decreased, account payable turnover ratio and average sales days increased. At the same time, the Southern Taiwan Science Park's plant started to be constructed as of 2013 and the production began in 2015, which resulted in a decline in real estate, plant and equipment turnover rates.
3. Profitability related ratios: Mainly due to a decline in operating revenue and profit in 2015, the return on assets, return on equity, the ratio of operating revenue to paid-in capital, the ratio of before-tax net profit to paid-in capital, net profit ratio and EPS all showed a decline.

Note 1: The Company financial data from 2012 to 2015 were audited and certified by the CPA.

(2) Analysis for the last 5 years' Consolidated Financial Status -IFRSs

Categories (Note 2) / Year (Note 1)		Analysis for the last 5 years' Financial Status (Note 1)				
		2012	2013	2014	2015	2016- Q1
Financial structure (%)	Ratio of liabilities to assets	24.82	17.88	21.50	24.36	22.55
	Ratio of long-term investment to property, plant and equipment	2,343	2,934	1,596	1,310	1,297
Solvency %	Current ratio	414.76	562.55	452.11	396.47	428.58
	Quick ratio	305.3	486.17	393.95	325.48	351.62
	Times interest earned	287.2	9,535,546	—	—	—
Operation capacity	Receivables turnover ratio (times)	5.54	4.42	3.39	3.29	2.64
	Average collection days	66	83	108	111	138
	Inventory turnover ratio (times)	0.97	1.13	1.31	0.71	0.28
	Payables turnover ratio (times)	15.65	13.01	13.09	13.60	8.94
	Average sales days	376	322	278	514	1,304
	Property, plant and equipment turnover ratio (times)	24.55	15.96	9.62	7.71	4.05
	Total assets turnover ratio (times)	0.81	0.45	1.91	0.42	0.24
Profitability	Return on assets (%)	31.96	22.87	24.03	14.59	6.07
	Return on equity (%)	57.64	34.44	30.01	18.94	7.93
	Ratio of Net profit before tax to paid-in capital (%) (note 7)	252.59	359.93	514.72	389.06	159.18
	Net profit ratio (%)	36.37	43.96	44.97	34.90	25.67
	EPS (NTD)	23.30	35.04	45.55	32.70	3.55
Cash flows	Cash flow ratio (%)	155	106.70	98.96	91.12	-
	Cash flow adequacy ratio (%)	118.53	133.79	152.96	173.59	162.55
	Cash re-investment ratio (%)	38.49	13.84	16.40	15.60	-
Leverage	Degree of operational leverage	1.04	1.02	1.02	1.04	1.11
	Degree of financial leverage	1.00	1.00	1.00	1.00	1.00

Reasons for changes of a variety of financial ratios over the latest two years (for those that have more than 20% increase or decrease)

1. Operating capacity related ratios: Mainly due to the worse business performance in the whole 2015 compared with 2014, the inventory turnover ratio, average sales days and total asset turnover rate decreased, increased and decreased respectively. At the same time, the Southern Taiwan Science Park's plant started to be constructed as of 2013 and the production began in 2015, which resulted in a decline in real estate, plant and equipment turnover rates in 2015. On the other hand, as affected by the traditional off-season effect and slowdown of client's capital expenditure in the first quarter of 2016, the receivable turnover ratio, inventory turnover ratio, payable turnover ratio, real estate, plant and equipment turnover ratio and total asset turnover ratio reduced and average cash receiving days and average sales days increased.
2. Profitability related ratios: Mainly due to a decline in operating revenue and profit in the first quarter of 2015 and 2016, the return on assets, return on equity, the ratio of operating revenue to paid-in capital, the ratio of before-tax net profit to paid-in capital, net profit ratio and EPS all showed a decline.
3. Cash flow related ratios: Mainly due to semiconductor suppliers' decline in the terminal market consumption visibility in the first quarter of 2016 and their conservative capital expenditure, the sales declined and the current period net profit reduced, which led to business activity net cash outflows. As such, the cash flow ratio and cash re-investment ratio declined accordingly.

Note 1: The Company financial data from 2012 to 2016 Q1 were audited and certified by the CPA.

Note 2：The calculation formulae below shall be listed at the end of the annual financial report:

1.Financial structure

(1)Ratio of liabilities to assets = Total liabilities / Total Assets

(2)Ratio of long-term investment to property, plant and equipment = (Total equity + Non-current Liabilities) / Net property, plant and equipment

2.Solvency

(1)Current Ratio = Current asset / Current Liabilities

(2)Quick Ratio = (Current asset – Inventory - Prepaid expense) / Current Liabilities

(3)Times interest earned = Net profit before income tax and interest expense / Interest expenses of the period

3.Operation capacity

(1) Turnover of receivables (including receivables and accounts/notes receivable from sales) = net sales / average receivables for each period (including receivables and accounts/notes receivable from sales)

(2)Average collection days = 365 / Receivables turnover ratio

(3)Inventory turnover ratio = sales cost / Average inventory

(4) Payables (including accounts payable and notes payable from business) turnover ratio = Sales cost / Balance of average payables (including accounts payable and notes payable from business)

(5)Average sales days = 365 / Inventory turnover ratio

(6) Property, plant and equipment turnover ratio = Net sales / Net average property, plant and equipment

(7)Total assets turnover ratio = Net sales / average total assets

4.Profitability

(1)Return on assets = [Profit or loss after tax + Interest expense × (1 - Tax rate)] / average total assets

(2)Return on equity = Profit or loss after tax / Average total shareholders' equity

(3)Net profit ratio = Profit or loss after tax / Net sales

(4)EPS = (Equity attributable to owners of the parent company - Dividends of preferred stock) / Weighted average shares issued (Note 4)

5.Cash flows

(1)Cash flow ratio = Net cash flows of operating activities / Current Liabilities

(2) Net cash flow adequacy ratio = Net cash flows of operating activities in latest 5 years / (Capital expense + Increase in inventories + Cash Dividends) in last 5 years

(3)Cash re-investment ratio = (Net cash flows of operating activities - Cash Dividends) / (Gross of property, plant and equipment + Long-term investments + Other non-current asset + Working capital) (Note 5)

6. Leverage:

(1)Degree of operational leverage = (Net operating revenue - Variable operating costs and expenses) / Operating profit (Note 6).

(2)Degree of financial leverage = Operating profit / (Operating profit - Interest expense)

Note 3: For the aforesaid EPS calculation formula, please pay special attention to the following matters in calculation:

1. Instead of using the number of the shares issued before the end of the year as the basis, the weighted average number of the shares of the common stock shall prevail
2. Those that have seasoned equity offering or treasury stock transactions shall take their circulation period into account in calculation of the weighted average number of the shares.
3. For those that have capital increase by earnings recapitalization or by capital surplus as stock dividend, the calculation of the EPS for the past year or past half year shall be adjusted according to the ratio of the capital increase without considering the issuance period of the increased capital.
4. In the case that the preferred stock is a non-convertible accumulated preferred stock, its dividend (no matter whether it is released or not) of the year in question shall be deducted from the net profit after tax or added to the after-tax net loss. If the preferred stock is not in the accumulative character and there is a net profit after tax, its dividend shall be deducted from the net profit after tax whereas no adjustment is required if there is a loss.

Note 4: When giving the cash flow analysis, please pay special attention to the following matters:

1. Operating activity net cash flow refers to the amount of the operating activity net cash flow shown in the cash flow statement.
2. Capital expenditure refers to the amount of the cash outflow from each year's capital investment.
3. The amount of inventory increase shall not be calculated unless the amount of the ending balance is greater than that of the beginning balance. If the inventory reduces at the end of the year, it shall be calculated as zero.
4. Cash dividend covers the cash dividends of common stock and preferred stock.
5. The gross amount of property, plant and equipment refers to the total amount of property, plant and equipment before deducting accumulated depreciation.

Note 5: The issuer shall divide a variety of operating costs and expenses into fixed and current amounts according to their characteristics. In case of involving estimation or subjective judgment, attention shall be paid to their rationality and consistency.

Note 6: If a company's stock is a no-par stock, or its face value is not at NTD10 per share, calculation of the ratio of it to the paid-in capital shall be replaced by the ratio of the owner of parent shown in the balance sheet.

(3) Analysis for Individual Financial Status –ROC GAAP

Categories (Note 3)	Year (Note 1)		Analysis for the last 5 years' Financial Status (Note 1 & 2)				
			2011	2012	2013	2014	2015
Financial structure (%)	Ratio of liabilities to assets		51.30	26.38			
	Ratio of long-term investment to property, plant and equipment		1,394.02	3,562.46			
Solvency %	Current ratio		154.71	336.39			
	Quick ratio		93.13	270.10			
	Times interest earned		42.77	283.50			
Operation capacity	Receivables turnover ratio (times)		3.57	4.12			
	Average collection days		102	89			
	Inventory turnover ratio (times)		1.07	1.28			
	Payables turnover ratio (times)		6.17	6.37			
	Average sales days		341	284			
	Property, plant and equipment turnover ratio (times)		26.07	39.47			
	Total assets turnover ratio (times)		0.93	1.01			
Profitability Cash flows	Return on assets (%)		23.37	36.94			
	Return on equity (%)		61.08	56.73			
	Ratio to paid-in capital (%)	Operating profit	123.92	243.87			
		Net profit before tax	121.35	249.29			
	Net profit ratio (%)		24.65	36.33			
	EPS(NTD)		10.87	23.34			
Cash flows	Cash flow ratio (%)		55.85	119.24			
	Cash flow adequacy ratio (%)		(108.34)	137.55			
	Cash re-investment ratio (%)		53.38	33.35			
Leverage	Degree of operational leverage		3.00	1.62			
	Degree of financial leverage		1.02	1.00			

Please describe the reasons of the changes in various financial rates in the latest 2 years. (No analysis is provided for the change of not more than or less than 20%.)

1.Ratio of financial structure: Mainly resulted from profit increase in 2012, which led to substantial improvement of the financial structure.

2.Ratio of solvency: Mainly resulted from profit increase in 2012, which led to substantial improvement of the solvency.

3. Increase of inventory turnover ratio: Mainly resulted from continuing business growth and substantial rise of sales cost in 2012, whereas, on the other hand, the Company had a good control of its inventory in which the level of the rise in the average inventory amount was smaller than that in the sales cost.

4.Increase of property, plant and equipment turnover ratio: Mainly resulted from selling revenue increase in 2012.

5.Ratio of Profitability: They mainly resulted from operating revenue and profit increase in 2012.

6.Ratio of cash flows: Mainly resulted from continuing business growth in 2012, which led to increase of current period's net income and operating activity cash inflow.

7.Decrease of degree of operational leverage: Mainly resulted from the fact that the level of the rise in business profit was greater than that in operating revenue in 2012.

Note 1: The Company financial data from 2011 to 2012 were audited and certified by the CPA.
Note 2: The Company's 2013 and 2014 financial statements were made by IFRSs.
Note 3: The calculation formulae below shall be listed at the end of the annual financial report:

1.Financial structure

(1)Ratio of liabilities to assets = Total liabilities / Total Assets

(2)Ratio of long-term investment to property, plant and equipment = (Net shareholders' equity＋long-term liabilities) / Net property, plant and equipment

2.Solvency

(1)Current Ratio = Current asset / Current Liabilities

(2)Quick Ratio = (Current asset - Inventory - Prepaid expense) / Current Liabilities

(3)Times interest earned = Net profit before income tax and interest expense / Interest expenses of the period

3.Operation capacity

(1) Receivables (including accounts receivable and notes receivable from business) turnover ratio = Net sales / Balance of average receivables (including accounts receivable and notes receivable from business)

(2)Average collection days = 365 / Receivables turnover ratio

(3)Inventory turnover ratio = sales cost / Average inventory

(4) Payables (including accounts payable and notes payable from business) turnover ratio = Sales cost / Balance of average payables (including accounts payable and notes payable from business)

(5)Average sales days = 365 / Inventory turnover ratio

(6)Property, plant and equipment turnover ratio = Net sales / Net average property, plant and equipment

(7)Total assets turnover ratio = Net sales / average total assets

4.Profitability

(1)Return on assets = [Profit or loss after tax + Interest expense × (1 - Tax rate)] / average total assets

(2)Return on equity = Profit or loss after tax / Average total shareholders' equity

(3)Net profit ratio = Profit or loss after tax / Net sales

(4)EPS = (Net profit after tax - Dividends of preferred stock) / Weighted average shares issued (Note 4)

5.Cash flows

(1)Cash flow ratio = Net cash flows of operating activities / Current Liabilities

(2)Net cash flow adequacy ratio = Net cash flows of operating activities in latest 5 years / (Capital expense + Increase in inventories + Cash Dividends) in the last 5 years

(3)Cash re-investment ratio = (Net cash flows of operating activities - Cash Dividends) / (Gross property, plant and equipment + Long-term investments + Other Assets + Working capital) (Note 5)

6.Leverage:

(1)Degree of operational leverage = (Net operating revenue - Variable operating costs and

expenses) / Operating profit (Note 6)

(2)Degree of financial leverage = Operating profit / (Operating profit - Interest expense)

Note 3: For the aforesaid EPS calculation formula, please pay special attention to the following matters in calculation:

1. Instead of using the number of the shares issued before the end of the year as the basis, the weighted average number of the shares of the common stock shall prevail
2. Those that have seasoned equity offering or treasury stock transactions by cash shall take their circulation period into account in calculation of the weighted average number of the shares.
3. For those that have capital increase by earnings recapitalization or by capital surplus as stock dividend, the calculation of the EPS for the past year or past half year shall be adjusted according to the ratio of the capital increase without considering the issuance period of the increased capital.
4. In the case that the preferred stock is a non-convertible accumulated preferred stock, its dividend (no matter whether it is released or not) of the year in question shall be deducted from the net profit after tax or added to the after-tax net loss. If the preferred stock is not in the accumulative character and there is a net profit after tax, its dividend shall be deducted from the net profit after tax whereas no adjustment is required if there is a loss.

Note 4: When giving the cash flow analysis, please pay special attention to the following matters:

1. Operating activity net cash flow refers to the amount of the operating activity net cash flow shown in the cash flow statement.
2. Capital expenditure refers to the amount of the cash outflow from each year's capital investment.
3. The amount of inventory increase shall not be calculated unless the amount of the ending balance is greater than that of the beginning balance. If the inventory reduces at the end of the year, it shall be calculated as zero.
4. Cash dividend covers the cash dividends of common stock and preferred stock.
5. The gross amount of property, plant and equipment refers to the total amount of property, plant and equipment before deducting accumulated depreciation.

Note 5:The issuer shall divide a variety of operating costs and expenses into fixed and current amounts according to their characteristics. In case of involving estimation or subjective judgment, attention shall be paid to their rationality and consistency.

(4) Analysis for Consolidated Financial Status-ROC GAAP

Categories (Note 3) \ Year (Note 1)			Analysis for the last 5 years' Financial Status (Note 1 & 2)				
			2011	2012	2013	2014	2015
Financial structure (%)	Ratio of liabilities to assets		48.20	23.65			
	Ratio of long-term investment to property, plant and equipment		976.71	2,360.58			
Solvency %	Current ratio		195.37	419.51			
	Quick ratio		100.87	308.85			
	Times interest earned		43.76	287.14			
Operation capacity	Receivables turnover ratio (times)		3.85	5.54			
	Average collection days		95	66			
	Inventory turnover ratio (times)		0.77	0.97			
	Payables turnover ratio (times)		12.31	15.65			
	Average sales days		474	376			
	Property, plant and equipment turnover ratio (times)		17.85	24.55			
	Total assets turnover ratio (times)		0.97	0.80			
Profitability Cash flows	Return on assets (%)		20.15	31.82			
	Return on equity (%)		60.30	56.28			
	Ratio to paid-in capital (%)	Operating profit	114.95	258.60			
		Net profit before tax	124.22	252.50			
	Net profit ratio (%)		24.43	36.36			
	EPS(NTD)		10.87	23.34			
Cash flows	Cash flow ratio (%)		63.59	154.89			
	Cash flow adequacy ratio (%)		812.01	649.93			
	Cash re-investment ratio (%)		52.42	37.66			
Leverage	Degree of operational leverage		1.07	1.04			
	Degree of financial leverage		1.03	1.00			

Please describe the reasons of the changes in various financial rates in the latest 2 years. (No analysis is provided for the change of not more than or less than 20%.)

1. Ratio of financial structure: Mainly resulted from profit increase in 2012, which led to substantial improvement of the financial structure.
2. Ratio of solvency: Mainly resulted from profit increase in 2012, which led to substantial improvement of the solvency.
3. Ratio of Operation capacity:
   (1) Increase in the receivable turnover ratio: It mainly resulted from the increase in the 2012 operation income and appropriate control of receivables.
   (2) The inventory turnover ratio and payable turnover ratio increased. Following the increase of income, the sales cost substantially rose, but the Company had appropriate control of its inventory level and its payments to suppliers have all be made in a timely way. As such, the turnover ratios largely increased.
   (3) Increase of property, plant and equipment turnover ratio: Mainly resulted from selling revenue increase in 2012.
4. Ratio of Profitability: They mainly resulted from operating revenue and profit increase in 2012.
5. Ratio of cash flows: Mainly resulted from continuing business growth in 2012, which led to increase of current period's net income and operating activity cash inflow.

Note 1: The Company financial data from 2011 to 2012 were audited and certified by the CPA.

Note 2: The Company' financial statements were made by IFRSs since 2013.

Note 3: The calculation formulae below shall be listed at the end of the annual financial report:

1.Financial structure

(1)Ratio of liabilities to assets = Total liabilities / Total Assets

(2)Ratio of long-term investment to property, plant and equipment = (Net shareholders' equity + long-term liabilities) / Net property, plant and equipment

2.Solvency

(1)Current Ratio = Current asset / Current Liabilities

(2)Quick Ratio = (Current asset - Inventory - Prepaid expense) / Current Liabilities

(3)Times interest earned = Net profit before income tax and interest expense / Interest expenses of the period

3.Operation capacity

(1) Receivables (including accounts receivable and notes receivable from business) turnover ratio = Net sales / Balance of average receivables (including accounts receivable and notes receivable from business)

(2)Average collection days = 365 / Receivables turnover ratio

(3)Inventory turnover ratio = sales cost / Average inventory

(4) Payables (including accounts payable and notes payable from business) turnover ratio = Sales cost / Balance of average payables (including accounts payable and notes payable from business)

(5)Average sales days = 365 / Inventory turnover ratio

(6)Property, plant and equipment turnover ratio = Net sales / Net average property, plant and equipment

(7)Total assets turnover ratio = Net sales / average total assets

4.Profitability

(1)Return on assets = [Profit or loss after tax + Interest expense × (1 - Tax rate)] / average total assets

(2)Return on equity = Profit or loss after tax / Average total shareholders' equity

(3)Net profit ratio = Profit or loss after tax / Net sales

(4)EPS = (Net profit after tax - Dividends of preferred stock) / Weighted average shares issued (Note 4)

5.Cash flows

(1)Cash flow ratio = Net cash flows of operating activities / Current Liabilities

(2)Net cash flow adequacy ratio = Net cash flows of operating activities in latest 5 years / (Capital expense + Increase in inventories + Cash Dividends) in the last 5 years

(3)Cash re-investment ratio = (Net cash flows of operating activities - Cash Dividends) / (Gross property, plant and equipment + Long-term investments + Other Assets + Working capital) (Note 5)

6.Leverage:

(1)Degree of operational leverage = (Net operating revenue - Variable operating costs and expenses) / Operating profit (Note 6)

(2)Degree of financial leverage = Operating profit / (Operating profit - Interest expense)

Note 3: For the aforesaid EPS calculation formula, please pay special attention to the following matters in calculation:

1. Instead of using the number of the shares issued before the end of the year as the basis, the weighted average number of the shares of the common stock shall prevail
2. Those that have seasoned equity offering or treasury stock transactions shall take their circulation period into account in calculation of the weighted average number of the shares.
3. For those that have capital increase by earnings recapitalization or by capital surplus as stock dividend, the calculation of the EPS for the past year or past half year shall be adjusted according to the ratio of the capital increase without considering the issuance period of the increased capital.
4. In the case that the preferred stock is a non-convertible accumulated preferred stock, its dividend (no matter whether it is released or not) of the year in question shall be deducted from the net profit after tax or added to the after-tax net loss. If the preferred stock is not in the accumulative character and there is a net profit after tax, its dividend shall be deducted from the net profit after tax whereas no adjustment is required if there is a loss.

Note 4: When giving the cash flow analysis, please pay special attention to the following matters:

1. Operating activity net cash flow refers to the amount of the operating activity net cash flow shown in the cash flow statement.
2. Capital expenditure refers to the amount of the cash outflow from each year's capital investment.
3. The amount of inventory increase shall not be calculated unless the amount of the ending balance is greater than that of the beginning balance. If the inventory reduces at the end of the year, it shall be calculated as zero.
4. Cash dividend covers the cash dividends of common stock and preferred stock.
5. The gross amount of property, plant and equipment refers to the total amount of property, plant and equipment before deducting accumulated depreciation.

Note 5:The issuer shall divide a variety of operating costs and expenses into fixed and current amounts according to their characteristics. In case of involving estimation or subjective judgment, attention shall be paid to their rationality and consistency.

(5) Key performance indicators for HMI's business

	2013	2014	2015
The ratio of operating revenue of the advanced process (2Xnm and below)	56%	57%	71%
Annual growth rate of Sales	28%	35%	-8%
Annual growth rate of operating revenue	41%	33%	-23%
Annual growth rate of net profit after tax	54%	38%	-28%

3. **The audit committee's audit report in last year's financial report: Please refer to P. 142 of this year's annual report.**
4. **Financial statements of the last year: Please refer to appendix of this year's annual report.**
5. **Last year's Individual financial reports audited and certified by the CPA: Please refer to appendix of this years' annual report.**
6. **In case that the Company and its affiliated enterprises encountered any financial difficulties in the latest year and as of the date of printing of the annual report, the influence on the Company's financial status shall be listed: None**

VII.Financial Status, Operating Result and Risk Item
1. Financial Status

(1) Comparative Analysis of the Financial Status

Unit: NT$1,000

Item \ Year	2015	2014	Difference	
			Amount	%
Current assets	15,606,443	14,297,574	1,308,869	9%
Property, plant and equipment	975,021	749,531	225,490	30%
Intangible assets	25,203	12,357	12,846	104%
Other assets	98,614	67,014	31,600	47%
Total assets	16,705,281	15,126,476	1,578,805	10%
Current liabilities	3,936,325	3,162,439	773,886	24%
Other liabilities	132,689	89,073	43,616	49%
Total liabilities	4,069,014	3,251,512	817,502	25%
Capital stock	710,000	710,000	—	0%
Capital surplus	5,436,908	5,431,196	5,712	0%
Retained earnings	6,364,667	5,637,015	727,652	13%
Other adjustment	71,323	49,650	21,673	44%
Total Shareholder Equity	12,636,267	11,874,964	761,303	6%

Major reasons for material changes in assets, liabilities and shareholders' equity over the past two years and the influence of the changes. If the influence is significant, the countermeasures shall be explained:

1. Increase of real estate, factory buildings and equipment: Mainly resulted from construction of the factory at the Tainan Science Park in 2015.
2. Increase of current liabilities: It mainly resulted from increase in payables of employees' payroll, prizes and bonuses and warranty allowance.
3. Increase of retained earnings: Mainly resulted from increase of the net profit in 2015, which led to increase of retained earnings.
   Increase of other adjustment: Mainly resulted from increase of translation adjustment in 2015.

(2) For those that have significant influence, their improvement plan shall be explained: None

2. Financial performance

(1) Comparative Analysis of Operating Results

Unit: NT$1,000

Item \ Year	2015	2014	Increase/ Decrease	Rate of Change (%)
Operating revenue	6,651,805	7,209,650	(557,845)	(7.74%)
Operating cost	1,975,436	2,143,885	(168,449)	(7.86%)
Gross profit margin	4,676,369	5,065,765	(389,396)	(7.69%)
Operating expense	2,205,623	1,837,485	368,138	20.03%
Net operating profit	2,470,746	3,228,280	(757,534)	(23.47%)
Non-operating revenue & expense	291,588	426,263	(134,675)	(31.59%)
Net profit before tax	2,762,334	3,654,543	(892,209)	(24.41%)
Less: Income tax expense	440,586	412,607	27,979	6.78%
Net profit for the period	2,321,748	3,241,936	(920,188)	(28.38%)

Main reasons for significant changes in operating revenue, net operating profit and pre-tax net profit over the past two years, expected sales volume as well as its possible influence on the Company's future financial business, and the countermeasures to be taken:

1. Reduction in net operating revenue, gross profit margin and operating net profit: It mainly resulted from the reduction of the equipment sales in 2015, which occurred mainly due to the fact that major clients suspended their production expansion plan as a result of the sluggish terminal demand in 2015.
2. Decrease of operating costs: Mainly resulted from decrease of machine sales volume which led to decrease of related costs.
3. Increase in operating expenses: The overall sales performance in 2015 was worse than that in 2014. However, the Company is still in the growth stage, it has continued to devote its efforts to R&D, and, in order to appeal to outstanding talent, its salary expenses increased. To compound matters, the Company started to construct its Southern Taiwan Science Park's plant as of 2013 and began to use the plant for production and set the depreciation expense aside in 2015. As such, the related management, sales and R&D expenses increased from the previous year.
4. Non-operating revenue and profit: Mainly resulted from a strong U.S. dollar in 2015, which led to a gain on exchange, and the interest income from bank deposit.
5. Increase of pre-tax and net profit after tax: Mainly resulted from growth of operating revenue in 2015 and the increase in income tax effect from non-recognized profit and loss.

Note: The 2014 and 2015 financial data are from the consolidated statements prepared according to IFRSs, which were audited and certified by the CPA.

(2) Expected sales volume as well as its possible influence on the Company's future financial business and the countermeasures to be taken:

By evaluating the industry's environment, market future supply and demand status, and referring to its R&D plan and business development status, the Company predicts that its sales in the year to come will remain a growing trend.

3. Analysis of Cash Flows

(1) Analysis for the last 2 year's cash flows change

Item \ Year	2015	2014	Rate of Change (%)
Cash flow ratio	91.12%	98.96%	(7.84%)
Cash flow adequacy ratio	173.59%	152.96%	20.63%
Cash re-investment ratio	15.60%	16.40%	(0.80%)

Analysis of changes in cash flows:
Rise in cash flow adequacy ratio: The overall sales performance in 2015 was worse than that in 2014. However, the Company is still in the growth stage and the receivables in 2015 reduced which resulted in the increase in business activity cash inflows.

(2) Improvement plan for deficient liquidity:

Due to its intimate business relationship with local banks, the Company has developed a good financing position. Compounding the capital inflow from issuance of the overseas depositary receipt in 2013, currently, the Company's working capital is affluent, and there is no sign of deficiency in financial liquidity and capital.

(3) Analysis of cash liquidity for the next year.

Unit: NT$1,000

Beginning cash balance A	Expected annual net cash flow from operating activities B	Expected annual cash outflow C	Cash surplus (deficiency) amount A＋B－C	Countermeasures for cash deficiency	
				Investment plan	Finance plan
7,396,471	3,586,688	(2,423,380)	8,559,779	-	-

1. Analysis of current year's changes in cash flows:
   (1) Business activity net cash inflows: The overall sales performance in 2015 was worse than that in 2014. However, the Company is still in the growth stage and the receivables in 2015 reduced which resulted in net cash inflows of NT$3,586,688.
   (2) Net cash outflows from investment activities: Due to acquisition of financial assets at fair value through profit or loss, disposal of the investment in bonds without active market and new construction of the Company's plant in the Southern Taiwan Sicence Park, the net cash outflow was NT$826,450
   (3) Net cash outflows from financing activities: Except for the cash dividend expected to be released, there were no other major cash outflows or inflows.
2. Countermeasures for expected cash deficiency and liquidity analysis:
   No cash deficiency is expected this year. The Company's cash is sufficient to support its normal business operations.

(4) Analysis of cash liquidity for the coming year: Not applicable

4. **Effects of Key Capital Expenses on Finances and Business:** The construction of HMI's new manufacturing plant located in Tainan Science Park was started in 2013 and will be completed in March 2015. This is expected to substantially increase the production capacity of HMI and will meet the demands for the e-beam inspection tools of the advanced semiconductor processes. On the other hand, the Company has had sound business performance in recent years, so the cash inflows from operating activities are stable and proprietary funds are sufficient for new plant construction.

5. Most recent year trans-investment policy, the main reasons for its profit or loss, improvement plans and the coming year investment plan

(1) HMI's investment plan is in accordance with the Company's internal control system and the "Acquisition or Disposition of Assets Handling Procedures". On the trans-investment management policies, the finance department regularly collects and analyzes the financial statements of the invested enterprises, understands the working conditions of the invested enterprises, and is responsible for the management of matters related to the invested enterprises. Also, HMI has established the "Regulations for the Supervision and Management of Subsidiaries", "Related Party Transaction Policies and Procedures" and "Specific Companies, Conglomerates, and Related Party Transaction Operation Procedures" as the standards to follow with regard to the operation management of the invested enterprises. Following the standards of the "Guidelines for the Establishment of Internal Control Systems of Public Companies", implement the monitoring and management operation of the invested enterprises.

(2) Trans-investment profit analysis:

Unit: NT$1,000

Subsidiaries	Investment policy	2015 Investment Profit & Loss	Main Reasons for Profit or Loss	Improvement Plans	Future Investment Plans
HMI Holdings Inc.	Investment	73,273	Profit & loss in investing HMI Korea, HMI Japan, HMI Investment Corp., and Ansing International LLC.	-	Depends on operating conditions
HMI Investment Corp.	Investment	48,086	Profit & loss in investing in Hermes Microvision, Inc.(USA)	-	Depends on operating conditions
Hermes Microvision, Inc.(USA)	Research and Development Center	48,086	Mainly due to increase in operating revenue and good cost control, resulting in HMI USA gaining profit	-	Depends on operating conditions

Hermes Microvision Korea Inc.	Sales & support services for e-beam inspection tools & components	3,754	Mainly due to increase in operating revenue and good cost control, resulting in HMI Korea gaining profit	-	Depends on operating conditions
Hermes Microvision Japan Inc.	Sales & support services for e-beam inspection tools & components	11,087	Mainly due to increase in operating revenue and good cost control, resulting in HMI Japan gaining profit	-	Depends on operating conditions
Hermes Microvision Co., Ltd. (Beijing)	Research, development, production and technical support services of semiconductor machines and equipment	10,346	Mainly due to increase in operating revenue and good cost control, resulting in HMI Beijing gaining profit	-	Depends on operating conditions

(3) Next year investment plan: None

6. Risk analysis and evaluation issues

(1) The effects of interest rates, changes in exchange rates, and inflation situation on the Company's profit & loss and future countermeasures

1. Interest rate:

In terms of changes in interest rates, the main impact on HMI is the cash flow risk due to interest rate changes. The main reason is the floating rate of fixed-term deposits. With regards to the time period of the fixed-term deposits, HMI normally uses the shorter days of deposit to minimize the impact of floating interest rate and safeguard the assets and maintain its liquidity. Overall, HMI's risk due to changes in the interest rate is minimal.

2. Exchange Rate:

With regards to changes in the exchange rate, the foreign exchange risks came mainly from the U.S. dollars denominated purchases and sales. Aside from using a natural offsetting principle, HMI maintains close contact with the banks and assigned specific persons to gather related information for judging the future trend of exchange rate. HMI also regularly reviews the difference between assets and liabilities in USD and if necessary, undertake a forward foreign exchange contract at the appropriate time or hedging instruments like foreign currency swaps in order to reduce the impact of exchange rate changes on the Company. Please refer to the financial statements for the disclosure regarding foreign exchange sensitivity and risk exposure.

The information on the Company's financial assets and liabilities denominated in foreign currencies and having material influence is as follows:

	Dec. 31, 2015		
	Foreign currency (In thousands of dollars)	Exchange rate	Book value (NTD)
(Foreign currencies: functional monetary)			
Financial assets			
Monetary items			
USD: NTD	$ 90,301	32.825	$2,964,127
JPY: NTD	1,169,623	0.273	318,956
USD: KRW	397	1,167.942	13,038
USD: CNY	783	6.572	25,690
USD: JPY	35	120.370	1,161
Financial liabilities			
Monetary items			
USD: NTD	$ 9,838	32.825	$ 322,777
USD: JPY	165	120.370	5,400
USD: KRW	733	1,167.942	24,073

	Dec. 31, 2014		
	Foreign currency (In thousands of dollars)	Exchange rate	Book value (NTD)
(Foreign currencies: functional monetary)			
Financial assets			
Monetary items			
USD: NTD	$ 195,290	31.650	$6,180,932
USD: JPY	479	119.620	15,149
USD: CNY	1,330	6.220	42,091
Financial liabilities			
Monetary items			
USD: NTD	$10,089	31.650	$319,318
USD: KRW	232	1,082,980	251,670

The analysis on the Company's market risk denominated in foreign currencies and having material influence is as follows:

	2015		
	Profit or loss of exchange		
	Foreign currency (In thousands of dollars)	Exchange rate	Book value (NTD)
(Foreign currencies: functional monetary)			
Financial assets			
Monetary items			
USD: NTD	$ -	32.825	$ 114,694
JPY: NTD	-	0.273	7,072
USD: KRW	1,254	1,167.942	35
USD: CNY	108	6.572	538
Financial liabilities			
Monetary items			
USD: NTD	$ -	32.825	($4,147)
USD: KRW	(15,195)	1,167.942	(427)
USD: JPY	(253)	120.370	(69)

	2014		
	Profit or loss of exchange		
	Foreign currency (In thousands of dollars)	Exchange rate	Book value (NTD)
(Foreign currencies: functional monetary)			
Financial assets			
Monetary items			
USD: NTD	$ -	31.650	$147,824
USD: KRW	(7,287)	1,082.980	(213)
USD: JPY	327	119.61	87
USD: CNY	(30)	6.22	(151)
Financial liabilities			
Monetary items			
USD: NTD	$ -	31.650	($ 5,364)
USD: KRW	(7,489)	1,082,980	(219)

3. Inflation:

In the aspect of inflation, as of the date of printing of the annual report, it did not have significant impact on the Company's business operation. However, the Company will keep a keen eye on any change of the circumstance, and take countermeasures whenever required.

(2) **Risks Associated with High-Risk/High-Leveraged Investment; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions**

The Company has prudent financial management, and has never engaged in high risk and high leverage investment. In addition, the Company has already set up its "regulations governing management of lending capital to others", "regulations governing management of endorsements and guarantees" and "asset acquisition and disposal handling procedure" for its personnel across the Company to comply with. Also, as of the date of printing of the annual report, the Company had not engaged in any high-risk and high-leverage investment, lent its capital to others and given any endorsements or guarantees.

In addition, for the derivative products engaged by the Company, instead of the trading purpose, the Company has held currency forward contracts to hedge the currency risk which may arise from business operations. Furthermore, the Company only deals with qualified banks, so it shall have no material credit risk. Also, the gain or loss on exchange and hedge items can cancel each other out, so the Company shall have no material market risk.

(3) **Future R&D plans and expected R&D spending**

In response to the demands of the FAB manufacturing process diversification and dimensional shrinkage, the constant upgrading of inspection methods to effectively inspect the increasingly smaller defects, immediately and promptly reflect the present situations and analyze the cause of failure hidden within the structure, and thus accelerate the development pace and quickly reach a higher production with high yields. This is the objective of the Company's future development of the next generation e-beam inspection tools and equipment. The Company's future research and development emphasis will focus on the following directions:

1. Continue to improve the image resolution and defect detection rate: Strengthen the electron optical system capability, strengthen the stability of the wafer movement, and strengthen the defect signal to noise ratio (S/N ratio).
2. Continue to improve the defect inspection speed: Enhance the electron optical system processing speed, and improve the computing power of the computer.
3. Continue to improve the computing capability of the advanced pattern matching: With a high resolution e-beam imaging coupled with semiconductor design pattern comparison, the defects can be detected at a glance. The Company will focus on enhancing the computing capability of pattern matching in order to satisfy the stringent demands of the customer for a higher production yield in an advanced manufacturing process.
4. Development of the next generation inspection tools and equipment: In order to comply with the future large demands of the semiconductor companies to use the e-beam inspection technology in replacing the present optical inspection tools, the Company will also develop a breakthrough e-beam inspection technology to satisfy the market application demands for a higher speed and higher resolution inspection tool.

5. The development of newly emerging application of semiconductor technology: The new generation of machines will take into considerations the future cutting-edge technology needed and its application by the semiconductor industry, such as the extreme ultraviolet (EUV) mask defect inspection system, the nanoimprint lithography (NIL) imprint defect inspection, the FinFET 3D transistor structure defect inspection, and other potential technologies that could become the mainstream technology.

   Through constant innovation and R&D, the Company mastered the key technology of wafer inspection tools. In order to maintain its competitiveness in the industry, the R&D expenses for the year 2014 and 2015 was more than NT$ 960 million and NT$ 1190 million respectively. This shows that the Company attaches great importance to the development of technologies. The amount of R&D in the future is forecasted to be maintained for at least 16% to 18% of the operating revenues annually. Depending on the operating conditions and industry trends, the Company will make appropriate adjustment in order to strengthen its competitive advantage in the market. In addition, the Company issued the global depositary receipt in 2013, in which the major purpose to use the capital was for developing new products and working on technology R&D projects. Please refer to page 70 of the annual report for the R&D capital execution progress. In order to release its new products in a timely way so as to match the R&D schedule for the semiconductor process, the Company compiles the expected development progress and related technological layers. For more details, please refer to page 78 of the annual report.

(4) The impact of changes in domestic and foreign policies and laws on the Company's financial operations and response measures

On Apr. 16, 2002, the Executive Yuan, through order Yuan-Tai-Chin-Tzu No. 0910083707, directed the Ministry of Economic Affairs to establish the Semiconductor Industry Promotion Office (SIPO) to be in charge of the overall planning, promotion, and evaluation of the country's semiconductor industry development. At the same time, establish a single window responsible for inter-ministerial coordination, investment promotions, and understand the difficulties being encountered by the investment plans of companies, and actively coordinate at all levels to exclude the investment barriers.

At the present stage, the government is actively promoting the domestic semiconductor industry to proceed in producing high added value products and to undertake technology research and development. It is advocating the domestic self-development of semiconductor facilities, in order to enhance the self-sufficiency capability of the country's semiconductor equipment manufacturers, reducing the degree of reliance on foreign semiconductor equipment, and assist in the technology industrialization and help push the industry momentum. The Company produces the e-beam inspection tools using exclusive leap type scanning inspection and stable electron gun technology and provides the semiconductor manufacturers with a more advanced inspection tool and technology. This assists them in effectively improving the front-end manufacturing process performance. The focus of the Company's future research and development will continue

to center on the next generation inspection tools needed by the semiconductor manufacturing companies. This, in turn, will fit in with the direction of the government's present and future promotion of the semiconductor industry. The Company's business operation complements with the industrial policy of the government. It has a positive effect on the Company's financial operations and it also works together to create a win-win situation.

Furthermore, in accordance with the provisions of the Financial Supervisory Commission, starting 2013, all publicly traded companies shall use the interpretations and announcements of the International Financial Reporting Standards, International Accounting Standards (hereinafter referred to as IFRSs) as well as the Regulations Governing the Preparation of Financial Reports by Securities Issuers in preparing their financial reports. The effects of adopting the IFRSs include changing the ways of expressing certain parts of the accounting treatment and financial reporting. The Company has completed the switch over to the IFRSs reporting according to regulations since 2013. Please refer to the applicable 2013 Consolidated Annual Financial Reports for all the new and revised standards and interpretations.

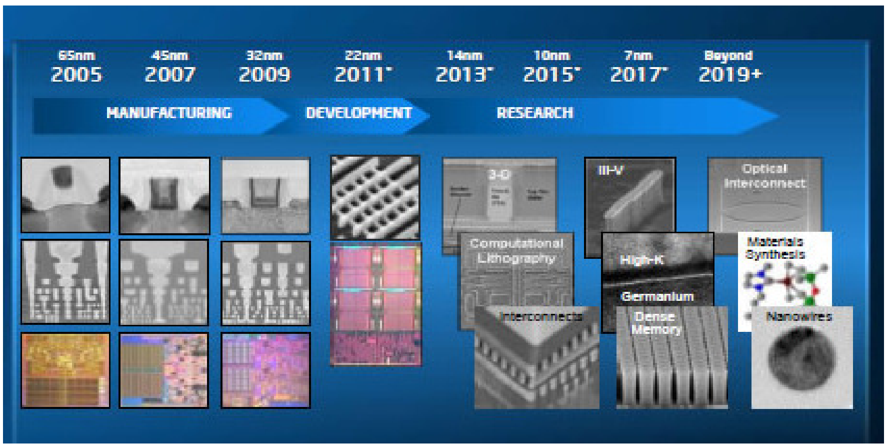
In summary, the Company's daily operations are in compliance with relevant laws and regulations at home and abroad, and the Company always pays attention to the development trend of domestic and foreign policies and the situation changes in laws and regulations. The Company also collects relevant information and disseminates this information to all levels for their policy decision reference in order to adjust the Company's underlying business strategy. So far, the Company has not experienced any significant impact on the Company's financial operations due to important domestic and foreign policy and legal changes.

(5) The effects of technology and industry changes on the Company's financial operations and response measures

1. The effects of future industry technology changes to the Company

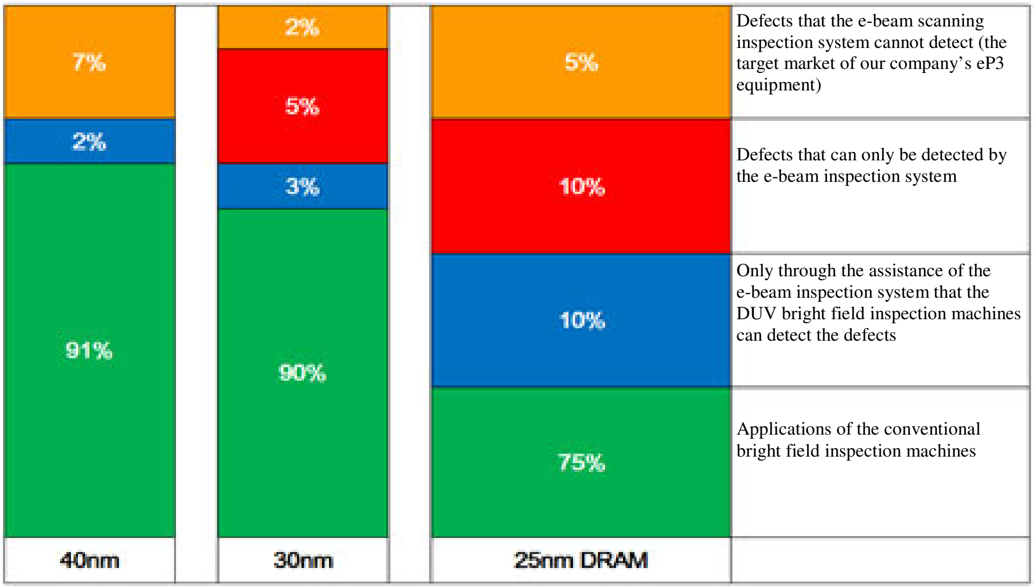
In order to reduce production costs and let the ICs have higher levels of functionalities and processing speed, the design node of the semiconductor industry will evolve towards the trend of miniaturization.

The technology roadmap announced by Intel



Source: Published in June 2011 Intel Technology Roadmap

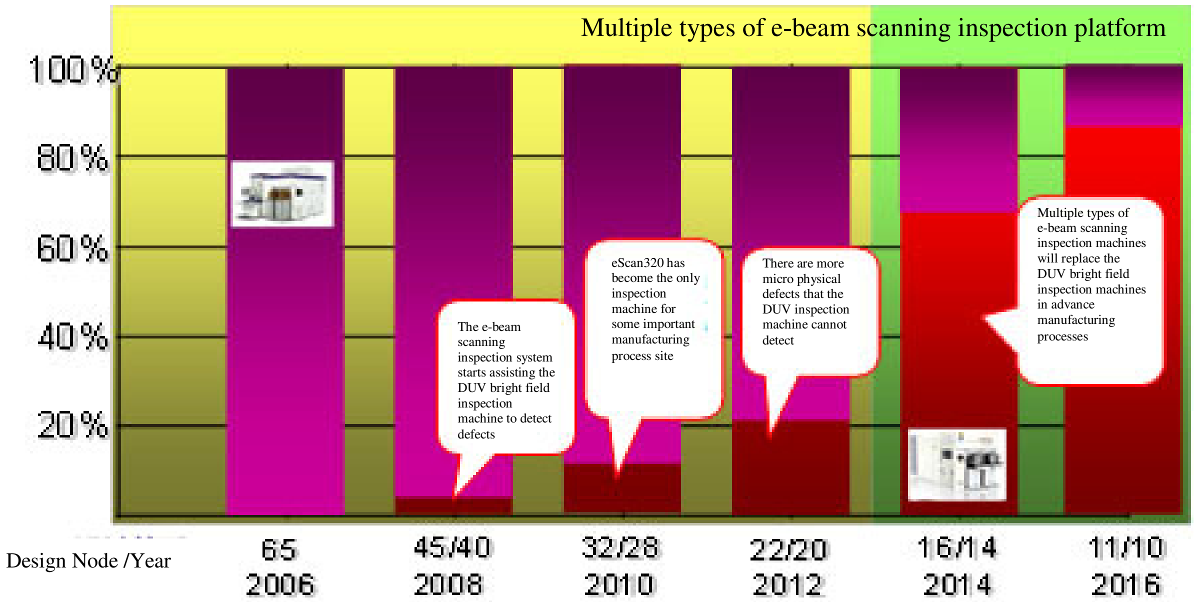
Based on the Intel published technology roadmap in June 2011, it is estimated that by 2013, 2015 and 2017, the manufacturing capabilities will evolve towards the 14 nm, 10 nm and 7 nm geometry respectively. This shows that the manufacturing process line width will become thinner and the demand for better accuracy will increase following the reduction of the manufacturing process line width. As the line width is already thinner than the inspection limits of the conventional optical inspection methods can inspect, and with the increasing density of the IC patterns and complexities of the manufacturing process, it is making the manufacturing process yields of the 45 nm and below geometry face an enormous challenge. Consequently, with the high resolution e-beam inspection system possessed by the Company, the importance to the future advanced manufacturing process development of large semiconductor companies will be especially important.



Source: the Company

Currently, the wafer defect inspection of the FAB production line uses mostly the optical detection tools. However, with the advent of nanotechnology generation, the optical inspection tool starts experiencing bottlenecks in the 90 nm and below manufacturing process. As shown above, using the 25 nm DRAM manufacturing process as an example, 10% of the defects need to be assisted by e-beam inspection tools before the deep ultraviolet (DUV) inspection machines can detect the defects; there are 10% defects that only an e-beam inspection system can detect; and there is another 5% that needs the Company's manufacturing process monitoring system eP3 before it can be detected. Therefore, in the continuing miniaturization of the semiconductor advanced

manufacturing processes, the e-beam inspection tools of the Company will have considerable growth potential. Defect inspection plans as proposed by large advanced semiconductor manufacturers

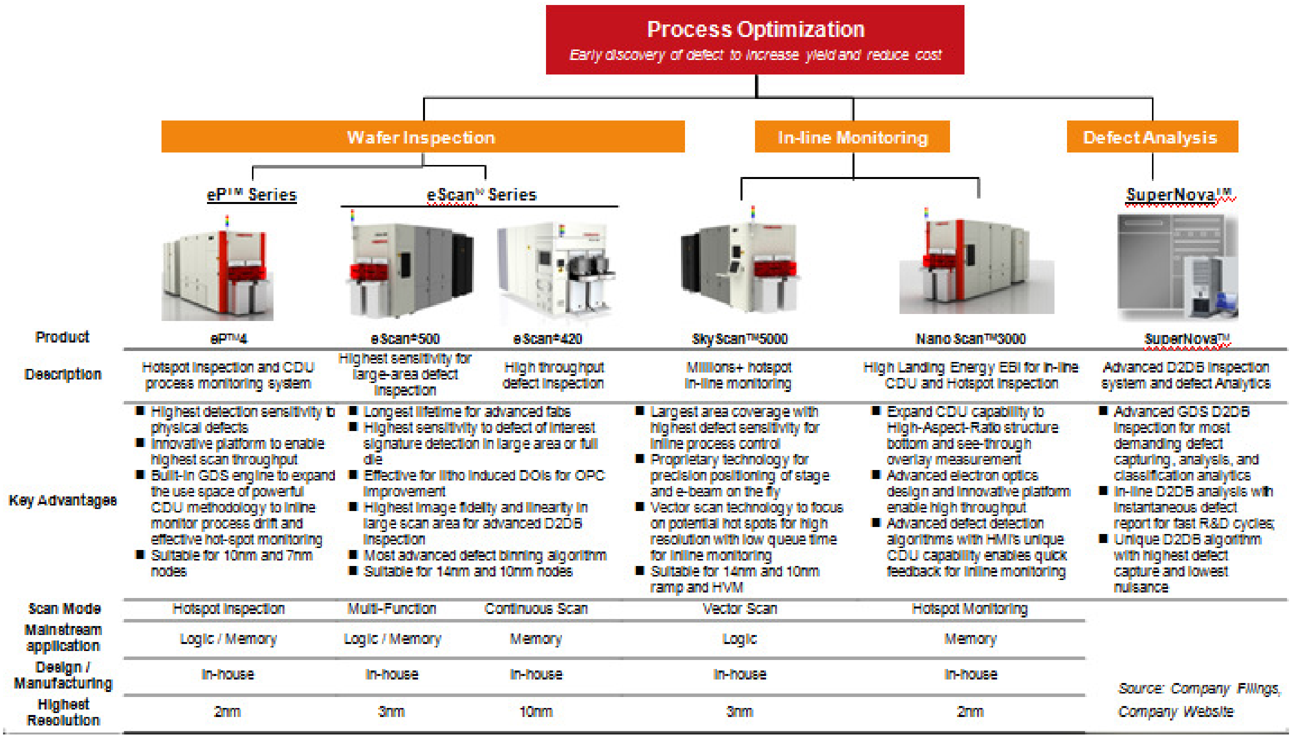


Source: Arranged by the Company

From the defect inspection plans proposed by the large advanced semiconductor manufacturers, we can see that from the design node of 65 nm of 2006 all the way to the 45/40 nm of 2008, 32/28 nm of 2010, and in the coming years of 2012, 2014, and 2016, the design nodes will continue to shrink to the 22/20 nm, 16/14 nm, and 11/10 nm geometry. Due to the fact that, from 45 nm and below manufacturing processes, the conventional optical image inspection method cannot already clearly detect the wafer defects, plus the density of the IC design and manufacturing processes becoming increasingly complex, therefore the e-beam inspection tools with high resolution functions produced by the Company will become an indispensable important weapon for the manufacturing process development of the large semiconductor manufacturing companies.

2. The Company's response measures

Due to the advances in technology and in response to the e-beam scanning pixel size and design node going towards the trend of miniaturization, the Company has already provided a number of different models of products with special characteristics to cope with the industry technology changes and meet the different needs of the customers.



Source: Arranged by the Company

From the above chart, we can see that in the continuous scanning series, the Company has introduced the eScan 400, which was heavily adopted by memory manufacturers; in the leap scans series, the Company has already launched the eScan 310, eScan 315, eScan 315xp and the eScan 320 one after another, providing customers with e-beam scan pixel size of 5 nm leading technology equipment to help fab users to manage yield rate effectively in 28/20nm node; in hotspot inspection series, HMI provided eP4 with 2nm resolution to address advanced technology nodes in-line monitoring market, To meet clients' requirements for the most advanced process below 10 nm. Nevertheless, the combined leap scans and continuous type integrated system equipment eScan 500 and NGP (Next Generation Platform) were also successfully introduced into the market in late 2013. eScan 500 is the new flagship model directed at the design node of 16/14 nm manufacturing process wafer inspection machine and it shows that the R&D technology and machine integration capability of the Company is remarkable. The Company can also respond to technology changes and continue to introduce new models of e-beam scanning machines with higher resolutions that meet the demand for a continually growing smaller pixel size machine in the market. eScan500 is the latest generation multi-functions model evolving from eScan320 and eScan400. To better capture defects along with geometry migration, the image resolution of the eScan500 is enhanced by more than 30% compared to the eScan320. At the same time, it combines our LeapNscan technology and together with the Continuous Scan and hot spot inspection function, it allows our clients to have more flexibility and efficiency

when doing wafer inspection, and eventually increase productivity.

SkyScan5000 is a new product developed in 2015. It was developed to meet the requirements for massive hotspot inspection in in-line monitoring with a hotspot inspection speed topping hundreds of thousands spots per hour at the most. It is, by far, the fastest e-beam hotspot inspection model in the industry. In conjunction with the advanced electron gun technology, vector scan, and massive deflection technology, it may execute quick and precise hotspot defect inspection according to the GDS graph and have the lowest electrical interference. As such, SkyScan5000 can provide more efficient resolutions for clients' hotspot defect inspection.

In summary, the Company's industry leading high resolution e-beam scanning machine development time frame fully supports, and even exceeds, the technology development blueprint of the large semiconductor manufacturing companies. Therefore, when large semiconductor manufacturing companies study the advanced manufacturing process development in the future, they will rely more on the e-beam scanning inspection machines launched by the Company. However, for the semiconductor manufacturers to maintain their technological leadership during the economic downturn, they will have to unceasingly develop more advanced manufacturing processes in order to continue their competitiveness and pull away from their competitors when the economy improves. Therefore, the R&D trend of the semiconductor manufacturers will not stop their development of new manufacturing processes during fluctuations of the economy. The economic cycles of the industry will not produce significant fluctuations for the Company. The Company already has a plan in response to the future technology changes in the industry. The tools and equipment produced by the Company are in line with the future development of the semiconductor manufacturing processes and in accordance with its plans, research, development and manufacture, so that the financial operations of the Company will not be greatly affected by any changes in the technology industry.

The main products of the Company have been widely accepted by our customers and the market demand continues to expand. The Company is also actively increasing its production capacity and R&D capability and we also have in our grasp the industry developments and the information of our peers in the market. We adopt prudent financial management strategy in order to maintain our market competitiveness. The Company will continue to pay attention to the future science and technology related changes and situations, and to assess its impact on Company's operations, and make corresponding adjustments to

strengthen the Company's business development and financial position.

(6) Changes in Corporate Image and Impact on Company's Crisis Management

The Company always upholds the principles of integrity and professional management, attach great importance to the corporate image and risk management, and there were no major events that affected the Company's corporate image.

(7) Risks Associated with Mergers and Acquisitions

The Company has no present plans of mergers and acquisitions. Should there be any merger and acquisition plans in the future, the Company shall maintain an attitude founded on the basis of intrinsic careful assessment, taking into considerations whether the mergers or acquisitions will bring specific and comprehensive benefits to the Company in order to protect the interests of the Company and the shareholders' rights and interests.

(8) The expected benefits of the plant expansion, possible risks and response measures

The Company has used its owned fund to expand its plant and invested in production equipment in order to upgrade its production capacity. The effect, as of the annual report publication date, showed compliance with the expectation.

(9) Concentration risk of purchases or sales and the response measures

1. The risk of purchase concentration

The product of the Company is the e-beam inspection tool and it is mainly used in the inspection of defects through scanning of the wafer. The e-beam related modules are the key modules of the Company. It mainly consists of the power supply and the electron gun module. The e-beam inspection tools system was the original design of the Company and more than 80% of the key modules are manufactured within our own group of companies. The main items of materials purchased are the wafer transfer or carrier module, e-beam assembly, and the vacuum system components. The purchase amount of the Company in the recent three years coming from a single supplier accounting for more than 10% of the total purchases consists of only one supplier and the purchased amount was less than 15% of the annual consolidated net purchases. This doesn't constitute a purchase concentration and there were no significant unusual transactions. If it is ordinary components, the Company will always maintain 2 or more suppliers in principle and they will be those who have frequent contacts with us and are the more stable cooperative suppliers.

<u>Response measures:</u>

When making any procurement, aside from following the normal procedure of price inquiries and comparisons to select the best quality products and good stable supply sources of vendors, the Company also always observes the changes in the market situation and tries to understand the market price. We also conduct price negotiations with our existing suppliers to reduce our purchase costs from time to time.

2. The risk of Sales Concentration

The Company is an upstream semiconductor equipment supplier. In response to the different needs of the equipment users, the Company needs to plan and design special machines based on their key technologies, plant configurations and manufacturing processes. The Company has the experience of integrating hardware and software

systems and after sales maintenance capabilities that meet the needs of the users. Due to the fact that the equipment produced by the Company are customized, with high precision and high price characteristics, it is easy to have a situation where sales concentration may happen if during the current year the customer has a plant expansion and capital expenditure plans and then accordingly purchase related equipment in big volumes. However since 2013, the Company already has a good understanding and grasp of important American customers, and there were no customers, including the semiconductor manufacturing companies with advanced manufacturing processes, who have the situation of sales concentration.

Response measures:

In addition to the establishment of good working relationship with the existing customer base, the Company also actively develops new customers at home and abroad in order to reduce the risks of sales concentration.

(10) The impact, risks and response measures on the transfer or replacement of the Company equity by the Company directors, supervisors, or major shareholders holding more than 10% of the Company's equity shares.

All the transfers or replacements of the Company's equity shares by the directors follow the relevant laws and regulations for equity trading and they don't have any significant impact on the Company's operations.

(11) The impact, risks, and response measures of the change in management team of the Company

The Company's management team is committed to the sustainable development of the Company and in the recent years up to the publication of the annual report, there were no changes in the management team of the Company.

(12) Court Cases

1. From the recent years up until the annual report publication date, legal cases of the Company with decisions rendered or presently still under litigation, non-litigation, or administrative litigation where the results of which may impact materially the rights and interests of the shareholders or the price of the securities, then the facts of the disputes, the amount involved in the litigation, the start date of the litigation, the major parties involved in the suit, and how it is presently being handled should be disclosed: None.
2. The Company directors, supervisors, president, and the real person in charge of the Company holding more than 10% of the Company's equity shares or its affiliated companies, who are with legal cases with decisions already rendered or presently still under litigation, non-litigation, or administrative litigation, the results of which may impact materially the rights and interests of the shareholder or the price of the securities: None.

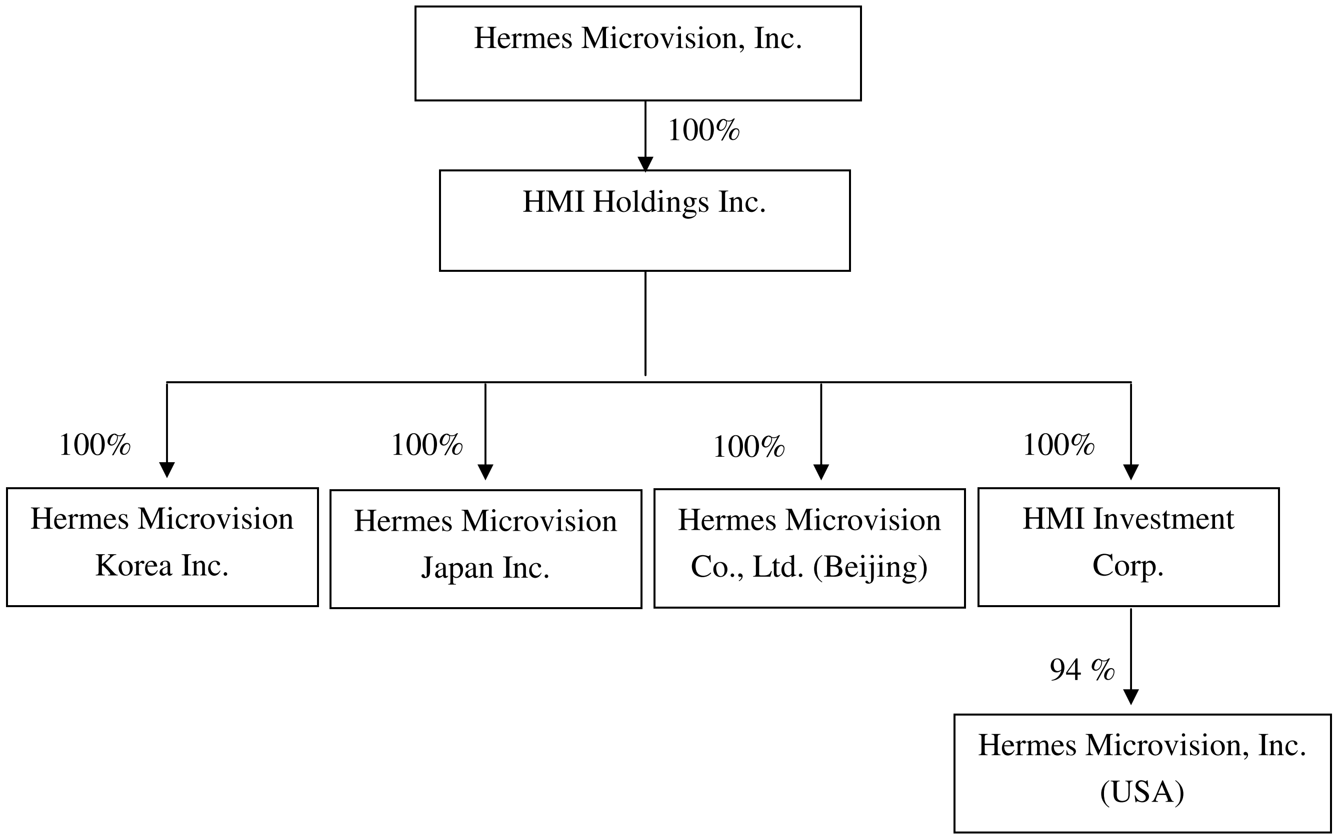
(13) Other important risks and response measures: None.

7. Other material risks: None.

VIII. Other Special Notes

1. HMI Affiliates

(1) HMI affiliated companies chart



(2) HMI Affiliated Companies

Dec. 31, 2015

Company Name	Date of Incorporation	Address	Paid-in Capital Stock	Major Business
Hermes Microvision, Inc.(USA)	Mar. 29, 2004	1762 Automation Parkway, San Jose, CA95131 USA	USD31,179 thousand	Research and Development Center
HMI Holdings Inc.	June 16, 2008	Level 2, Lotemau Centre, Vaea Street, Apia, Samoa	USD28,147 thousand	Investment
Hermes Microvision Korea Inc.	Sep. 19, 2008	2nd floor, Taeyang Building, 345-3, Banwol-dong, Hwasung-si, Kyungki-do, South Korea, 445-330	USD66 thousand	Sales & support services for e-beam inspection tools & components
Hermes Microvision Japan Inc.	Nov. 19, 2008	3F Cuore Ebisu, 4-11-9, Ebisu, Shibuyaku, Tokyo, Japan	JPY149,000 thousand	Sales & support services for e-beam inspection tools & components
Hermes Microvision Co., Ltd. (Beijing)	May 18, 2009	3rd Floor, No. 8 Liye Road, Beijing International Information Industry Base, Dingsi Road, Changping District, Beijing	-(Note1)	Research, development, production and technical support services of semiconductor machines and equipment
HMI Investment Corp.	Oct. 31, 2014	Portcullis TrustNet Chambers, Maxkar Building, P.O.Box 1225, Apia,Samoa.	USD21,547 thousand	Investment

Note 1: A limited company, the Company does not hold any equity shares

(3) In accordance with the Article 369-3 of the Company Act, if there is a presumption of controlling and subordinate relationship, it shall disclose the following items: None

(4) The industries covered by the business operations of the overall interrelated business enterprises or affiliated companies. The business operations with interconnections between the various affiliated companies should explain the division of labor among those companies:

Research, development, design, manufacture and sales of e-beam inspection tools and the technical support and services. For the division of labor among the affiliated companies, please look at (2) above for the basic information of each affiliated company.

(5) List of Directors, Supervisors and Presidents of HMI's Affiliated Companies

As of Dec. 31, 2015; Unit: share; %

Company Name	Title	Name or representative	Holding share	
			Shares	% of holding
Hermes Microvision, Inc.(USA)	Responsible Person	Hwang, Ming-Chi	-	-
	Director	Shu, Chin-Yung	-	-
	Director	Jau, Jack Ying Chia	20,000	0.03
	President	Chen, Chung-Wei	12,500	0.02
HMI Holdings Inc.	Director	Pan, Chung-Shih	-	-
	Director	Shen, Hsiao-Lien	-	-
Hermes Microvision Korea Inc.	Responsible Person	Hwang, Ming-Chi	-	-
	Director	Shu, Chin-Yung	-	-
	Director	Jack Y. Jau	-	-
	Supervisor	Chen, Ming	-	-
Hermes Microvision Japan Inc.	Responsible Person	Eguchi, Naoyuki	-	-
	Director	Hwang, Ming-Chi	-	-
	Director	Shu, Chin-Yung	-	-
	Supervisor	Chen, Ming	-	-
Hermes Microvision Co., Ltd. (Beijing)	Chairman	Chen, Chung-Wei	-	-
	Director	Wang, Yi-Hsiang	-	-
	Director	Shen, Hsiao-Lien	-	-
	Supervisor	Pan, Chung-Shih	-	-
HMI Investment Corp.	Director Director	Pan, Chung-Shih Shen, Hsiao-Lien	-	-

(6) Operating status of respective affiliated enterprises

As of Dec. 31, 2015; Unit: NT$1,000

Name	Capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating profit	Profit or loss for the period (After tax)	EPS (NTD)
HMI Holdings Inc.	861,591	1,044,180	-	1,062,726	-	-	73,273	-
Hermes Microvision Korea Inc.	2,140	66,250	46,260	19,990	120,282	7,024	3,754	-
Hermes Microvision Japan Inc.	52,574	458,867	391,439	67,428	1,060,136	14,347	11,087	-
Hermes Microvision Co., Ltd. (Beijing)	133,738	305,225	138,398	166,827	433,622	25,291	10,346	-
HMI Investment Corp.	654,592	789,934	-	789,934	-	-	48,086	-
Hermes Microvision, Inc.(USA)	665,970	1,488,469	645,165	843,304	2,373,722	143,867	51,334	-

End-of-period exchange rate: USD1=NTD32.825, and JPY 1=NTD 0.2727

2. Private placement of securities in the latest year and as of the date of printing of the annual report: None

3. Subsidiary's holding or disposal of the Company's stock in the latest year and the date of printing of the annual report: None

4. Other supplementary explanations: None

IX. Any matters covered in Subparagraph 2 of Paragraph 2 of Article 36 of the Securities and Exchange Act occurred in the latest year and as of the date of printing of the annual report, which significantly impacted shareholders' equity and price of securities: None

Hermes Microvision, Inc.
Statement of Internal Control System

Date: Mar. 1, 2016

Based on the results of self-examination, I would like to state the following regarding the Internal Control System of the Company for the year 2015:

1. The Company ascertains that the establishment, implementation and maintenance of the internal control system are the duty and responsibility of the Company's board of directors and managers and the Company has already established such a system. Its aim is to provide a reasonable assurance that the effectiveness and efficiency of business operations (including profitability, performance and security of assets), report the achievement of the goal for reliability, timeliness, transparency and compliance with related rules and relevant laws and regulations.
2. Any internal control system has its inherent limitations, no matter how well it was designed. An effective internal control system can only provide a reasonable assurance that the above mentioned three targets were accomplished and due to changes in environments and circumstances, the effectiveness of the internal control system may change as well. Provided that the Company's internal control system has a self-monitoring mechanism, and when a deficiency is identified, the Company immediately takes a corrective action.
3. Based on the items determining the effectiveness of the internal control system under the provisions of the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter called "Guidelines"), the Company determines whether the design and implementation of the internal control system are effective or not. The items determining the effectiveness of the internal control system adopted by the above mentioned "Guidelines" were based on the process of the management control, and divide the internal control system into five components: 1. Control environment, 2. Risk assessment, 3. Control operations, 4. Information and communication, and 5. Supervision operations. Each component contains several items. For the aforementioned items, please refer to the provisions of the "Guidelines".
4. The Company has already adopted the above mentioned items that determine the effectiveness of the internal control system and for it to examine the effectiveness of the Company's design and implementation of the internal control system.
5. Based on the findings of the preceding paragraph, the Company believes that, as of Dec. 31, 2015, the internal control system (including the supervision and management of the subsidiaries), including the degree of attainment of its operational effectiveness and efficiency goals, report effectiveness of the design

and execution of the internal control system in relation to reliability, timeliness, transparency and compliance with related rules and relevant laws and regulations. the reliability of the financial reports and related regulatory compliance related to the design and implementation of the internal control system, was effective and it can reasonably ensures the achievement of the above mentioned objectives.

6. This statement will become an important part of the Company's annual report and prospectus and it will be disclosed to the public. Should there be any false information, omissions or other illegalities in the above public disclosure, it will involve legal liabilities as cited in Article 20, Article 32, Article 171 and Article 174 of the Securities Exchange Act.
7. This statement was approved by the board of directors of this Company on Mar. 1, 2016. Of the 9 directors present, there were no dissenting votes and the contents of this statement was approved by all present and we are hereby making this declaration.

Hermes Microvision, Inc.

Chairman: Shu, Chin-Yung

President: Pan, Chung-Shih

The Audit Committee Audit Report

The Board of Directors has made and prepared the 2015 Business Report, Earnings Distribution Proposal, Financial Statements, and the Consolidated Financial Statements (including Balance Sheet, Statement of Income, Statement of Changes in Shareholders' Equity, Statement of Cash Flows) and other statistical forms. After being checked by the Audit Committee and believing that there was no incompatibility, therefore, in accordance with the provisions Article 14-4 of the Securities Exchange Act and Paragraph 1 of Article 219 of the Company Act we made a revised final copy of this report.

For your approval.

Sincerely yours,

Hermes Microvision Inc. 2016 Regular Shareholders' Meeting

Audit Committee Convenor: Hu, Han-Liang

(Hu, Han-Liang)

Mar. 1, 2016

Appendix: Financial Statement

HERMES MICROVISION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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

REPORT OF INDEPENDENT ACCOUNTANTS

PWCR15000132

To Hermes Microvision, Inc.

We have audited the accompanying consolidated balance sheets of Hermes Microvision, Inc. and its subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's managements. Our responsibility is to express a conclusion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hermes Microvision, Inc. and its subsidiaries as of December 31, 2015 and 2014, and their financial performrmance and cash flows for the years then ended in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

We have also audited the parent company only financial statements of Hermes Microvision, Inc. as of and for the years ended December 31, 2015 and 2014. In our report dated March 1, 2016, we expressed an unqualified opinion on these financial statements.

PricewaterhouseCoopers, Taiwan

PricewaterhouseCoopers, Taiwan
Hsinchu, Taiwan
Republic of China

March 1, 2016

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2015 AMOUNT	%	December 31, 2014 AMOUNT	%
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 8,559,779	51	$ 7,396,471	49
1110	Financial assets at fair value through profit or loss - current	6(2)	-	-	1,101,805	7
1147	Investments in debt instrument without active markets	6(4)	2,828,250	17	1,266,000	8
1170	Accounts receivable, net	6(5)	1,329,965	8	2,661,783	18
1180	Accounts receivable - related parties	7	29,332	-	20,134	-
1200	Other receivables		3,760	-	7,306	-
130X	Inventories, net	6(6)	2,634,265	16	1,744,812	12
1410	Prepayments		160,236	1	94,412	1
1470	Other current assets		60,856	-	4,851	-
11XX	**Current Assets**		15,606,443	93	14,297,574	95
	Non-current assets					
1523	Available - for - sale financial assets - noncurrent	6(3)	32,524	-	7,450	-
1550	Investments accounted for under equity method		-	-	-	-
1600	Property, plant and equipment, net	6(7)	975,021	6	749,531	5
1780	Intangible assets	6(8)	25,203	-	12,357	-
1840	Deferred income tax assets		56,638	1	50,129	-
1900	Other non - current assets		9,452	-	9,435	-
15XX	**Non - current assets**		1,098,838	7	828,902	5
1XXX	**Total assets**		$ 16,705,281	100	$ 15,126,476	100

(Continued)

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	December 31, 2015 AMOUNT	%	December 31, 2014 AMOUNT	%
	Current liabilities					
2170	Accounts payable		$ 106,129	1	$ 177,559	1
2200	Other payables	6(9)	1,690,655	10	1,080,525	7
2220	Other payables - related parties	7	43,663	-	78,177	-
2230	Current income tax liabilities		182,404	1	267,987	2
2250	Provisions for liabilities - current	6(12)	1,808,182	11	1,471,138	10
2300	Other current liabilities		105,292	-	87,053	1
21XX	**Current Liabilities**		3,936,325	23	3,162,439	21
	Non-current liabilities					
2570	Deferred income tax liabilities		16,586	-	12,147	-
2600	Other non - current liabilities	6(10)	116,103	1	76,926	-
25XX	**Non - current liabilities**		132,689	1	89,073	-
2XXX	**Total Liabilities**		4,069,014	24	3,251,512	21
	Equity					
	Equity attributable to owners of parent company					
	Share capital					
3110	Share capital - common stock	6(13)	710,000	4	710,000	5
3200	Capital surplus	6(14)	5,436,908	33	5,431,196	36
	Retained earnings	6(15)				
3310	Legal reserve		789,999	5	466,206	3
3350	Unappropriated retained earnings		5,574,668	33	5,170,809	34
	Other equity interest	6(16)				
3400	Other equity interest		71,323	1	49,650	-
31XX	**Equity attributable to owners of the parent company**		12,582,898	76	11,827,861	78
36XX	**Non - controlling interest**		53,369	-	47,103	1
3XXX	**Total equity**		12,636,267	76	11,874,964	79
	Significant contingent liabilities and unrecognised contract commitments	9				
3X2X	**Total liabilities and equity**		$ 16,705,281	100	$ 15,126,476	100

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share amount)

	Items	Notes	2015 AMOUNT	2015 %	2014 AMOUNT	2014 %
4000	**Operating revenue**	6(17) and 7	$ 6,651,805	100	$ 7,209,650	100
5000	**Operating costs**	6(6)	(1,975,436)	(30)	(2,143,885)	(30)
5900	**Net operating margin**		4,676,369	70	5,065,765	70
	Operating expenses	6(20)(21) and 7				
6100	Selling expenses		(541,434)	(8)	(518,097)	(7)
6200	General and administrative expenses		(469,907)	(7)	(358,202)	(5)
6300	Research and development expenses		(1,194,282)	(18)	(961,186)	(13)
6000	**Total operating expenses**		(2,205,623)	(33)	(1,837,485)	(25)
6900	**Operating profit**		2,470,746	37	3,228,280	45
	Non-operating income and expenses					
7010	Other income	6(18)	78,225	1	102,553	1
7020	Other gains and losses	6(19)	213,363	4	323,710	5
7000	**Total non-operating income and expenses**		291,588	5	426,263	6
7900	**Profit before tax**		2,762,334	42	3,654,543	51
7950	Income tax expense	6(22)	(440,586)	(7)	(412,607)	(6)
8200	**Profit for the year**		$ 2,321,748	35	$ 3,241,936	45
	Other comprehensive income for the year					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Actuarial loss on defined benefit plan		($ 38,291)	-	($ 8,842)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		6,509	-	1,503	-
	Components of other comprehensive income that will be reclassified to profit or loss					
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Cumulative translation differences of foreign operations		31,074	-	44,455	-
8399	Income tax relating to the components of other comprehensive income	6(22)	(4,439)	-	(7,105)	-
8360	**Summary of components of other comprehensive income that will be reclassified to profit or loss**		26,635	-	37,350	-
8300	**Other comprehensive income for the year**		($ 5,147)	-	$ 30,011	-
8500	**Total comprehensive income for the year**		$ 2,316,601	35	$ 3,271,947	45
	Profit, attributable to:					
8610	Equity holders of the parent company		$ 2,321,434	35	$ 3,237,928	45
8620	Non-controlling interest		314	-	4,008	-
	Profit for the year		$ 2,321,748	35	$ 3,241,936	45
	Total comprehensive income attributable to:					
8710	Equity holders of the parent company		$ 2,311,325	35	$ 3,265,282	45
8720	Non-controlling interest		5,276	-	6,665	-
	Total comprehensive income for the year		$ 2,316,601	35	$ 3,271,947	45
	Earnings per share					
9750	**Basic earnings per share**	6(23)	$ 32.70		$ 45.60	
9850	**Diluted earnings per share**	6(23)	$ 32.64		$ 45.55	

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars)

		Equity attributable to owners of the parent								
				Retained Earnings						
	Notes	Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation differences of foreign operations	Total	Non-controlling interest	Total equity
For the year ended December 31, 2014										
Balance at January 1, 2014		$ 710,000	$ 5,427,023	$ 231,846	$ 4,144	$ 3,306,436	$ 14,957	$ 9,694,406	$ 38,626	$ 9,733,032
Distribution of 2013 earnings										
Legal reserve		-	-	234,360	-	(234,360)	-	-	-	-
Reversal of special reserve		-	-	-	(4,144)	4,144	-	-	-	-
Cash dividends		-	-	-	-	(1,136,000)	-	(1,136,000)	-	(1,136,000)
Profit for the year		-	-	-	-	3,237,928	-	3,237,928	4,008	3,241,936
Other comprehensive income for the year	6(16)	-	-	-	-	(7,339)	34,693	27,354	2,657	30,011
Adjustments arising from changes in percentages of ownership in subsidiary	6(14)	-	4,173	-	-	-	-	4,173	1,812	5,985
Balance at December 31, 2014		$ 710,000	$ 5,431,196	$ 466,206	$ -	$ 5,170,809	$ 49,650	$ 11,827,861	$ 47,103	$ 11,874,964
For the year ended December 31, 2015										
Balance at January 1, 2015		$ 710,000	$ 5,431,196	$ 466,206	$ -	$ 5,170,809	$ 49,650	$ 11,827,861	$ 47,103	$ 11,874,964
Legal reserve		-	-	323,793	-	(323,793)	-	-	-	-
Cash dividends		-	-	-	-	(1,562,000)	-	(1,562,000)	-	(1,562,000)
Profit for the year		-	-	-	-	2,321,434	-	2,321,434	314	2,321,748
Share-based payment transaction		-	3,399	-	-	-	-	3,399	-	3,399
Other comprehensive income for the year	6(16)	-	-	-	-	(31,782)	21,673	(10,109)	4,962	(5,147)
Adjustments arising from changes in percentages of ownership in subsidiary	6(14)	-	2,313	-	-	-	-	2,313	990	3,303
Balance at December 31, 2015		$ 710,000	$ 5,436,908	$ 789,999	$ -	$ 5,574,668	$ 71,323	$ 12,582,898	$ 53,369	$ 12,636,267

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	Notes	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated profit before tax for the year		$ 2,762,334	$ 3,654,543
Adjustments to reconcile profit before tax to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Provision for doubtful accounts		-	7,505
Depreciation	6(7)(20)	79,642	57,322
Amortization	6(8)(20)	8,203	5,110
Revaluation of financial assets at fair value	6(19)	(6,063)	(1,805)
Loss on disposal of property, plant, equipment and intangible assets	6(19)	638	(27)
Compensation cost of employee stock option	6(11)(21)	5,436	2,817
Compensation cost of stock appreciation right	6(11)(21)	840,603	573,702
Interest income	6(18)	(68,342)	(70,115)
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Accounts receivable		1,331,819	(1,104,891)
Accounts receivable - related parties		(9,198)	(6,767)
Other receivables		3,219	10,302
Inventories		(884,051)	(192,628)
Prepayments		72,712	(56,734)
Other current assets		(56,003)	28,900
Net changes in liabilities relating to operating activities			
Accounts payable		(71,430)	27,856
Accounts payable - related parties		-	(328)
Other payables		(188,734)	(129,957)
Other payables - related parties		(34,514)	(9,446)
Provisions for liabilities		337,044	498,879
Other current liabilities		18,239	82,114
Other non - current liabilities		886	(2,132)
Cash generated from operations		4,142,440	3,374,220
Interest received		68,668	69,844
Income tax paid		(624,420)	(314,454)
Net cash provided by operating activities		3,586,688	3,129,610
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in financial assets at fair value through profit or loss		1,107,868	(1,100,000)
Proceeds from disposal of bond investments without active markets-current		(1,562,250)	1,625,085
Acquisition of available - for - sale financial assets - non - current		(25,074)	(3,038)
Acquisition of property, plant and equipment		(326,170)	(489,032)
Proceeds from disposal of property, plant, equipment and intangible assets		160	38
Acquisition of intangible assets	6(8)	(20,966)	(6,618)
Increased in deposits - out		(18)	(632)
Net cash (used in) provided by investing activities		(826,450)	25,803
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid		(1,562,000)	(1,136,000)
Proceeds from the exercise of subsidiaries' employees stock option		1,265	-
Net cash used in financing activities		(1,560,735)	(1,136,000)
Effect of fluctuations in exchange rate		(36,195)	6,356
Increase in cash and cash equivalents		1,163,308	2,025,769
Cash and cash equivalents at beginning of year	6(1)	7,396,471	5,370,702
Cash and cash equivalents at end of year	6(1)	$ 8,559,779	$ 7,396,471

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANIZATION

Hermes Microvision, Inc. (the "Company") was incorporated on May 19, 2003. The Company and its subsidiaries (collectively referred herein as the "Group") are engaged in the research, development, design, manufacturing and sale of precision instruments and machinery (electronic inspection equipment). The Company's stock was listed on the Taipei Exchange or Emerging Stock Market (formerly named GreTai Securities Market), effective from May 21, 2012. The Company obtained the certification of Corporate Governance Assessment 6009 by Taiwan Corporate Governance Association on September 30, 2014.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 1, 2016.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

According to Financial-Supervisory-Securities-Auditing No. 1030010325 issued by FSC on April 3, 2014, commencing 2015, companies with shares listed on the TWSE or traded on the Taipei Exchange or Emerging Stock Market shall adopt the 2013 version of IFRS (not including IFRS 9, 'Financial instruments') as endorsed by the FSC and Regulations Governing the Preparation of Financial Reports by Securities Issuers effective January 1, 2015 (collectively referred herein as the "2013 version of IFRS") in preparing the consolidated financial statements. The impact of adopting the 2013 version of IFRS is listed below:

A. IAS 19 (revised), 'Employee benefits'

The revised standard makes amendments that net interest amount, calculated by applying the discount rate to the net defined benefit asset or liability, replaces the finance charge and expected return on plan assets. The revised standard eliminates the accounting policy choice that the actuarial gains and losses could be recognised based on corridor approach or recognised in profit or loss. The revised standard requires that the actuarial gains and losses can only be recognised immediately in other comprehensive income when incurred. Past service cost will be recognised immediately in the period incurred and will no longer be amortised using straight-line basis over the average period until the benefits become vested. An entity is required to recognise

termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognises any related restructuring costs, rather than when the entity is demonstrably committed to a termination. Additional disclosures are required for defined benefit plans.

B. IAS 1, 'Presentation of financial statements'

The amendment requires entities to separate items presented in OCI classified by nature into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently when specific conditions are met. If the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified and those that will not be reclassified) must be shown separately. Accordingly, the Group will adjust its presentation of the statement of comprehensive income.

C. IFRS 12, 'Disclosure of interests in other entities'

The standard integrates the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. Also, the Group will disclose additional information about its interests in consolidated entities and unconsolidated entities accordingly.

D. IFRS 13, 'Fair value measurement'

The standard defines fair value as 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 standard sets out a framework for measuring fair value from market participants' perspective, and requires disclosures about fair value measurements. For non-financial assets only, fair value is determined based on the highest and best use of the asset. Based on the Group's assessment, the adoption of the standard has no significant impact on its consolidated financial statements, and the Group will disclose additional information about fair value measurements accordingly.

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

None.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the 2013 version of IFRS as endorsed by the FSC：

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1,2017
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

The Group is assessing the potential impact of the new standards, interpretations and amendments above. The impact will be disclosed when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

A.Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:

(a)Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(b)Available-for-sale financial assets measured at fair value.

(c)Liabilities on cash-settled share-based payment arrangement measured at fair value.

(d)Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

(a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing

control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of subsidiary	Main Business Activities	Percentage of Ownership December 31, 2015	Percentage of Ownership December 31, 2014	Note
Hermes Microvision Inc.	HMI Holdings Inc.	Investment holdings	100	100	-
HMI Holdings Inc.	Hermes Microvision Korea Inc.	Marketing of e-Beam inspection equipment and its components and related technical support services	100	100	-
HMI Holdings Inc.	Hermes Microvision Japan Inc.	Marketing of e-Beam inspection equipment and its components and related technical support services	100	100	-
HMI Holdings Inc.	Ansing International LLC.	Investment holdings	-	100	Note
HMI Holdings Inc.	HMI Investment Corp.	Investment holdings	100	100	-
HMI Holdings Inc.	Hermes Microvision Co., Ltd. (Beijing)	Research, development and manufacturing of semiconductor machinery and equipment and related technical support services	100	-	Note
Ansing International LLC.	Hermes Microvision, Co., Ltd. (Beijing)	Research, development and manufacturing of semiconductor machinery and equipment and related technical support services	-	100	Note
HMI Investment Corp.	Hermes Microvision, Inc.	Research and development center	94	94	Note
Hermes Microvision Inc.	Hermes Microvision, Inc.	Research and development center	-	-	Note

Note: In consideration of the operation of the group, the Board of Directors had approved the adjustment in the group structure. As a result, investments in subsidiaries are made through HMI Holdings Inc.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company’s functional currency and the Group’s presentation currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) All foreign exchange gains and losses are presented in the statement of comprehensive income within “other gains and losses”.

B. Translation of foreign operations

(a) The operating results and financial position of all the group entities, associates and jointly controlled entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that periods; and

iii. All resulting exchange differences are recognized in other comprehensive income.

(b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation.

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realized within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be paid off within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be paid off within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash and cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known

amount of cash and which are subject to an insignificant risk of changes in value.

(7) Financial asset at fair value through profit or loss

A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(a) Hybrid (combined) contracts; or

(b) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

C. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss.

(8) Loans and receivables

A. Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, since short-term accounts receivable without bearing interest, are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

B. Bond investments without active market

(a) Bond investments without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:

i. Not designated on initial recognition as at fair value through profit or loss;

ii. Not designated on initial recognition as available-for-sale;

iii. Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(b) On a regular way purchase or sale basis, bond investments without active market are recognized and derecognized using trade date accounting.

(c) Bond investments without active market are initially recognized at fair value on the trade date plus transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Amortization of a premium or a discount on such assets is recognized in profit or loss.

(d) Bond investments without active market held by the Group are those time deposits with a short maturity period but do not qualify as cash equivalents, and they are measured at initial investment amount as the effect of discounting is immaterial.

(9) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B. On a regular way purchase or sale basis, available-for-sale financial assets is recognized and derecognized using trade date accounting.

C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income.

(10) Impairment of financial assets

A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

(a) Significant financial difficulty of the issuer or debtor;

(b) A breach of contract, such as a default or delinquency in interest or principal payments;

(c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(d) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;

(e) The disappearance of an active market for that financial asset because of financial difficulties;

(f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or

local economic conditions that correlate with defaults on the assets in the group;

(g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or

(h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial asset:

(a) Financial assets measured at amortized cost

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

(b) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss and is reclassified from "other comprehensive income" to "profit or loss". Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(11) <u>Derecognition of financial assets</u>

The Group derecognizes a financial asset only when the contractual rights to receive cash flows expire.

(12) <u>Inventories</u>

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work-in-process comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). The item by item approach is used in applying the lower of cost and

net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction periods are capitalized.

B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial periods in which they are incurred.

C. Property, plant and equipment cost are measured at cost, and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Significant components are depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 years
Construction appurtenance	10 years
Machinery and equipment	3 ~ 8 years
Computer and communication equipment	5 years
Transportation equipment	5 ~ 10 years
Furniture and fixtures	3~ 7 years
Leasehold improvements	3~ 7 years
Other equipment	3~ 8 years

(14) Leased assets/ leases (lessee)

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

(15) Intangible assets

Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 3 to 5 years.

(16) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by

which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

(17) Notes and accounts payable

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

(18) Derecognition of financial liabilities

Financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(19) Provisions

Provisions for warranties are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date. Provisions are not recognized for future operating losses.

(20) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

B. Pensions

a) Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the

Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date).

ii. Actuarial gains and losses arising on defined benefit plans are recognized in other comprehensive income in the periods in which they arise.

iii. 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 for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events, additionally, the related information is disclosed accordingly.

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

Employees' bonus and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' bonus and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the stockholders at their stockholders' meeting subsequently, the differences should be recognized based on the accounting for changes in estimates. The Group calculates the number of shares of employees' stock bonus based on the fair value per share at the previous day of the stockholders' meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

(21) Employee share-based payment

A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting periods, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

B. For the cash-settled share-based payment arrangements, the employee services received are measured at the fair value of the liability to pay for those services, and are recognized as

compensation cost and liability over the vesting period. The fair value of the liability shall be remeasured at each balance sheet date until settled at the settlement date, with any changes in fair value recognized in profit or loss.

(22) Income tax

A. The tax expense for the periods comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred income tax liability is settled.

D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(23) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(24) Dividends

Dividends are recorded in the Company's financial statements in the periods in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities.

(25) Revenue recognition

The Group manufactures and sells precision instruments and machinery. Revenue is measured at the fair value of the consideration received or receivable taking into account value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(26) Operating segments

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

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

The preparation of these consolidated financial statements requires management to make critical judgments in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgments in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

A. Evaluation of inventories

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

date, and writes down the cost of inventories to the net realizable value. Such an evaluation of inventories is principally based on the demand for the products within the specified periods in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2015, the carrying amount of inventories was $2,634,265.

B. Provision for warranty liability

Warranty liabilities are primarily arising from sales of equipment. The amount of the obligation is estimated based on the sufficient objective evidences, including the historical warranty records.

As of December 31, 2015, the carrying amount of accrued warranty liabilities was $1,808,182.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2015	December 31, 2014
Cash on hand	$ 483	$ 447
Checking accounts and demand deposits	3,128,091	2,272,324
Time deposits	5,431,205	5,123,700
Total	$ 8,559,779	$ 7,396,471

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Group has no cash and cash equivalents pledged to others.

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

Items	December 31, 2015	December 31, 2014
Current items:		
Financial assets held for trading - beneficiary certificates	$ -	$ 1,100,000
Valuation	-	1,805
Total	$ -	$ 1,101,805

A.The Group recognized net (loss) gain of $6,063 and $1,805 on financial assets held for trading for the years ended December 31, 2015 and 2014, respectively.

B.The Group has no financial assets at fair value through profit or loss pledged to others.

(3) Available-for-sale financial assets

Item	December 31, 2015	December 31, 2014
Non-listed and emerging stocks	$ 32,524	$ 7,450
Valuation adjustment of available-for-sale financial assets	-	-
Total	$ 32,524	$ 7,450

The Group did not recognize any other comprehensive income for fair value change for the years ended December 31, 2015 and 2014, respectively.

(4) Investments in debt instrument without active markets

Item	December 31, 2015	December 31, 2014
Time deposits	$ 2,828,250	$ 1,266,000

A.The Group listed the time deposits more than 90 days in this account.

B.The Group recognized interest of $8,650 and $6,654 in profit for the years ended December 31, 2015 and 2014, respectively.

C.The counterparties of the Group's investments have good credit quality.

(5) Accounts receivable

	December 31, 2015	December 31, 2014
Accounts receivable	$ 1,329,965	$ 2,661,783
Less: allowance for bad debts	-	-
	$ 1,329,965	$ 2,661,783

A. Analysis of movement of impaired accounts receivable:

As of December 31, 2015 and 2014, the Group had no provisions for impairment of accounts receivable.

B. The Group's accounts receivable that were neither past due nor impaired were fully performing in line with the credit standards prescribed based on counterparties' industrial characteristics, scale of business and profitability, which had good credit quality.

C. The Group does not hold any collateral as security.

(6) Inventories

	December 31, 2015		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 1,210,342	($ 252,592)	$ 957,750
Work - in - process	1,728,143	(182,701)	1,545,442
Finished goods	228,434	(97,361)	131,073
Total	$ 3,166,919	($ 532,654)	$ 2,634,265

	December 31, 2014		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 801,210	($ 204,582)	$ 596,628
Work - in - process	1,204,431	(125,020)	1,079,411
Finished goods	236,738	(167,965)	68,773
Total	$ 2,242,379	($ 497,567)	$ 1,744,812

The cost of inventories recognized as expense for the period:

	Year ended December 31, 2015	Year ended December 31, 2014
Cost of goods sold	$ 1,928,873	$ 2,014,708
Loss on decline in market value	46,563	129,177
	$ 1,975,436	$ 2,143,885

(7) Property, plant and equipment

	Buildings	Machinery	Computer and communication equipment	Transportation equipment	Furniture and fixtures	Leasehold improvements	Other equipment	Prepayments for equipment and construction in progress	Total
At January 1, 2015									
Cost	$ -	$ 268,525	$ 9,258	$ 6,095	$ 37,338	$ 63,744	$ 17,302	$ 611,885	$ 1,014,147
Accumulated depreciation and impairment	-	(192,608)	(4,218)	(3,530)	(22,175)	(41,082)	(1,003)	-	(264,616)
	$ -	$ 75,917	$ 5,040	$ 2,565	$ 15,163	$ 22,662	$ 16,299	$ 611,885	$ 749,531
Year ended December 31, 2015									
Opening net book amount	$ -	$ 75,917	$ 5,040	$ 2,565	$ 15,163	$ 22,662	$ 16,299	$ 611,885	$ 749,531
Additions	1,410	21,408	1,473	-	25,463	1,315	3,397	229,965	284,431
Disposals	-	(799)	-	(52)	(11)	-	-	-	(862)
Reclassifcations	813,910	4,121	-	-	3,127	-	28,209	(828,187)	21,180
Depreciation charge	(18,706)	(33,175)	(1,979)	(949)	(9,408)	(11,827)	(3,598)	-	(79,642)
Net exchange differences	-	173	170	6	(62)	95	-	1	383
Closing net book amount	$ 796,614	$ 67,645	$ 4,704	$ 1,570	$ 34,272	$ 12,245	$ 44,307	$ 13,664	$ 975,021
At December 31, 2015									
Cost	$ 815,321	$ 285,827	$ 10,913	$ 6,016	$ 62,167	$ 46,286	$ 48,226	$ 13,664	$ 1,288,420
Accumulated depreciation and impairment	(18,707)	(218,182)	(6,209)	(4,446)	(27,895)	(34,041)	(3,919)	-	(313,399)
	$ 796,614	$ 67,645	$ 4,704	$ 1,570	$ 34,272	$ 12,245	$ 44,307	$ 13,664	$ 975,021

	Machinery	Computer and communication equipment	Transportation equipment	Furniture and fixtures	Leasehold improvements	Other equipment	Prepayments for equipment and construction in progress	Total
At January 1, 2014								
Cost	$ 253,902	$ 7,515	$ 5,546	$ 26,050	$ 54,627	$ 4,088	$ 187,245	$ 538,973
Accumulated depreciation and impairment	(153,166)	(2,677)	(2,614)	(15,902)	(29,610)	(414)	-	(204,383)
	$ 100,736	$ 4,838	$ 2,932	$ 10,148	$ 25,017	$ 3,674	$ 187,245	$ 334,590
Year ended December 31, 2014								
Opening net book amount	$ 100,736	$ 4,838	$ 2,932	$ 10,148	$ 25,017	$ 3,674	$ 187,245	$ 334,590
Additions	11,104	1,516	429	10,912	6,797	1,163	425,254	457,175
Disposals	-	-	-	(11)	-	-	-	(11)
Reclassifications	-	-	-	-	762	12,051	(762)	12,051
Depreciation charge	(38,134)	(1,611)	(871)	(5,964)	(10,421)	(321)	-	(57,322)
Net exchange differences	2,211	297	75	78	507	(268)	148	3,048
Closing net book amount	$ 75,917	$ 5,040	$ 2,565	$ 15,163	$ 22,662	$ 16,299	$ 611,885	$ 749,531
At December 31, 2014								
Cost	$ 268,525	$ 9,258	$ 6,095	$ 37,338	$ 63,744	$ 17,302	$ 611,885	$ 1,014,147
Accumulated depreciation and impairment	(192,608)	(4,218)	(3,530)	(22,175)	(41,082)	(1,003)	-	(264,616)
	$ 75,917	$ 5,040	$ 2,565	$ 15,163	$ 22,662	$ 16,299	$ 611,885	$ 749,531

(8) Intangible assets

	Computer Software	
At January 1, 2015		
Cost	$	29,396
Accumulated amortization and impairment	(	17,039)
	$	12,357
Year ended December 31, 2015		
Opening net book amount	$	12,357
Additions - acquired separately		20,966
Amortization charge	(	8,203)
Net exchange differences		83
Closing net book amount	$	25,203
At December 31, 2015		
Cost	$	50,186
Accumulated amortization and impairment	(	24,983)
	$	25,203

	Computer Software	
At January 1, 2014		
Cost	$	22,571
Accumulated amortization and impairment	(	11,939)
	$	10,632
Year ended December 31, 2014		
Opening net book amount	$	10,632
Additions - acquired separately		6,618
Amortization charge	(	5,110)
Net exchange differences		217
Closing net book amount	$	12,357
At December 31, 2014		
Cost	$	29,396
Accumulated amortization and impairment	(	17,039)
	$	12,357

Details of amortization on intangible assets are as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
Operating expenses	$ 8,203	$ 5,110

(9) Other payables

	December 31, 2015	December 31, 2014
Accrued salaries and bonuses	$ 1,332,789	$ 818,813
Accrued employees' bonuses and directors' and supervisors' remuneration	202,757	87,995
Accrued commission	23,648	40,684
Payables on equipment	3,799	45,538
Others	127,662	87,495
	$ 1,690,655	$ 1,080,525

(10) Pension

A.(a)The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficie to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

	December 31, 2015	December 31, 2014
Present value of funded defined benefit obligations	(\$ 131,733)	(\$ 91,002)
Fair value of plan assets	15,531	13,978
Net defined benefit liability	(\$ 116,202)	(\$ 77,024)

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2015			
Balance at January 1	($ 91,002)	$ 13,978	($ 77,024)
Current service cost	(542)	-	(542)
Interest (expense) income	(1,816)	288	(1,528)
	(93,360)	14,266	(79,094)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	82	82
Change in demographic assumptions	(1,065)	-	(1,065)
Change in financial assumptions	30,797	-	30,797
Experience adjustments	(68,105)	-	(68,105)
	(38,373)	82	(38,291)
Pension fund contribution	-	1,183	1,183
Effect of business combination	-	1,183	1,183
Balance at December 31	($ 131,733)	$ 15,531	($ 116,202)

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2014			
Balance at January 1	($ 79,967)	$ 12,500	($ 67,467)
Current service cost	(529)	-	(529)
Interest (expense) income	(1,596)	259	(1,337)
	(82,092)	12,759	(69,333)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	36	36
Change in demographic assumptions	220	-	220
Change in financial assumptions	(13,052)	-	(13,052)
Experience adjustments	3,922	-	3,922
	(8,910)	36	(8,874)
Pension fund contribution	-	1,183	1,183
Effect of business combination	-	1,183	1,183
Balance at December 31	($ 91,002)	$ 13,978	($ 77,024)

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earning is less than aforementioned rates, government shall make payment for the deficit after authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The constitution of fair value of plan assets as of 2015 and 2014 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

	Year ended December 31, 2015	Year ended December 31, 2014
Discount rate	1.5%	2%
Future salary increases	3%	5%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2015				
Effect on present value of defined benefit obligation	($ 4,606)	$ 4,821	$ 4,737	($ 4,551)

The sensitivity analysis above is based on other conditions are unchanged but only one assumption is changed. In practice, more than one assumption may change simultaneously. The method of analysing sensitivity and the method of calculate net pension liability in the balance sheet are the same.

(f) Expected contributions to the defined benefit pension plans of the Group in the year ended December 31, 2016 amounts to $1,858.

(g) As of December 31, 2015, the weighted average duration of that retirement plan is 14 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	$	1,319
1-2 year(s)		1,325
2-5 years		10,407
Over 5 years		156,720
	$	169,771

B.(a)Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b)The Company's indirect Mainland China subsidiary – Hermes Microvision Co., Ltd. (Beijing) has a funded defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (the "PRC") are based on certain percentage of the employees' monthly salaries and wages. Except for the monthly contributions, Hermes Microvision Co., Ltd. (Beijing) has no further obligations under the plan.

(c)The subsidiary Hermes Microvision, Inc. (USA) has established a 401(k) plan in accordance with Article 401(k) of the Internal Revenue Code of the U.S.A. Under the 401(k) plan, Hermes Microvision, Inc. (USA) may contribute monthly a certain amount of the employees' monthly salaries, not exceeding the maximum limit, to the employees' pension accounts based on its employee reward and retirement policy.

(d)The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2015 and 2014 were $34,181 and $31,403, respectively.

(11) Share-based payment

The Group:

A. The Group's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Stock appreciation rights plan 1	December 31, 2013	1,104,000	3 years	Note 1
Stock appreciation rights plan 2	January 1, 2014	729,700	5 years	Note 2
Stock appreciation rights plan 3	April 1, 2014	50,500	5 years	Note 2
Stock appreciation rights plan 4	July 1, 2014	40,000	5 years	Note 2
Stock appreciation rights plan 5	October 1, 2014	61,600	5 years	Note 2
Stock appreciation rights plan 6	January 1, 2015	78,800	5 years	Note 2
Stock appreciation rights plan 7	April 1, 2015	48,800	5 years	Note 2
Stock appreciation rights plan 8	July 1, 2015	20,000	5 years	Note 2
Employee stock options plan 1	December 22, 2015	750,000	5 years	Note 3

Note 1: 40% of the stock appreciation rights were vested since grant date and the others will be vested 7.5% every season in the next eight seasons.

Note 2: 25% of the stock appreciation rights will be vested after four seasons since grant date and the others will be vested 6.25% every season in the next 16 seasons from the first vesting date.

Note3: This employee compensation plan was issued by the Group Company. The plan should be granted under the conditions below: 50% of the stock appreciation rights will be vested after 2 years' service. Moreover, another 25% of stock appreciation rights should be vested after 3 years, and the other 25% will be in the next year.

Each stock appreciation right represents the future appreciation of one share. The plan will be cash-settled by multiplying the execution rights of the employees and the price variance of the closing date's stock price and the executing price.

B. The fair value of stock appreciation rights are measured by using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Expected price volatility	Expected term	Expected dividends yield rate	Risk - free interest rate	Fair value per unit (in NT dollars)
Stock appreciation rights plan 1	December 31, 2013	60.14%	3 Years	0%	0.3981%	$481~481.31
Stock appreciation rights plan 2	January 1, 2014	48.19%~60.14%	5 Years	0%	0.3706%~ 0.4005%	$265.00~443.14
Stock appreciation rights plan 3	April 1, 2014	48.19%~60.14%	5 Years	0%	0.3706%~ 0.4307%	$13.00~352.14
Stock appreciation rights plan 4	July 1, 2014	48.19%~60.14%	5 Years	0%	0.3706%~ 0.4632%	$210.00~448.47
Stock appreciation rights plan 5	October 1, 2014	48.19%~60.14%	5 Years	0%	0.3706%~ 0.5002%	$137~443.05
Stock appreciation rights plan 6	January 1, 2015	48.19%~60.14%	5 Years	0%	0.3706%~ 0.5351%	$35.01~412.70
Stock appreciation rights plan 7	April 1, 2015	48.19%~60.14%	5 Years	0%	0.3706%~ 0.5658%	$72.65~388
Stock appreciation rights plan 8	July 1, 2015	48.19%~60.14%	5 Years	0%	0.3706%~ 0.6160%	$86.72~383.51

C. The fair value of employee stock options are measured by using the Black-Scholes option-pricing model. Relevant information is as follows:

Employee stock options plan 1

Grant date: December 22, 2015

	Vested after 2 years' service	Vested after 3 years' service	Vested after 4 years' service
Dividend rate	1.5%	1.5%	1.5%
Expected price volatility	47.03%	49.10%	49.17%
Risk-free interest rate	0.57%	0.61%	0.66%
Expected option life	3.5 years	4 years	4.5 years
Options granted by Parent Company	375,000	187,500	187,500
Fair value of weighted-average (in NTD dollars/Unit)	$374.9	$407.9	$428.2

D. Details of the stock appreciation rights plan 1 are as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
	No. of Rights	No. of Rights
Rights outstanding at beginning of the year	691,643	1,104,000
Rights granted	-	-
Rights forfeited	(6,781)	(21,827)
Rights exercised	(261,692)	(390,530)
Rights outstanding at end of the year	423,170	691,643
Rights exercisable at end of the year	346,085	292,303

Details of the stock appreciation rights plan 2 are as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
	No. of Rights	No. of Rights
Rights outstanding at beginning of the year	695,300	-
Rights granted	-	729,700
Rights forfeited	(42,876)	(34,400)
Rights exercised	(134,379)	-
Rights outstanding at end of the year	518,045	695,300
Rights exercisable at end of the year	163,738	-

Details of the stock appreciation rights plan 3 are as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
	No. of Rights	No. of Rights
Rights outstanding at beginning of the year	48,500	-
Rights granted	-	50,500
Rights forfeited	-	(2,000)
Rights exercised	(6,215)	-
Rights outstanding at end of the year	42,285	48,500
Rights exercisable at end of the year	11,972	-

Details of the stock appreciation rights plan 4 are as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
	No. of Rights	No. of Rights
Rights outstanding at beginning of the year	40,000	-
Rights granted	-	40,000
Rights forfeited	(1,719)	-
Rights exercised	(2,663)	-
Rights outstanding at end of the year	35,618	40,000
Rights exercisable at end of the year	9,828	-

Details of the stock appreciation rights plan 5 are as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
	No. of Rights	No. of Rights
Rights outstanding at beginning of the year	61,600	-
Rights granted	-	61,600
Rights forfeited	(9,350)	-
Rights exercised	(960)	-
Rights outstanding at end of the year	51,290	61,600
Rights exercisable at end of the year	12,440	-

Details of the stock appreciation rights plan 6 are as follows:

	Year ended December 31,2015	Year ended December 31, 2014
	No. of Rights	No. of Rights
Rights outstanding at beginning of the year	-	-
Rights granted	78,800	-
Rights forfeited	(4,000)	-
Rights exercised	-	-
Rights outstanding at end of the year	74,800	-
Rights exercisable at the end of the year	-	-

Details of the stock appreciation rights plan 7 are as follows:

	Year ended December 31,2015	Year ended December 31, 2014
	No. of Rights	No. of Rights
Rights outstanding at beginning of the year	-	-
Rights granted	48,800	-
Rights forfeited	-	-
Rights exercised	-	-
Rights outstanding at end of the year	48,800	-
Rights exercisable at the end of the year	-	-

Details of the stock appreciation rights plan 8 are as follows:

	Year ended December 31,2015	Year ended December 31, 2014
	No. of Rights	No. of Rights
Rights outstanding at beginning of the year	-	-
Rights granted	20,000	-
Rights forfeited	-	-
Rights exercised	-	-
Rights outstanding at end of the year	20,000	-
Rights exercisable at the end of the year	-	-

Details of the employee stock options plan 1 are as follows:

	Year ended December 31, 2015		Year ended December 31, 2014	
	No. of options	Weighted-average exercise price (in US dollars)	No. of options	Weighted-average exercise price (in US dollars)
Options outstanding at beginning of the year	-	$ -	-	$ -
Options granted	750,000	1,185		
Options exercised	-	-	-	-
Options expired	-	-	-	-
Options outstanding at end of the year	750,000	1,185	-	
Options exercisable at end of the year	-	-	-	-

E. The weighted-average stock price of stock appreciation right at exercise dates for the years ended December 31, 2015 and 2014 was \$1,673 (in dollars) and \$1,240 (in dollars).

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

	December 31, 2015	December 31, 2014
Cash settled-stock appreciation rights plan	$ 840,603	$ 573,702
Equity settled-Empolyee stock options	5,436	-
	$ 846,039	$ 573,702

G.Liabilities incurred from share based payment transactions are shown below:

	December 31, 2015	December 31, 2014
Liabilities on cash-settled stock appreciation rights plan (shown in other payables)	$ 1,029,964	$ 575,940

Subsidiary-Hermes Microvision, Inc. (U.S.A):

A.As of December 31, 2015, the Company's subsidiary - Hermes Microvision, Inc. (U.S.A) share based payment arrangements were as follows:

Type of arrangement	Grant date	Outstanding quantity granted	Contract period	Vesting conditions
Employee stock options	April 1, 2005~ November 1, 2011	182,000	10 years	4 years' service

The above share - based payment arrangements are settled by equity.

B. Details of the share-based payment arrangements of Hermes Microvision Inc. (U.S.A) are as follows:

	Year ended December 31, 2015		Year ended December 31, 2014	
	No. of options	Weighted-average exercise price (in US dollars)	No. of options	Weighted-average exercise price (in US dollars)
Options outstanding at beginning of the year	254,574	$ 0.8658	378,000	0.8527
Options exercised	(72,574)	0.8552	(123,426)	0.8111
Options expired	-	-	-	-
Options outstanding at end of the year	182,000	0.8700	254,574	0.8568
Options exercisable at end of the year	180,001	0.8700	178,867	0.8657

C.The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2015 and 2014 was $0.8552 (in US dollars) and $0.8111 (in US dollars), respectively.

D.The expiry date and exercise price of stock options outstanding at balance sheet date are as follows:

		December 31, 2015		December 31, 2014	
Date of the plan	Expiry date	No. of shares (in thousands)	Exercise price (in US dollars)	No. of shares (in thousands)	Exercise price (in US dollars)
April 1,2005~ November 1, 2011	March 31,2020~ October 31, 2021	182	$ 0.87	255	$0.56~0.87

E.The fair value of stock options granted is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Exercise price (in US dollars)	Expected price volatility	Expected term	Expected dividends yield rate	Risk-free interest rate	Fair value per unit (in US dollars)
Employee stock options	April 1, 2005 ~ November 1, 2011	$0.49~0.87	29.85%~ 42.16%	1~9.84 years	-	2.22%~ 5.2%	$0.1043~ 0.4954

Note: Expected price volatility rate was estimated by using the peer companies' stock prices of the most recent period with length similar to the stock options' expected life and the standard deviation of return on the stock during this period.

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

	Year ended December 31, 2015	Year ended December 31, 2014
Equity-settled	$ 3,350	$ 2,817

(12) Provisions

	Warranty
At January 1, 2015	$ 1,471,138
Additional provisions	337,044
At December 31, 2015	$ 1,808,182

	Warranty
At January 1, 2014	$ 972,259
Additional provisions	498,879
At December 31, 2014	$ 1,471,138

(13) Share capital

A. As of December 31, 2015, the Company’s authorized capital was $1,200,000, consisting of 120,000 thousand shares of ordinary stock, and the paid-in capital was $710,000 with a par value of $10 (in NT dollars) per share. All proceeds from shares issued have been collected.

B. As authorized during the shareholders' meeting on June 4, 2013, the Board of Directors adopted a resolution in the July 31, 2013 meeting to increase capital by issuance of Global Deposit Receipts ("GDRs"). The offering was completed in November 2013 with the issuance of 5,000 thousand new shares and 5,000 thousand existing outstanding shares, totaling 10,000 thousand units to be listed in Luxembourg Stock Exchange. Each unit of GDRs represents 1 common share. The issue price was US$29.17 (in dollar) per unit, which is equivalent to NT$860 (in dollar) per unit. Total proceeds raised were $4,238,036 after deducting the issuance costs. As of December 31, 2015, the outstanding shares of GDRs were 592 thousand units representing 592 thousand shares.

(14) Capital surplus

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

	Share premium	Employee stock options	Adjustments arising from changes in ownership percentage in subsidiary
At January 1, 2015	$ 5,411,867	$ -	$ 19,329
Share-based payment transaction	-	3,399	-
Adjustments arising from changes in ownership percentage in subsidiary	-	-	2,313
At December 31, 2015	$ 5,411,867	$ 3,399	$ 21,642

	Share premium	Employee stock options	Adjustments arising from changes in ownership percentage in subsidiary
At January 1, 2014	$ 5,411,867	$ -	$ 15,156
Adjustments arising from changes in ownership percentage in subsidiary	-	-	4,173
At December 31, 2014	$ 5,411,867	$ -	$ 19,329

(15) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses and then 10% of the remaining amount shall be set aside as legal reserve. Appropriation of the remainder shall be proposed by the Board of Directors and resolved by the stockholders.

B. As the Company's industry is in the growth stage, in order to be in line with the industry's overall environment and its characteristics and pursue the goals of the Company's sustainable operations and shareholders' long-term interests, the dividend policy is adopted taking into consideration the Company's actual operating results of the dividend distribution year and the capital budget planning of the following year. Dividends are distributed in the form of stock or cash. According to the Company's dividend policy, cash dividends shall account for at least 10% of the total dividends distributed.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When the debit balance on other equity items is reversed subsequently, the amount of the associated special reserve could be released and included in the distributable earnings.

E. The Company recognised dividends distributed to owners amounting to $1,562,000 ($22 (in dollars) per share) and $1,136,000 ($16 (in dollars) per share) for the years ended December 31, 2015 and 2014, respectively. The dividend distribution for 2015 was approved by the Board of Directors on March 1, 2016 and amounted to $1,136,000 ($16 (in dollars) per share). The above mentioned 2015 earnings appropriation had not been approved by the stockholders at stockholders' meeting.

F. For information relating to employees' remuneration (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(21).

(16) Other equity

	Currency translation
At January 1, 2015	$ 49,650
Cumulative translation difference of foreign operations	26,112
Tax on cumulative translation difference of foreign operations	(4,439)
At December 31, 2015	$ 71,323

	Currency translation
At January 1, 2014	$ 14,957
Cumulative translation difference of foreign operations	41,798
Tax on cumulative translation difference of foreign operations	(7,105)
At December 31, 2014	$ 49,650

(17) Operating revenue

	Year ended December 31, 2015	Year ended December 31, 2014
Sales revenue	$ 6,201,335	$ 6,905,683
Other operating revenue	450,470	303,967
	$ 6,651,805	$ 7,209,650

(18) Other income

	Year ended December 31, 2015	Year ended December 31, 2014
Interest income:		
Interest income from bank deposits	$ 68,342	$ 70,115
Others	9,883	32,438
Total	$ 78,225	$ 102,553

(19) Other gains and losses

	Year ended December 31, 2015	Year ended December 31, 2014
(Loss) gain on disposal of property, plant and equipment	($ 638)	$ 27
Net currency exchange gain	208,300	325,989
(Loss) gain on valuation of financial assets	(1,805)	1,805
Gain on disposal investments	7,868	-
Other gains (losses)	(362)	(4,111)
Total	$ 213,363	$ 323,710

(20) Expenses by nature

	Year ended December 31, 2015	Year ended December 31, 2014
Employee benefit expense	$ 2,488,103	$ 1,767,297
Depreciation charges on property, plant and equipment	79,642	57,322
Amortization charges on intangible assets	8,203	5,110
Total	$ 2,575,948	$ 1,829,729

(21) Employee benefit expense

	Year ended December 31, 2015	Year ended December 31, 2014
Wages and salaries	$ 1,451,053	$ 1,038,962
Compensation cost of employee stock options and stock appreciation right	846,039	576,519
Labor and health insurance fees	125,773	94,680
Pension costs	36,888	33,302
Other personnel expenses	28,350	23,834
	$ 2,488,103	$ 1,767,297

A. According to the Articles of Incorporation of the Company, when distributing earnings, the Company shall distribute bonus to the employees and pay remuneration to the directors and supervisors that account for no less than 1% and 1%, respectively, of the total distributed amount.

However, in accordance with the Company Act amended on May 20, 2015, a company shall distribute employee remuneration, based on the current year's profit condition, in a fixed amount or a proportion of profits. If a company has accumulated deficit, earnings should be channeled to cover losses. Aforementioned employee remuneration could be paid by cash or stocks. Specifics of the compensation are to be determined in a board meeting that registers two-thirds of directors in attendance, and the resolution must receive support from half of participating members. The resolution should be reported to the shareholders at shareholders' meeting. Qualification requirements of employees, including the employees of subsidiaries of the Company meeting certain specific requirements, entitled to receive aforementioned stock or cash may be specified in the Articles of Incorporation.

The Company will propose an amendment to the clause relating to employee remuneration in the Articles of Incorporation in accordance with the latest amendment to the Company Act at the shareholders' meeting. Hence, during this fiscal year, employee remuneration will be accrued according to the financial performance this year and the latest amendment to the Company Act.

B. For the years ended December 31, 2015 and 2014, employees' remuneration (bonus) was accrued at $132,274 and $79,995, respectively; directors' and supervisors' remuneration was accrued at $13,227 and $8,000, respectively. The aforementioned amounts were recognized in salary expenses. The expenses recognised for the year of 2015 were accrued based on the earnings of current year; The difference between directors' and supervisors' remuneration as resolved by the shareholders' meeting and amount recognised in the March 1, 2015 financial statements by $132,000, will be adjusted in the profit or loss of 2016. The expenses recognised for the year of 2014 were accrued based on the net income of 2014 and the percentage specified in the Articles of Incorporation of the Company, taking into account other factors such as legal reserve.

Employees' bonus and directors' and supervisors' remuneration of 2014 as resolved by the stockholders were in agreement with those amounts recognised in the 2014 financial statements.

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

(22) Income tax

A. Income tax expense

(a)Components of income tax expense:

	Year ended December 31, 2015	Year ended December 31, 2014
Current tax:		
Current tax on profits for the period	$ 525,508	$ 402,391
Adjustments in respect of prior period	(84,922)	10,216
Total current tax	440,586	412,607
Deferred tax:		
Origination and reversal of temporary differences	-	-
Total deferred tax	-	-
Income tax expense	$ 440,586	$ 412,607

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

	2015	2014
Cumulative translation differences of foreign operations	($ 4,439)	($ 7,105)
Remeasurement of defined benefit plan	6,509	1,503

B. As of December 31, 2015, the Company's income tax returns have been assessed and approved by the Tax Authority through 2012.

C. Reconciliation between income tax expense and accounting profit is as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
Tax calculated based on profit before tax and statutory tax rate	$ 506,672	$ 610,521
Subsidiaries-income tax expense accrued in accordance with the local regulation	128,114	63,349
Tax effect of non pretax income items	86,813	125,173
Estimate on 10% corporate income tax on unappropriated earnings	134,480	98,739
Adjustment of prior years' income tax	(84,922)	10,216
Tax effect of income tax exemption	(330,571)	(495,391)
Income tax expense	$ 440,586	$ 412,607

D.Amounts of deferred tax assets or liabilities as a result of temporary difference are as follows:

	Year ended December 31, 2015				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31
Temporary differences:					
—Deferred tax assets:					
Unrealized loss on inventory	$ 9,580	$ -	$ -	$ -	$ 9,580
Provision for warranty	29,562	-	-	-	29,562
Unrealized investment loss on long-term equity investments	836	-	-	-	836
Accrued pension	2,009	-	-	-	2,009
Accrued employee bonus	3,278	-	-	-	3,278
Remeasurement of defined benefit plan	4,864	-	6,509	-	11,373
Subtotal	50,129	-	6,509	-	56,638
—Deferred tax liabilities:					
Unrealized foreign exchange gain	(1,978)	-	-	-	(1,978)
Currency translation differences	(10,169)	-	(4,439)	-	(14,608)
Subtotal	(12,147)	-	(4,439)	-	(16,586)
Total	$ 37,982	$ -	$ 2,070	$ -	$ 40,052

	Year ended December 31, 2014				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31
Temporary differences:					
—Deferred tax assets:					
Unrealized loss on inventory	$ 9,580	$ -	$ -	$ -	$ 9,580
Provision for warranty	29,562	-	-	-	29,562
Unrealized investment loss on long-term equity investments	836	-	-	-	836
Accrued pension	2,009	-	-	-	2,009
Accrued employee bonus	3,278	-	-	-	3,278
Remeasurement of defined benefit plan	3,361	-	1,503	-	4,864
Subtotal	48,626	-	1,503	-	50,129
—Deferred tax liabilities:					
Unrealized foreign exchange gain	(1,978)	-	-	-	(1,978)
Currency translation differences	(3,064)	-	(7,105)	-	(10,169)
Subtotal	(5,042)	-	(7,105)	-	(12,147)
Total	$ 43,584	$ -	($ 5,602)	$ -	$ 37,982

E. The amounts of deductible temporary difference that are not recognised are as follows:

	December 31, 2015	December 31, 2014
Deductible temporary differences	$ 2,062,866	$ 1,867,853

F. As of December 31, 2015 and 2014, the subsidiary—Hermes Microvision Inc. (USA) was eligible for investment credits for research and development expenditures amounting to $28,930 and $130,176, respectively, under the U.S. Federal Tax Law, which will expire in 2022, $147,478 and $123,530 under the California Tax Law, which has no expiry date, and unrecognized deferred tax assets.

G. Unappropriated retained earnings:

	December 31, 2015	December 31, 2014
Earnings generated in and after 1998	$ 5,574,668	$ 5,170,809

H. As of December 31, 2015 and 2014, the balance of the imputation tax credit account was $461,260 and $254,610 respectively. The creditable tax rate was 10.18% for 2014 and was estimated to be 8.27% for 2015.

I. The Company's products are qualified for a five-year exemption on income tax under the

"Incentives for Emerging Important Strategic Industries in Manufacturing and Technology Services". The income tax is valid from January 1, 2012 to December 31, 2016.

(23) Earnings per share

	Year ended December 31, 2015		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to equity holders of the parent company	$ 2,321,434	71,000	$ 32.70
Diluted earnings per share		-	
Profit attributable to equity holders of the parent company	$ 2,321,434	71,000	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	118	
Employees' stock options	-	-	
Profit attributable to equity holders of the parent company plus assumed conversion of all dilutive potential ordinary shares	$ 2,321,434	71,118	$ 32.64

	Year ended December 31, 2014		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to equity holders of the parent company	$ 3,237,928	71,000	$ 45.60
Diluted earnings per share		-	
Profit attributable to equity holders of the parent company	$ 3,237,928	71,000	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	83	
Profit attributable to equity holders of the parent company plus assumed conversion of all dilutive potential ordinary shares	$ 3,237,928	71,083	$ 45.55

(24) Supplemental cash flow information

Investing activities with partial cash payments:

	Year ended December 31, 2015	Year ended December 31, 2014
Purchase of property, plant and equipment	$ 284,431	$ 457,175
Add: opening balance of payable on equipment	45,538	77,395
Less: ending balance of payable on equipment	(3,799)	(45,538)
Cash paid during the period	$ 326,170	$ 489,032

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

A.Operating revenue:

	Year ended December 31, 2015	Year ended December 31, 2014
Sales of goods:		
The entity with significant influence over the Group	$ 45,084	$ 42,284

There are no significant differences in sale prices and collection terms between related parties and third parties.

B.Purchases of services:

	Year ended December 31, 2015	Year ended December 31, 2014
Technology service charge - The entity with significant influence over the Group	$ 26,870	$ 18,463
Commission expense - The entity with significant influence over the Group	$ 41,558	$ 38,155
Other expenses - The entity with significant influence over the Group	$ 15	$ 34

The above transactions are under normal commercial terms and conditions.

C.Accounts receivable:

	December 31, 2015	December 31, 2014
Receivables from the entity with significant influence over the Group	$ 29,332	$ 20,134

The receivables from the entity with significant influence over the Group arise mainly from sale transactions. The receivables are due from 30~60 day after the date of sales. The receivables are unsecured in nature and bear no interest. There are no provisions accrued against receivables from related parties.

D.Other payables:

	December 31, 2015	December 31, 2014
Payables from the entity with significant influence over the Group	$ 43,663	$ 78,177

E.Leases:

	Year ended December 31, 2015	Year ended December 31, 2014
Rental expense- The entity with significant influence over the Group	$ 9,797	$ 22,409

(2) Key management compensation

	Year ended December 31, 2015	Year ended December 31, 2014
Salaries and other short-term employee benefits	$ 41,433	$ 54,030
Share-based payment	23,270	46,211
	$ 64,703	$ 100,241

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

A.Operating lease commitments

The Group leases offices and plant assets under non-cancellable operating lease agreements. Rental expense of $84,182 and $90,740 were recognized for the years ended December 31, 2015 and 2014, respectively.

The majority of lease agreements are renewable at the end of the lease periods at market rates.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2015	December 31, 2014
Not later than one year	$ 73,941	$ 42,287
Later than one year but not later than five years	244,190	141,639
Later than five years	38,471	76,098
Total	$ 356,602	$ 260,024

B. Capital commitments

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

	December 31, 2015	December 31, 2014
Future payments for plant and equipment	$ 73,800	$ 210,643

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital risk management

In order to safeguard the Group's ability to adapt to the changes in the industry and to accelerate the new product development, the Group's objectives when managing capital are to maintain sufficient financial resources to support the operating capital, capital expenditures, research and development activities and dividends paid to shareholders.

The Group monitors capital through the ratio of total liabilities divided by total assets. The Group's strategy is to maintain the ratio within 50%. As of December 31, 2015 and 2014, the Group's ratios of total liabilities divided by total assets were as follows:

	December 31, 2015	December 31, 2014
Total liabilities	$ 4,069,014	$ 3,251,512
Total assets	$ 16,705,281	$ 15,126,476
Total liabilities/total assets ratio	24%	21%

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amounts of the Group's financial instruments measured at amortized cost approximate their fair values. These include cash and cash equivalents, notes payable, accounts receivable, other receivables, short-term loans, notes payable, accounts payable and other payables.

B. Financial risk management policies

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

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

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

i. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, RMB and JPY. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

iii. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

iv. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD, CNY and JPY). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2015		
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 90,301	32.825	$ 2,964,127
JPY:NTD	1,169,623	0.273	318,956
USD:KRW	397	1,167.942	13,038
USD:CNY	783	120.370	25,690
USD:JPY	35	6.572	1,161
Financial liabilities			
Monetary items			
USD:NTD	$ 9,838	32.825	$ 322,777
USD:JPY	165	120.370	5,400
USD:KRW	733	1,167.942	24,073

	December 31, 2014		
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 195,290	31.650	$ 6,180,932
USD:JPY	479	119.620	15,149
USD:CNY	1,330	6.220	42,091
Financial liabilities			
Monetary items			
USD:NTD	$ 10,089	31.650	$ 319,318
USD:KRW	232	1,082.980	251,670

v. Please refer to the following table for the details of unrealized exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Group.

	Year ended December 31, 2015		
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ -	32.825	$ 114,694
JPY:NTD	-	0.273	7,072
USD:KRW	1,254	1,167.942	35
USD:CNY	108	6.572	538
Financial liabilities			
Monetary items			
USD:NTD	$ -	32.825	($ 4,147)
USD:KRW	(15,195)	1,167.942	(427)
USD:JPY	(253)	120.370	(69)

	Year ended December 31, 2014		
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ -	31.650	$ 147,824
USD:KRW	(7,287)	1,082.980	(213)
USD:JPY	327	119.610	87
USD:CNY	(30)	6.220	(151)
Financial liabilities			
Monetary items			
USD:NTD	$ -	31.650	($ 5,364)
USD:KRW	(7,489)	1,082.980	(219)

vi. Analysis of foreign currency market risk arising from significant foreign exchange variation is as follows:

	Year ended December 31, 2015		
	Sensitivity Analysis		
	Extent of Variation	Effect on Profit or Loss	Effect on Other Comprehensive Income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 29,946	$ -
JPY:NTD	1%	3,190	-
USD:KRW	1%	130	-
USD:CNY	1%	257	-
USD:JPY	1%	12	-
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 3,228	$ -
USD:JPY	1%	54	-
USD:KRW	1%	241	-

	Year ended December 31, 2014		
	Sensitivity Analysis		
	Extent of Variation	Effect on Profit or Loss	Effect on Other Comprehensive Income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 61,809	$ -
USD:JPY	1%	151	-
USD:CNY	1%	421	-
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 3,193	$ -
USD:KRW	1%	2,517	-

Price risk

The Group's investments in equity securities consist of unlisted stocks, which are classified on the consolidated balance sheet as available-for-sale financial assets. The price of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased / decreased by 5% with all other variables held constant, total equity for the years ended December 31, 2015 and 2014 would have

increased / decreased by $1,626 and $373, as a result of gains / losses on equity securities classified as available-for-sale.

Interest rate risk

At December 31, 2015 and 2014, if interest rates on NTD-denominated time deposits had been 0.25% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2015 and 2014 would have been $20,649 and $15,974 lower / higher, respectively, mainly as a result of higher/lower interest revenue on floating rate time deposits.

(b)Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

ii. No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

(c)Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, and compliance with internal balance sheet ratio targets.

ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group finance. Group finance invests surplus cash in interest bearing current accounts that are expected to readily generate cash inflows for managing liquidity risk.

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

Non-derivative financial liabilities:	
December 31, 2015	Less than 1 year
Accounts payable	$ 106,129
Other payables	1,690,655
Other payables - related parties	43,663

Non-derivative financial liabilities:	
December 31, 2014	Less than 1 year
Accounts payable	$ 177,559
Other payables	1,080,525
Other payables - related parties	78,177

(3) Fair value information

A. Details of the fair value of the Group’s financial assets and financial liabilities not measured at fair value are provided in Note 12(2).

B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group’s investment in beneficiary certificates is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The Group does not invest any assets in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group’s investment in equity investment without active market is included in Level 3.

C. The following table presents the Group’s financial assets and liabilities that are measured at fair value as of December 31, 2015 and 2014：

December 31, 2015	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Available-for-sale financial assets	$ -	$ -	$ 32,524	$ 32,524

December 31, 2014	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Held for trading financial assets	$ 1,101,805	$ -	$ -	$ 1,101,805
Equity securities	-	-	7,450	7,450
Total	$ 1,101,805	$ -	$ 7,450	$ 1,109,255

D. The methods and assumptions the Group used to measure fair value are as follows:

The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	Listed shares	Closed-end fund	Open-end fund	Government bond	Corporate bond	Convertible (exchangeable) bond
Market quoted price	Closing price	Closing price	Net asset value	Transaction price	Weighted average quoted	Closing price

E. For the years ended December 31, 2015 and 2014, there was no transfer between Level 1 and Level 2.

F. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. The quoted market price used for financial assets held by the Group is the closing price or the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity instruments and debt instruments classified as financial assets/financial liabilities at fair value through profit or loss or available-for-sale financial assets.

G. The following table presents the changes in level 3 instruments as of December 31, 2015 and 2014.

	2015
	Equity securities
At January 1	$ 7,450
Acquisition	25,074
At December 31	$ 32,524

	2014	
	Equity securities	
At January 1	$	4,412
Acquisition		3,038
At December 31	$	7,450

H. Finance segment is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

I. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2015	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	$ 18,546	Market comparable companies	Price to earnings ratio multiple	-	The higher the multiple and control premium, the higher the fair value;
Venture capital shares Private equity fund investment	13,978	Net asset value	Not applicable	-	Not applicable

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: None.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 1.

D. Acquisition or sale of the same security with the accumulated cost exceeding NT$300 million or 20% of the Company's paid-in capital: Please refer to table 2.

E. Acquisition of real estate reaching NT$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching NT$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more: Please refer to table 3.

H. Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more: Please refer to table 4.

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

J. Significant inter-company transactions during the reporting periods: Please refer to table 5.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China)：Please refer to table 6.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 7.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 8.

14. SEGMENT INFORMATION

(1) General information

The Group operates business only in a single industry. The chief operating decision-maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

(2) Segment information

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

Year ended December 31, 2015

	Amount
Revenue from external customers	$ 6,651,805
Inter-segment revenue	$ -
Segment income	$ 2,762,334
Total segment assets	$ 16,705,281

Year ended December 31, 2014

	Amount
Revenue from external customers	$ 7,209,650
Inter-segment revenue	$ -
Segment income	$ 3,654,543
Total segment assets	$ 15,126,476

(3) Reconciliation for segment income (loss)

None.

(4) Information on product and service

Revenue from external customers are derived from the sale of e-beam wafer inspection equipment and related components. Breakdown of the revenue from all sources are as follows:

	2015	2014
Revenue from the sale of e-beam wafer inspection equipment	$ 6,201,335	$ 6,905,683
Revenue from the sale of related components	31,553	42,825
Revenue from services	418,044	258,426
Others	873	2,716
Total	$ 6,651,805	$ 7,209,650

(5) Geographical information

Geographical information for the years ended December 31, 2015 and 2014 is as follows:

	Year ended December 31, 2015		Year ended December 31, 2014	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	$ 2,373,838	$ 928,938	$ 2,388,531	$ 690,346
U.S.A.	1,367,752	35,415	3,136,454	37,635
Japan	1,071,639	279	741,751	335
Korea	831,431	390	424,362	37
Mainland China	705,944	35,202	200,362	33,535
Others	301,201	-	318,190	-
Total	$ 6,651,805	$ 1,000,224	$ 7,209,650	$ 761,888

(6) Major customer information

Revenue from specific customers that represent over 10% of total revenues of the Group for the years ended December 31, 2015 and 2014 is as follows:

	Year ended December 31, 2015		
	Revenue	Percentage	Segment
Customer I	$ 1,195,535	18%	The whole Group
Customer C	718,543	11%	The whole Group
Customer E	638,365	10%	The whole Group

	Year ended December 31, 2014		
	Revenue	Percentage	Segment
Customer B	$ 1,343,920	19%	The whole Group
Customer L	1,397,914	19%	The whole Group

HERMES MICROVISION, INC.

PARENT COMPANY ONLY

FINANCIAL STATEMENTS AND REPORT OF

INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND

2014

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To Hermes Microvision, Inc.

We have audited the accompanying parent company only balance sheets of Hermes Microvision, Inc. as of December 31, 2015 and 2014, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended. These parent company only financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the parent company only financial statements referred to above present fairly, in all material respects, the financial position of Hermes Microvision, Inc. as of December 31, 2015 and 2014, and its financial performance and cash flows for the years then ended in conformity with the “Rules Governing the Preparation of Financial Statements by Securities Issuers”.

PricewaterhouseCoopers, Taiwan
Hsinchu, Taiwan
Republic of China

PricewaterhouseCoopers, Taiwan

March 1, 2016

The accompanying parent company only financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying parent company only financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.
As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

HERMES MICROVISION, INC.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	2015 AMOUNT	2015 %	2014 AMOUNT	2014 %
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 8,260,389	51	$ 7,230,183	49
1110	Financial assets at fair value through profit or loss - current	6(2)	-	-	1,101,805	7
1147	Bond investments without active markets - current	6(4)	2,828,250	18	1,266,000	9
1170	Accounts receivable, net	6(5)	911,204	6	2,633,803	18
1180	Accounts receivable - related parties	7	386,373	2	69,639	-
1200	Other receivables		3,698	-	5,263	-
1210	Other receivables - related parties		-	-	417	-
130X	Inventories, net	6(6)	1,563,101	10	816,609	6
1410	Prepayments		7,010	-	17,743	-
11XX	**Current Assets**		13,960,025	87	13,141,462	89
	Non-current assets					
1523	Available-for-sale financial assets - noncurrent	6(3)	13,978	-	7,450	-
1550	Investments accounted for using the equity method	6(7)	1,062,726	7	939,980	6
1600	Property, plant and equipment, net	6(8)	907,315	6	681,954	5
1780	Intangible assets	6(9)	21,623	-	8,392	-
1840	Deferred income tax assets	6(23)	56,638	-	50,129	-
1920	Refundable deposits		233	-	2,050	-
15XX	**Non-current assets**		2,062,513	13	1,689,955	11
1XXX	**Total assets**		$ 16,022,538	100	$ 14,831,417	100

(Continued)

HERMES MICROVISION, INC.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	2015 AMOUNT	2015 %	2014 AMOUNT	2014 %
	Current liabilities					
2170	Accounts payable		$ 84,939	1	$ 116,362	1
2180	Accounts payable - related parties	7	57,071	-	91,326	1
2200	Other payables	6(10)(12)	968,147	6	780,040	5
2220	Other payables - related parties	7	214,417	1	182,428	1
2230	Current income tax liabilities	6(23)	168,582	1	265,634	2
2250	Provisions for liabilities - current	6(13)	1,808,182	11	1,471,138	10
2300	Other current liabilities		5,613	-	7,555	-
21XX	**Current Liabilities**		3,306,951	20	2,914,483	20
	Non-current liabilities					
2570	Deferred income tax liabilities	6(23)	16,586	-	12,147	-
2600	Other non - current liabilities	6(11)	116,103	1	76,926	-
25XX	**Non - current liabilities**		132,689	1	89,073	-
2XXX	**Total Liabilities**		3,439,640	21	3,003,556	20
	Equity					
3110	**Share capital - common stock**	6(14)	710,000	4	710,000	5
3200	**Capital surplus**	6(15)	5,436,908	34	5,431,196	37
	Retained earnings	6(16)				
3310	Legal reserve		789,999	5	466,206	3
3350	Unappropriated retained earnings		5,574,668	35	5,170,809	35
	Other equity interest	6(17)				
3400	Other equity interest		71,323	1	49,650	-
3XXX	**Total equity**		12,582,898	79	11,827,861	80
	Significant contingent liabilities and unrecognized contract commitments	9				
3X2X	**Total liabilities and equity**		$ 16,022,538	100	$ 14,831,417	100

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

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

	Items	Notes	2015 AMOUNT	2015 %	2014 AMOUNT	2014 %
4000	**Operating revenue**	6(18) and 7	$ 6,724,191	100	$ 7,390,177	100
5000	**Operating costs**	6(6) and 7	(2,349,780)	(35)	(2,496,856)	(34)
5900	**Net operating margin**		4,374,411	65	4,893,321	66
	Operating expenses	6(21)(22) and 7				
6100	Selling expenses		(415,645)	(6)	(393,913)	(5)
6200	General and administrative expenses		(302,745)	(5)	(221,447)	(3)
6300	Research and development expenses		(1,374,763)	(20)	(1,176,668)	(16)
6000	**Total operating expenses**		(2,093,153)	(31)	(1,792,028)	(24)
6900	**Operating profit**		2,281,258	34	3,101,293	42
	Non-operating income and expenses					
7010	Other income	6(19)	69,966	1	93,019	1
7020	Other gains and losses	6(20)	207,517	3	319,013	5
7070	Share of profit of subsidiaries	4(15) and 6(7)	73,273	1	77,973	1
7000	**Total non-operating income and expenses**		350,756	5	490,005	7
7900	**Profit before income tax**		2,632,014	39	3,591,298	49
7950	Income tax expense	6(23)	(310,580)	(5)	(353,370)	(5)
8200	**Profit for the year**		$ 2,321,434	34	$ 3,237,928	44
	Other comprehensive income	6(11)(17)				
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans		($ 38,291)	-	($ 8,842)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(23)	6,509	-	1,503	-
8310	**Components of other comprehensive income that will not be reclassified to profit or loss**		(31,782)	-	(7,339)	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Other comprehensive income, before tax, exchange differences on translation		26,112	-	41,798	-
8399	Income tax relating to the components of other comprehensive income	6(23)	(4,439)	-	(7,105)	-
8360	**Components of other comprehensive income that will be reclassified to profit or loss**		21,673	-	34,693	-
8300	**Other comprehensive (loss) income for the year**		($ 10,109)	-	$ 27,354	-
8500	**Total comprehensive income for the year**		$ 2,311,325	34	$ 3,265,282	44
9750	**Basic earnings per share**	6(24)	$	32.70	$	45.60
9850	**Diluted earnings per share**	6(24)	$	32.64	$	45.55

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

HERMES MICROVISION, INC.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars)

	Notes	Share capital - common stock	Capital surplus	Retained Earnings: Legal reserve	Retained Earnings: Special reserve	Retained Earnings: Unappropriated retained earnings	Cumulative translation differences of foreign operations	Total equity
For the year ended December 31, 2014								
Balance at January 1, 2014		$ 710,000	$ 5,427,023	$ 231,846	$ 4,144	$ 3,306,436	$ 14,957	$ 9,694,406
Appropriation of 2013 earnings								
Legal reserve		-	-	234,360	-	(234,360)	-	-
Special reserve		-	-	-	(4,144)	4,144	-	-
Cash dividends		-	-	-	-	(1,136,000)	-	(1,136,000)
Profit for the year		-	-	-	-	3,237,928	-	3,237,928
Adjustments arising from changes in percentages of ownership in subsidiary	6(15)	-	4,173	-	-	-	-	4,173
Other comprehensive income for the year	6(17)	-	-	-	-	(7,339)	34,693	27,354
Balance at December 31, 2014		$ 710,000	$ 5,431,196	$ 466,206	$ -	$ 5,170,809	$ 49,650	$ 11,827,861
For the year ended December 31, 2015								
Balance at January 1, 2015		$ 710,000	$ 5,431,196	$ 466,206	$ -	$ 5,170,809	$ 49,650	$ 11,827,861
Appropriation of 2014 earnings								
Legal reserve		-	-	323,793	-	(323,793)	-	-
Cash dividends		-	-	-	-	(1,562,000)	-	(1,562,000)
Profit for the year		-	-	-	-	2,321,434	-	2,321,434
Adjustments arising from changes in percentages of ownership in subsidiary	6(15)	-	2,313	-	-	-	-	2,313
Share-based payment transaction	6(12)	-	3,399	-	-	-	-	3,399
Other comprehensive (loss) income for the year	6(17)	-	-	-	-	(31,782)	21,673	(10,109)
Balance at December 31, 2015		$ 710,000	$ 5,436,908	$ 789,999	$ -	$ 5,574,668	$ 71,323	$ 12,582,898

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

HERMES MICROVISION, INC.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	Notes	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax for the year		$ 2,632,014	$ 3,591,298
Adjustments to reconcile profit before tax to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Provision for doubtful accounts		-	7,505
Depreciation	6(8)(21)	58,134	36,396
Amortization	6(9)(21)	6,310	3,254
Loss from disposal of property, plant, equipment and intangible assets	6(20)	692	-
Compensation cost for employees option	6(12)	897	-
Compensation cost of stock appreciation right	6(12)(22)	365,744	306,057
Share of profits of subsidiaries		(73,273)	(77,973)
Revaluation of financial assests at fair value		(6,063)	(1,805)
Interest income	6(19)	(68,084)	(69,909)
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Accounts receivable		1,722,599	(1,268,051)
Accounts receivable - related parties		(316,734)	312,283
Other receivables		1,239	4,858
Other receivables - related parties		417	668
Inventories		(771,314)	31,138
Prepayments		10,842	(8,200)
Net changes in liabilities relating to operating activities			
Accounts payable		(31,423)	18,074
Accounts payable - related parties		(34,255)	(144,253)
Other payables		(135,899)	28,677
Other payables - related parties		31,989	33,865
Provisions for liabilities		337,044	498,879
Other current liabilities		(1,942)	2,616
Other non- current liabilities		887	(2,132)
Cash generated from operations		3,729,821	3,303,245
Interest received		68,410	69,638
Income tax paid		(407,633)	(240,584)
Net cash provided by operating activities		3,390,598	3,132,299
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in financial assests at fair value through profit or loss		1,107,868	(1,100,000)
Proceeds from disposal (acquisition) of bond investments without active markets - current		(1,562,250)	1,625,085
Acquisition of available-for-sales financial assets - non - current		(6,528)	(3,038)
Acquisition of investments accounted for using the equity method		(18,546)	-
Acquisition of property, plant and equipment	6(25)	(301,212)	(469,437)
Proceeds from disposal of property, plant, equipment and intangible assets		-	11
Acquisition of intangible assets	6(9)	(19,541)	(6,618)
Decrease (increase) in refundable deposits		1,817	(1,930)
Net cash (used in) provided by investing activities		(798,392)	44,073
CASH FLOWS FROM FINANCING ACTIVITY			
Cash dividends paid		(1,562,000)	(1,136,000)
Increase in cash and cash equivalents		1,030,206	2,040,372
Cash and cash equivalents at beginning of year	6(1)	7,230,183	5,189,811
Cash and cash equivalents at end of year	6(1)	$ 8,260,389	$ 7,230,183

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

HERMES MICROVISION, INC.
NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Hermes Microvision, Inc. (the “Company”) was incorporated on May 19, 2003. The Company engages in the research, development, design, manufacturing and sale of precision instruments and machinery (electronic inspection equipment.) The Company’s stock was listed on the GreTai Securities Market, effective from May 21, 2012. The Company obtained the certification of Corporate Governance Assessment 6009 by Taiwan Corporate Governance Association on September 30, 2014.

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

These parent company only financial statements were authorized for issuance by the Board of Directors on March 1, 2016.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

According to Financial-Supervisory-Securities-Auditing No. 1030010325 issued on April 3, 2014, commencing 2015, companies with shares listed on the TWSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market shall adopt the 2013 version of IFRS (not including IFRS 9, ‘Financial instruments’) as endorsed by the FSC and the "Regulations Governing the Preparation of Financial Reports by Securities Issuers " effective January 1, 2015 (collectively referred herein as the “2013 version of IFRSs) in preparing the consolidated financial statements. The impact of adopting the 2013 version of IFRS is listed below:

A.IAS 19 (revised), ‘Employee benefits’

The revised standard the eliminates the corridor approach and requires actuarial gains and losses to be recognised immediately in other comprehensive income. Past service costs will be recognised immediately in the period incurred. Net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability, replace the finance charge and expected return on plan assets. The return of plan assets, excluding net interest expense, is recognised in other comprehensive income. An entity is required to recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits or when it recognises any related restructuring costs. Additional disclosures are required to present

how defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

B.IAS 1, 'Presentation of financial statements'

The amendment requires entities to separate items presented in OCI classified by nature into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently when specific conditions are met. If the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified and those that will not be reclassified) must be shown separately. Accordingly, the Company will adjust its presentation of the statement of comprehensive income.

C.IFRS 12, 'Disclosure of interests in other entities'

The standard integrates the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. Also, the Company will disclose additional information about its interests in consolidated entities and unconsolidated entities accordingly.

D.IFRS 13, 'Fair value measurement'

The standard defines fair value as 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 standard sets out a framework for measuring fair value using the assumptions that market participants would use when pricing the asset or liability; for non-financial assets, fair value is determined based on the highest and best use of the asset. Also, the standard requires disclosures about fair value measurements. Based on the Company's assessment, the adoption of the standard has no significant impact on its parent company only financial statements, and the Company will disclose additional information about fair value measurements accordingly.

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

None.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the 2013 version of IFRS as endorsed by the FSC：

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
IFRS 9, ‘Financial instruments’	January 1, 2018
Sales or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRIC 14 ‘Regulatory deferral accounts’	January 1, 2016
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
IFRS 16, ‘Leases’	January 1, 2019
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments IAS 12)	January 1, 2017
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contribution (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, ‘Levies’	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

The Company is assessing the potential impact of the new standards, interpretations and amendments above and has not yet been able to reliably estimate their impact on the parent company only financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

These parent company only financial statements are prepared by the Company in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers".

(2) Basis of preparation

A. Except for the following items, these parent company only financial statements have been prepared under the historical cost convention:

(a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(b) Available-for-sale financial assets measured at fair value.

(c) Liabilities on cash-settled share-based payment arrangement measured at fair value.

(d) Defined benefit liabilities recognized based on the net amount of pension fund assets plus unrecognized past service cost and unrecognized actuarial losses, and less unrecognized actuarial gains and present value of defined benefit obligation.

B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

(3) Foreign currency translation

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

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss as part of the fair value gain or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing

at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d)All foreign exchange gains and losses are all presented in the statement of comprehensive income within "other gains and losses".

B. Translation of foreign operations

(a) The operating results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

iii. All resulting exchange differences are recognized in other comprehensive income.

(b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation.

(4) Classification of current and non-current items

A. Assets that meets one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realized within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meets one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be paid off within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be paid off within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

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

A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(a)Hybrid (combined) contracts; or

(b)They eliminate or significantly reduce a measurement or recognition inconsistency; or

(c)They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

C. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss.

(7) Loans and receivables

A. Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

B. Bond investments without active market

(a) Bond investments without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted

in an active market, and also meet all of the following conditions:

i. Not designated on initial recognition as at fair value through profit or loss;

ii. Not designated on initial recognition as available-for-sale;

iii. Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(b) On a regular way purchase or sale basis, bond investments without active market are recognised and derecognised using trade date accounting.

(c) Bond investments without active market are initially recognised at fair value on the trade date plus transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Amortisation of a premium or a discount on such assets is recognised in profit or loss.

(d) Bond investments without active market held by the Company are those time deposits with a short maturity period but do not qualify as cash equivalents, and they are measured at initial investment amount as the effect of discounting is immaterial.

(8) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B. On a regular way purchase or sale basis, available-for-sale financial assets is recognized and derecognized using trade date accounting.

C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income.

(9) Impairment of financial assets

A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Company uses to determine whether there is objective evidence of impairment loss is as follows:

(a) Significant financial difficulty of the issuer or debtor;

(b) A breach of contract, such as a default or delinquency in interest or principal payments;

(c) The Company, for economic or legal reasons relating to the borrower’s financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(d) It becomes probable that the borrower will enter bankruptcy or other financial

reorganization;

(e) The disappearance of an active market for that financial asset because of financial difficulties;

(f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or

(h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows:

(a) Financial assets measured at amortized cost

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

(b) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss and is reclassified from "other comprehensive income" to "profit or loss". If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss. Impairment loss of and investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss.

Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to receive cash flows expire.

(11) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted - average method. The cost of finished goods and work - in - process comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). The item - by - item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(12) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction periods are capitalized.

B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial periods in which they are incurred.

C. Property, plant and equipment cost are measured at cost, and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Significant components are depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate in accordance with IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 years
Construction appurtenance	10 years
Machinery and equipment	3 ~ 8 years
Transportation equipment	5 years
Furniture and fixtures	3~ 5 years

Leasehold improvements	3~ 4 years
Other equipment	3~ 8 years

(13) Leased assets/ leases (lessee)

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

(14) Intangible assets

Computer software is stated at cost and amortised on a straight - line basis over its estimated useful life of 3 to 5 years.

(15) Investments accounted for using the equity method

A. Subsidiaries are all entities over which the Company has control and governs the financial and operating policies of the entity under a statute or an agreement (including Special Purpose Entities). In general, it is presumed that the investor has control, if an investor holds, directly or indirectly 50 percent or more of the voting rights of the entity. Investment in subsidiaries are accounted for using the equity method in the parent company only financial statements.

B. When the Company transacts with its subsidiaries, profits and losses resulting from the transactions with the subsidiaries are recognized in the Company’s parent company only financial statements only to the extent of interests in the subsidiaries that are not owned by the Company. Accounting policies of subsidiaries have been adjustment where necessary to ensure consistency with the policies adopted by the Company.

C. Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company’s share of profit or loss and other comprehensive income of the subsidiary as well as the distribution received. The Company also recognized its share in the changes in the equity of subsidiaries.

D. Changes in the Company’s ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amount of the subsidiary and the fair value of the consideration paid or received is recognized directly in equity.

E. In accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers”, profit and other comprehensive income in the parent company only financial statements are the same with the profit and other comprehensive income which are attributable to equity holders of the parent company in the consolidated financial statements. Also, the equity in the parent company only financial statements is equal to equity attributable to owners of the parent company in the consolidated financial statements.

(16) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where

there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

(17) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured amortised cost using the effective interest method. However, since short-term accounts payable bear no interest, and considering that the effects of discounting would not be significant, the Company subsequently measures those payables at the invoice amount.

(18) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(19) Provisions

Provisions (including warranties, etc.) are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are not recognized for future operating losses.

(20) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rates of government bonds (at the balance sheet date) instead.

ii. Actuarial gains and losses arising on defined benefit plans are recognized in other comprehensive income in the periods in which they arise.

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

Employees' bonus and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' bonus and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the stockholders at their stockholders' meeting subsequently, the differences should be recognized based on the accounting for changes in estimates. The Company calculates the number of shares of employees' stock bonus based on the fair value per share at the previous day of the stockholders' meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

(21) Employee share-based payment

A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting periods, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

B. For the cash-settled share-based payment arrangements, the employee services received and the liability incurred are measured at the fair value of the liability to pay for those services, and are recognized as compensation cost and liability over the vesting period. The fair value of the liability shall be remeasured at each balance sheet date until settled at the settlement date, with any changes in fair value recognized in profit or loss.

(22) Income tax

A. The tax expense for the periods comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(23) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(24) Dividends

Dividends are recorded in the Company's financial statements in the periods in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities.

(25) Revenue recognition

The Company manufactures and sells precision instruments and machinery. Revenue is measured at the fair value of the consideration received or receivable taking into account value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods should be recognized when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

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

The preparation of these financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Judgements and estimates are continually evaluated and adjusted based on historical experience and other factors.

(1) Critical judgements in applying the Company's accounting policies

None.

(2) Critical accounting estimates and assumptions

The Company makes estimates and assumptions based on the expectation of future events that are believed to be reasonable under the circumstances at the end of the reporting periods. The resulting accounting estimates might be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

A.Valuation of inventories

As inventories are stated at the lower of cost and net realizable value, the Company must

determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technological innovation, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. Such a valuation of inventories is principally based on the demand for the products within the specified periods in the future. Therefore, there might be material changes to the valuation.

As of December 31, 2015, the carrying amount of inventories was $1,563,101.

B.Provision for warranty liability

Warranty liabilities are primarily arising from sales of equipment. The amount of the obligation is estimated based on the sufficient objective evidences, including the historical warranty records.

As of December 31, 2015, the carrying amount of accrued warranty liabilities was $1,808,182.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2015	December 31, 2014
Cash on hand	$ 275	$ 228
Checking accounts and demand deposits	2,923,814	2,106,255
Time deposits	5,336,300	5,123,700
	$ 8,260,389	$ 7,230,183

A.The Company transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B.The Company has no cash pledged to others.

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

Items	December 31, 2015	December 31, 2014
Current items:		
Financial assets held for trading		
Beneficiary certificates	$ -	$ 1,100,000
Valuation	-	1,805
Total	$ -	$ 1,101,805

A.The Company recognised net gain of $6,063 and $1,805 on financial assets held for trading for the years ended December 31, 2015 and 2014, respectively.

B.The Company has no financial assets at fair value through profit or loss pledged to others.

(3) Available-for-sale financial assets

Item	December 31, 2015	December 31, 2014
Noncurrent		
Non-listed and emerging stocks	$ 13,978	$ 7,450
Valuation adjustment of available-for-sale financial assets	-	-
Total	$ 13,978	$ 7,450

The Company did not recognize any other comprehensive income for fair value change for the year ended December 31, 2014 and 2015, respectively.

(4) Investments in debt instrument without active markets

Item	December 31, 2015	December 31, 2014
Time deposit	$ 2,828,250	$ 1,266,000

A.The Company listed the time deposits with maturities exceeding 90 days in this account.

B.The Company recognized interest of $8,650 and $6,654 in profit for the years ended December 31, 2015 and 2014, respectively.

C.The counterparties of the Company's investments have good credit quality.

(5) Accounts receivable

	December 31, 2015	December 31, 2014
Accounts receivable	$ 911,204	$ 2,633,803
Less: allowance for bad debts	-	-
	$ 911,204	$ 2,633,803

A.The credit rating of accounts receivable that were neither past due nor impaired had good credit quality.

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

(6) Inventories

	December 31, 2015		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 708,099	($ 131,318)	$ 576,781
Work - in - process	853,102	-	853,102
Finished goods	228,434	(95,216)	133,218
Total	$ 1,789,635	($ 226,534)	$ 1,563,101

	December 31, 2014		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 476,107	($ 120,712)	$ 355,395
Work - in - process	392,441	-	392,441
Finished goods	236,738	(167,965)	68,773
Total	$ 1,105,286	($ 288,677)	$ 816,609

The cost of inventories recognised as expense for the period:

	Year ended December 31, 2015	Year ended December 31, 2014
Cost of goods sold	$ 2,411,923	$ 2,410,728
(Gain) loss on decline in market value	(62,143)	86,128
	$ 2,349,780	$ 2,496,856

(7) Investment accounted for using the equity method

A.Investments in subsidiaries:

(a)The information of the subsidiaries: please refer to Note 4(3) of the consolidated financial statements for the year ended December 31, 2015.

	December 31, 2015	December 31, 2014
HMI Holdings Inc.	$ 1,062,726	$ 939,980

(b) Investments in associates : None.

(8) Property, plant and equipment

	Buildings	Machinery	Transportation equipment	Furniture and fixtures	Leasehold improvements	Other equipment	Prepayments for equipment and construction in progress	Total
At January 1, 2015								
Cost	$ -	$ 177,965	$ 3,300	$ 27,844	$ 26,153	$ 17,301	$ 608,357	$ 860,920
Accumulated depreciation and impairment	-	(145,060)	(2,365)	(15,025)	(15,514)	(1,002)	-	(178,966)
	$ -	$ 32,905	$ 935	$ 12,819	$ 10,639	$ 16,299	$ 608,357	$ 681,954
Year ended December 31, 2015								
Opening net book amount	$ -	$ 32,905	$ 935	$ 12,819	$ 10,639	$ 16,299	$ 608,357	$ 681,954
Additions	1,410	1,398	-	23,754	135	3,397	229,379	259,473
Disposals	-	(690)	-	(2)	-	-	-	(692)
Transferred	813,910	3,594	-	3,128	-	28,209	(824,127)	24,714
Depreciation charge	(18,706)	(18,126)	(660)	(8,524)	(8,520)	(3,598)	-	(58,134)
Closing net book amount	$ 796,614	$ 19,081	$ 275	$ 31,175	$ 2,254	$ 44,307	$ 13,609	$ 907,315
At December 31, 2015								
Cost	$ 815,320	$ 175,521	$ 3,300	$ 54,628	$ 14,555	$ 48,226	$ 13,609	$ 1,125,159
Accumulated depreciation and impairment	(18,706)	(156,440)	(3,025)	(23,453)	(12,301)	(3,919)	-	($ 217,844)
	$ 796,614	$ 19,081	$ 275	$ 31,175	$ 2,254	$ 44,307	$ 13,609	$ 907,315

	Machinery	Transportation equipment	Furniture and fixtures	Leasehold improvements	Other equipment	Prepayments for equipment and construction in progress	Total
At January 1, 2014							
Cost	$ 176,333	$ 3,300	$ 18,084	$ 23,021	$ 4,088	$ 186,484	$ 411,310
Accumulated depreciation and impairment	(120,511)	(1,705)	(10,051)	(9,632)	(681)	-	(142,580)
	$ 55,822	$ 1,595	$ 8,033	$ 13,389	$ 3,407	$ 186,484	$ 268,730
Year ended December 31, 2014							
Opening net book amount	$ 55,822	$ 1,595	$ 8,033	$ 13,389	$ 3,407	$ 186,484	$ 268,730
Additions	1,632	-	9,781	3,132	1,162	421,873	437,580
Disposals	-	-	(11)	-	-	-	(11)
Reclassifications	-	-	-	-	12,051	-	12,051
Depreciation charge	(24,549)	(660)	(4,984)	(5,882)	(321)	-	(36,396)
Closing net book amount	$ 32,905	$ 935	$ 12,819	$ 10,639	$ 16,299	$ 608,357	$ 681,954
At December 31, 2014							
Cost	$ 177,965	$ 3,300	$ 27,844	$ 26,153	$ 17,301	$ 608,357	$ 860,920
Accumulated depreciation and impairment	(145,060)	(2,365)	(15,025)	(15,514)	(1,002)	-	(178,966)
	$ 32,905	$ 935	$ 12,819	$ 10,639	$ 16,299	$ 608,357	$ 681,954

(9) Intangible assets

		Computer Software
At January 1, 2015		
Cost	$	19,994
Accumulated amortization and impairment	(	11,602)
	$	8,392
Year ended December 31, 2015		
Opening net book amount	$	8,392
Additions-acquired separately		19,541
Amortization charge	(	6,310)
Closing net book amount	$	21,623
At December 31, 2015		
Cost	$	39,535
Accumulated amortization and impairment	(	17,912)
	$	21,623

		Computer Software
At January 1, 2014		
Cost	$	13,376
Accumulated amortization and impairment	(	8,348)
	$	5,028
Year ended December 31, 2014		
Opening net book amount	$	5,028
Additions-acquired separately		6,618
Amortization charge	(	3,254)
Closing net book amount	$	8,392
At December 31, 2014		
Cost	$	19,994
Accumulated amortization and impairment	(	11,602)
	$	8,392

Details of amortization on intangible assets are as follows :

	For the years ended December 31,	
	2015	2014
Operating expenses	$ 6,310	$ 3,254

(10) Other payables

	December 31, 2015	December 31, 2014
Accrued salaries and bonuses	$ 623,863	$ 488,752
Accrued employees' bonuses and directors' and supervisors' remuneration	202,757	87,995
Accrued commission	23,648	40,684
Payables on equipment	3,799	45,538
Others	114,080	117,071
	$ 968,147	$ 780,040

(11) Pension

A.(a)The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of a retirement fund monitoring committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of Demcember 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method, to the labors expected to be qualified for retirement next year, the Company will make contribution for the deficit by next March.

(b)The amounts recognized in the balance sheet are determined as follows:

	December 31, 2015	December 31, 2014
Present value of funded obligations	($ 131,733)	($ 91,002)
Fair value of plan assets	15,531	13,978
Net defined benefit liability	($ 116,202)	($ 77,024)

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

	Present value of defined benefit obilgations	Fair value of plan asset	Net defined benefit liability
December 31, 2015			
Balance at January 1	($ 91,002)	$ 13,978	($ 77,024)
Current service cost	(542)	-	(542)
Interest (expense) revenue	(1,816)	288	(1,528)
	(93,360)	14,266	(79,094)
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	82	82
Change in demographic assumptions	(1,065)	-	(1,065)
Change in financial assumptions	30,797	-	30,797
Experience adjustments	(68,105)	-	(68,105)
	(38,373)	82	(38,291)
Pension fund contribution	-	1,183	1,183
Balance at December 31	($ 131,733)	$ 15,531	($ 116,202)

	Present value of defined benefit obilgations	Fair value of plan asset	Net defined benefit liability
December 31, 2014			
Balance at January 1	($ 79,967)	$ 12,500	($ 67,467)
Current service cost	(529)	-	(529)
Interest (expense) revenue	(1,596)	259	(1,337)
	(82,092)	12,759	(69,333)
Remeasurements:			
Return of plan asset (excluding amounts included in interest income or expense)	-	36	36
Change in demographic assumptions	220	- -	- 220
Change in financial assumptions	(13,052)	-	(13,052)
Experience adjustments	3,922	-	3,922
	(8,910)	36	(8,874)
Pension fund contribution	-	1,183	1,183
Balance at December 31	($ 91,002)	$ 13,978	($ 77,024)

(g) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earning is less than aforementioned rates, government shall make payment for the deficit after authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS19 paragraph 142. The constitution of fair value of plan assets as of December 31, 2015 and 2014 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

	2015	2014
Discount rate	1.5%	2%
Future salary increases	3%	5%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2015				
Effect on present value of defined benefit obligation	($ 4,606)	$ 4,821	$ 4,737	($ 4,551)

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change simultaneously. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

(j) Expected contributions to the defined benefit pension plans of the Company for the year ended December 31, 2016 amounts to $1,858.

(h) As of December 31, 2015, the weighted average duration of that retirement plan is 14 year. The analysis of timing of the future pension payment was as follows:

Within 1 year	$	1,319
1-2 year(s)		1,325
2-5 years		10,407
Over 5 years		156,720
	$	169,771

B. Effective July 1, 2005, the Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance The benefits accrued are paid monthly or in lump sum upon termination of employment. For the years ended December 31, 2015 and 2014, the Company recognized pension expenses based on the above pension plan amounting to $15,106 and $14,071, respectively.

(12) <u>Share-based payment</u>

The Company:

A. The Company's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Stock appreciation rights plan 1	December 31, 2013	1,104,000 (Note 3)	3 years	Note 1
Stock appreciation rights plan 2	January 1, 2014	729,700 (Note 4)	5 years	Note 2
Stock appreciation rights plan 3	April 1, 2014	50,500 (Note 5)	5 years	Note 2
Stock appreciation rights plan 4	July 1, 2014	40,000 (Note 6)	5 years	Note 2
Stock appreciation rights plan 5	October 1, 2014	61,600 (Note 7)	5 years	Note 2
Stock appreciation rights plan 6	January 1, 2015	78,800 (Note 8)	5 years	Note 2
Stock appreciation rights plan 7	April 1, 2015	48,800 (Note 9)	5 years	Note 2
Stock appreciation rights plan 8	July 1, 2015	20,000 (Note 10)	5 years	Note 2
Employee stock options plan 1	December 22, 2015	750,000 (Note 12)	5 years	Note 11

Note 1: 40% of the stock appreciation rights were vested since grant date and the others will be vested 7.5% every season for the next eight seasons.

Note 2: 25% of the stock appreciation rights will be vested after four seasons since grant date and the others will be vested 6.25% every season for the next 16 seasons from the first vesting date.

Note 3: Including 463,200 units for the subsidiaries' employees.

Note 4: Including 435,700 units for the subsidiaries' employees.

Note 5: Including 33,500 units for the subsidiaries' employees.

Note 6: Including 8,500 units for the subsidiaries' employees.

Note 7: Including 44,100 units for the subsidiaries' employees.

Note 8: Including 29,300 units for the subsidiaries' employees.

Note 9: Including 28,800 units for the subsidiaries' employees.

Note 10: Including 20,000 units for the subsidiaries' employees.

Note 11: This employee compensation plan was issued by the Parent Company. The plan should be granted under the conditions below: 50% of the stock appreciation rights will be vested after 2 years' service. Moreover, another 25% of stock appreciation rights

should be vested after 3 years, and the other 25% will be on next year.

Note 12: Including 552,000 units for the subsidiaries' employees.

Each stock appreciation right represents the future appreciation of one share. The plan will be cash settled by multiplying the execution rights of the employees and the price variance of the closing date's stock price and the executing price.

B. The fair value of stock appreciation rights as of December 31, 2015 are measured by using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Share price (in NT dollars)	Exercise Price (in NT dollars)	Expected price volatility	Expected term	Expected dividends yield rate	Risk - free interest rate	Fair value per unit (in NT dollars)
Stock appreciation rights plan 1	December 31, 2013	N/A	N/A	60.14%	3 Years	0%	0.3981%	$481~ $481.31
Stock appreciation rights plan 2	January 1, 2014	N/A	N/A	48.19%~ 60.14%	5 Years	0%	0.3706%~ 0.4005%	$265~ $443.14
Stock appreciation rights plan 3	April 1, 2014	N/A	N/A	48.19%~ 60.14%	5 Years	0%	0.3706%~ 0.4307%	$13~ $352.14
Stock appreciation rights plan 4	July 1, 2014	N/A	N/A	48.19%~ 60.14%	5 Years	0%	0.3706%~ 0.4632%	$210~ $448.47
Stock appreciation rights plan 5	October 1, 2014	N/A	N/A	48.19%~ 60.14%	5 Years	0%	0.3706%~ 0.5002%	$137~ 433.05
Stock appreciation rights plan 6	January 1, 2015	N/A	N/A	48.19%~ 60.14%	5 Years	0%	0.3706%~ 0.5351%	$35.01~ 412.7
Stock appreciation rights plan 7	April 1, 2015	N/A	N/A	48.19%~ 60.14%	5 Years	0%	0.3706%~ 0.5658%	$72.65~ 388
Stock appreciation rights plan 8	July 1, 2015	N/A	N/A	48.19%~ 60.14%	5 Years	0%	0.3706%~ 0.61600%	$86.72~ 383.51

C. The fair value of employee stock options measured by using the Black-Scholes option-pricing model. Relevant information is as follows:

	Vested after 2 years' service	Vested after 3 years' service	Vested after 4 years' service
Expected dividends yield rate	1.5%	1.5%	1.5%
Expected price volatility	47.03%	49.10%	49.17%
Risk-free interest rate	0.57%	0.61%	0.66%
Expected option life	3.5 year	4 year	4.5 year
Options granted of Group Company	375,000	187,500	187,500
Fair value of weighted-average (in NTD dollars/Unit)	$ 374.9	$ 407.9	$ 428.2

D. The movement of stock appreciation reights plan and employee stock options please see the disclosure 6(12) in the consolidated financial report.

E. The weighted average stock price of stock apprciation rights at exercise dates of 2015 and 2014 were NT$1,673 (in dollars) and NT$1,240 (in dollars), respectively.

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

	2015	2014
Cash settled-stock appreciation rights plan	$ 365,744	$ 306,057
Equity settled-Employee stock options	897	-
	$ 366,641	$ 306,057

G. Liabilities incurred from share based payment transactions are shown below:

	December 31, 2015	December 31, 2014
Liabilities on cash-settled-Stock appreciation rights plan	$ 467,833	$ 345,674

(13) Provisions

	Warranty
At January 1, 2015	$ 1,471,138
Additional provisions	337,044
At December 31, 2015	$ 1,808,182

	Warranty
At January 1, 2014	$ 972,259
Additional provisions	498,879
At December 31, 2014	$ 1,471,138

(14) Share capital

A. As of December 31, 2015, the Company’s authorized capital was $1,200,000, consisting of 120,000 thousand shares of ordinary stock, and the paid-in capital was $710,000 with a par value of $10 (in NT dollars) per share. All proceeds from shares issued have been collected.

B. As authorized during the shareholders' meeting on June 4, 2013, the Board of Directors adopted a resolution in the July 31, 2013 meeting to increase capital by issuance of Global Deposit Receipts ("GDRs"). The offering was completed in November 2013 with the issuance of 5,000 thousand new shares and 5,000 thousand existing outstanding shares, totalling 10,000 thousand units to be listed in Luxembourg Stock Exchange. Each unit of GDRs represents 1 common share. The issue price was US$29.17 per unit, which is equivalent to NT$860 per unit. Total proceeds raised were $4,238,036 after deducting the issuance costs.

As of December 31, 2015, the outstanding shares of GDRs were 592 thousand units representing 592 thousand shares.

(15) Capital surplus

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

	Share premium	Employee stock options	Adjustments arising from changes in percentage in subsidiary
At January 1, 2015	$ 5,411,867	$ -	$ 19,329
Adjustments arising from changes in ownership percentage in subsidiary	-	-	2,313
Share-based payment transaction	-	3,399	-
At December 31, 2015	$ 5,411,867	$ 3,399	$ 21,642

	Share premium	Employee stock options	Adjustments arising from changes in percentage in subsidiary
At January 1, 2014	$ 5,411,867	$ -	$ 15,156
Adjustments arising from changes in ownership percentage in subsidiary	-	-	4,173
At December 31, 2014	$ 5,411,867	$ -	$ 19,329

(16) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses and then 10% of the remaining amount shall be set aside as legal reserve. Bonus distributed to the employees and remuneration paid to the directors and supervisors should account for higher than 1% and less than 1%, respectively, of the total remaining distributable earnings. The individuals who are entitled to employee stock dividends may include the employees of the Company’s affiliates who meet certain criteria. Such criteria are determined by the Board of Directors. Appropriation of the remainder shall be proposed by the Board of Directors and resolved by the stockholders.

B. As the Company’s industry is in the growth stage, in order to be in line with the industry’s overall environment and its characteristics and pursue the goals of the Company’s sustainable operations and shareholders’ long-term interests, the dividend policy is adopted taking into

consideration the Company's actual operating results of the dividend distribution year and the capital budget planning of the following year. Dividends are distributed in the form of stock or cash. According to the Company's dividend policy, cash dividends shall account for at least 10% of the total dividends distributed.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When the debit balance on other equity items is reversed subsequently, the amount of the associated special reserve could be released and included in the distributable earnings.

E. Dividends distributed to owners amounted to $1,562,000 ($22 (in dollars) per share) and $1,136,000 ($16 (in dollars) per share) for the years ended December 31, 2015 and 2014, respectively. The dividend distribution proposal for 2015 was proposed by the Board of Directors on March 1, 2016 and amounted to $1,136,000 ($16 (in dollars) per share). The above mentioned 2015 earnings appropriation had not been approved at the stockholders' meeting.

F. For information relating to employees' remuneration (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(22).

(17) Other equity

	Currency translation
At January 1, 2015	$ 49,650
Cumulative translation difference of foreign operations	26,112
Tax on cumulative translation difference of foreign operations	(4,439)
At December 31, 2015	$ 71,323

	Currency translation
At January 1, 2014	$ 14,957
Cumulative translation difference of foreign operations	41,798
Tax on cumulative translation difference of foreign operations	(7,105)
At December 31, 2014	$ 49,650

(18) Operating revenue

	2015	2014
Sales revenue	$ 6,165,583	$ 6,851,072
Other operating revenue	558,608	539,105
	$ 6,724,191	$ 7,390,177

(19) Other income

	2015	2014
Interest income from bank deposits	$ 68,084	$ 69,909
Others	1,882	23,110
Total	$ 69,966	$ 93,019

(20) Other gains and losses

	2015	2014
Gains (losses) on disposal of property, plant and equipment	($ 692)	$ -
Net currency exchange gain	202,489	317,208
Gain on disposal investments	7,868	-
Gain on revaluation of financial assests	(1,805)	1,805
Other expenses	(343)	-
Total	$ 207,517	$ 319,013

(21) Expenses by nature

	2015	2014
Employee benefit expenses	$ 1,004,064	$ 739,260
Depreciation charges on property, plant and equipment	58,134	36,396
Amortization charges on intangible assets	6,310	3,254
	$ 1,068,508	$ 778,910

(22) Employee benefit expenses

	2015	2014
Wages and salaries	$ 569,732	$ 377,561
Compensation cost of employee stock options	366,641	306,057
Labor and health insurance fees	38,453	29,637
Pension costs	17,176	15,970
Other personnel expenses	12,062	10,035
	$ 1,004,064	$ 739,260

A. According to the Articles of Incorporation of the Company, when distributing earnings, the Company shall distribute bonus to the employees and pay remuneration to the directors and supervisors that account for higher than 1% and less than 1%, respectively, of the total distributed amount.

However, in accordance with the Company Act amended in May 20, 2015, a company shall distribute employee compensation, based on the profit of the current year distributable, in a

fixed amount or a ratio of profits. If a company has accumulated deficit, earnings should be channeled to cover losses. A company may, by a resolution adopted by a majority vote at a meeting of board of directors attended by two-thireds of the total number of directors, have the porfit distributable as employees' compensation distributed in the form of shares or in cash.

The amended articles will be resolved in the shareholders' meeting in 2016, the employee compensation in accordance with the Company Act based on the profit of the current year.

B. For the years ended December 31, 2015 and 2014, employees' remuneration (bonus) was accrued at $132,274 and $79,995, respectively; directors' and supervisors' remuneration was accrued at $13,227 and $8,000, respectively. The aforementioned amounts were recognized in salary expenses. The expenses recognised for the year of 2015 were accrued based on the earnings of current year; The difference between directors' and supervisors' remuneration as resolved by the shareholders' meeting and amount recognised in the March 1, 2015 financial statements by $132,000, had been adjusted in the profit or loss of 2016. The expenses recognised for the year of 2014 were accrued based on the net income of 2014 and the percentage specified in the Articles of Incorporation of the Company, taking into account other factors such as legal reserve.

Employees' bonus and directors' and supervisors' remuneration of 2014 as resolved by the stockholders were in agreement with those amounts recognised in the 2014 financial statements.

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

(23) Income tax

A. Income tax expense

a)Components of income tax expense:

	2015	2014
Current tax:		
Current tax on profits for the period	$ 305,056	$ 340,131
Adjustments in respect of prior years	5,524	13,239
Total current tax	310,580	353,370
Deferred tax:		
Origination and reversal of temporary differences	-	-
Income tax expense	$ 310,580	$ 353,370

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

	2015	2014
Cumulative translation differences of foreign operations	($ 4,439)	($ 7,105)
Remeasurement of defined obligations	6,509	1,503

B. As of December 31, 2015, the Company’s income tax returns have been assessed and approved by the Tax Authority through 2012.

C. The relationship between income tax expense and accounting profit is as follows:

	2015	2014
Tax on pretax income at statutory tax rate	$ 447,442	$ 610,521
Tax effect of non pretax income items	(3,181)	126,262
Estimated 10% corporate income tax on unappropriated earnings	134,480	98,739
Adjustment of prior years' income tax	5,524	13,239
Tax effect of income tax exemption	(273,685)	(495,391)
Tax effect of deferred tax assets realized	-	-
Income tax expense	$ 310,580	$ 353,370

D. Amounts of deferred tax assets or liabilities as a result of temporary difference are as follows:

	2015				
	January 1,	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31,
Temporary differences					
-Deferred tax assets					
Unrealized loss on inventory	$ 9,580	$ -	$ -	$ -	$ 9,580
Provision for warranty	29,562	-	-	-	29,562
Unrealized investment loss on long-term equity investments	836	-	-	-	836
Accrued pension liabilities	2,009	-	-	-	2,009
Accrued employee bonus	3,278	-	-	-	3,278
Remeasurement of defined benefit obligations	4,864	-	6,509	-	11,373
Subtotal	50,129	-	6,509	-	56,638
-Deferred tax liabilities					
Unrealized foreign exchange gain	(1,978)	-	-	-	(1,978)
Currency translation differences	(10,169)	-	(4,439)	-	(14,608)
Subtotal	(12,147)	-	(4,439)	-	(16,586)
Total	$ 37,982	$ -	$ 2,070	$ -	$ 40,052

	2014				
	January 1,	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31,
Temporary differences					
-Deferred tax assets					
Unrealized loss on inventory	$ 9,580	$ -	$ -	$ -	$ 9,580
Provision for warranty	29,562	-	-	-	29,562
Unrealized investment loss on long-term equity investments	836	-	-	-	836
Accrued pension liabilities	2,009	-	-	-	2,009
Accrued employee bonus	3,278	-	-	-	3,278
Remeasurement of defined benefit obligations	3,361	-	1,503	-	4,864
Subtotal	48,626	-	1,503	-	50,129
-Deferred tax liabilities					
Unrealized foreign exchange gain	(1,978)	-	-	-	(1,978)
Currency translation differences	(3,064)	-	(7,105)	-	(10,169)
Subtotal	(5,042)	-	(7,105)	-	(12,147)
Total	$ 43,584	$ -	($ 5,602)	$ -	$ 37,982

E. The amounts of deductible temporary difference that are not recognized are as follows:

	December 31, 2015	December 31, 2014
Deductible temporary differences	$ 2,062,866	$ 1,687,192

F. The Company's products are qualified to a five-year exemption on income tax under the "Incentives for Emerging Important Strategic Industries in Manufacturing and Technology Services". The income tax exemption is valid from January 1, 2012 to December 31, 2016.

G. Unappropriated retained earnings:

	December 31, 2015	December 31, 2014
Earnings generated in and before 1997	$ -	$ -
Earnings generated in and after 1998	5,574,668	5,170,809
	$ 5,574,668	$ 5,170,809

H. As of December 31, 2015 and 2014, the balance of the imputation tax credit account was $461,260 and $254,610, respectively. The creditable tax rate was 10.18% for 2014 and was estimated to be 8.27% for the year ended December 31, 2015.

(24) Earnings per share

	Year ended December 31, 2015		
	Amount after tax	Weighted average number of ordinary shares outstanding (in thousands of shares)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to equity holders of the parent company	$ 2,321,434	71,000	$ 32.70
Diluted earnings per share			
Profit attributable to equity holders of the parent company	$ 2,321,434	71,000	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	118	
Employees' options	-	-	
Profit attributable to equity holders of the parent company plus assumed conversion of all dilutive potential ordinary shares	$ 2,321,434	71,118	$ 32.64

	Year ended December 31, 2014		
	Amount after tax	Weighted average number of ordinary shares outstanding (in thousands of shares)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to equity holders of the parent company	$ 3,237,928	71,000	$ 45.60
Diluted earnings per share			
Profit attributable to equity holders of the parent company	$ 3,237,928	71,000	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	83	
Profit attributable to equity holders of the parent company plus assumed conversion of all dilutive potential ordinary shares	$ 3,237,928	71,083	$ 45.55

(25) Supplemental cash flow information

	December 31, 2015	December 31, 2014
Purchase of property, plant and equipment	$ 259,473	$ 437,580
Add: opening balance of payable on equipment	45,538	77,395
Less: ending balance of payable on equipment	(3,799)	(45,538)
Cash paid during the year	$ 301,212	$ 469,437

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

A. Operating revenue:

	2015	2014
Sales of goods:		
-The entity with significant influence over the Company	$ 45,084	$ 42,284
-Subsidiaries	1,349,793	499,925
	$ 1,394,877	$ 542,209

There are no significant differences in sale prices and collection terms between related parties and third parties.

B. Purchases

	2015	2014
Purchases of goods:		
-Subsidiaries	$ 961,481	$ 785,993

There are no significant differences in purchase prices and payment terms between related

parties and third parties.

C. Purchases of services:

	2015	2014
Technology service charge		
-The entity with significant influence over the Company	$ 26,870	$ 18,463
-Subsidiaries	54,524	28,843
	$ 81,394	$ 47,306
Contracted research expense		
-Subsidiaries	$ 1,157,153	$ 885,592
Commission expense		
-The entity with significant influence over the Company	$ 41,558	$ 38,155
Other expenses		
-The entity with significant influence over the Company	$ 15	$ 22
-Subsidiaries	49,913	94,324
	$ 49,928	$ 94,346

The above transactions are under normal commercial terms and conditions.

D. Period-end balances arising from sales of goods:

	December 31, 2015	December 31, 2014
Receivables from the entity with significant influence over the Company	$ 29,332	$ 20,134
Receivables from the subsidiaries	357,041	49,505
	$ 386,373	$ 69,639

The receivables from the entity with significant influence over the Company arise mainly from sale transactions. The receivables are due from one to two months after the date of sales. The receivables are unsecured in nature and bear no interest. There are no provisions accrued against receivables from related parties.

E. Accounts payable

	December 31, 2015	December 31, 2014
Payable to the subsidiaries	$ 57,071	$ 91,326

F. Period-end balances arising from purchases of services:

	December 31, 2015	December 31, 2014
Receivables from the entity with significant influence over the Company	$ 43,663	$ 78,177
Receivables from the subsidiaries	170,754	104,251
	$ 214,417	$ 182,428

G. Leases

	2015	2014
Rental expense- The entity has significant influence over the Company	$ 9,797	$ 22,409

(2) Key management compensation

	2015	2014
Salaries and other short-term employee benefits	$ 20,246	$ 30,724
Share-based payment	23,270	8,928
	$ 43,516	$ 39,652

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

A.Operating leases commitments

The Company leases offices and plant assets under non-cancellable operating lease agreements. Rental expense of $22,694 and $23,600 were recognized for the years ended December 31, 2015 and 2014, respectively.

The majority of lease agreements are renewable at the end of the lease periods at market rates.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2015	December 31, 2014
Not later than one year	$ 11,696	$ 5,915
Later than one year but not later than five years	15,366	14,569
Later than five years	38,268	48,551
Total	$ 65,330	$ 69,035

B. Capital commitments

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

	December 31, 2015	December 31, 2014
Future payments for plant and equipment	$ 73,800	$ 210,643

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital risk management

In order to safeguard the Company's ability to adapt to the changes in the industry and to accelerate the new product development, the Company's objectives when managing capital are to maintain the sufficient financial resources to support the operating capital, capital expenditures, research and development activities and dividends paid to shareholders.

The Company monitors capital through the ratio of total liabilities divided by total assets. The Company's strategy is to maintain the ratio within 50%. As of December 31, 2015 and 2014, the Company's ratios of total liabilities divided by total assets were as follows:

	December 31, 2015	December 31, 2014
Total liabilities	3,439,640	$ 3,003,556
Total assets	$ 16,022,538	$ 14,831,417
Total liabilities/total assets ratio	21%	20%

Financial instruments

A. The carrying amounts of the Company's financial instruments measured at amortized cost approximate their fair values. These include cash and cash equivalents, notes payable, accounts receivable, other receivables, short-term loans, notes payable, accounts payable and other payables.

B. Financial risk management policies

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

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

C. Significant financial risks and degrees of financial risks

Except for the following, there is no significant change in this period.

a) Market risk

Foreign exchange risk

- The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, JPY and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.
- Management has set up a policy to require the Company to manage its foreign exchange risk against its functional currency. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the Company's functional currency.
- The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.
- The Company's businesses involve some non-functional currency operations. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2015		
	Foreign currency Amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 90,301	32.825	$ 2,964,127
JPY:NTD	1,169,623	0.273	318,956
Financial liabilities			
Monetary items			
USD:NTD	$ 9,833	32.825	$ 322,777

	December 31, 2014		
	Foreign Currency Amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 195,290	31.65	$ 6,180,932
Financial liabilities			
Monetary items			
USD:NTD	$ 10,089	31.65	$ 319,318

- Please refer to the following table for the details of unrealised exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Company.

	Year ended December 31, 2015		
	Exchange gain (loss)		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ -	32.825	$ 114,694
JPY:NTD	-	0.273	7,072
Financial liabilities			
Monetary items			
USD:NTD	$ -	32.825	$ 4,147

	Year ended December 31, 2014		
	Exchange gain (loss)		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ -	31.65	$ 147,824
Financial liabilities			
Monetary items			
USD:NTD	$ -	31.65	$ 5,364

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

	Year ended December 31, 2015		
	Sensitivity Analysis		
	Extent of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 29,641	$ -
JPY:NTD	1%	3,190	-
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 3,228	$ -

	Year ended December 31, 2014		
	Sensitivity Analysis		
	Extent of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 61,809	$ -
Financial liabilities			
Monetary items			
USD:NTD	1%	$ 3,193	$ -

Price risk

The Company's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 5% with all other variables held constant, total equity for the year ended December 31, 2015 and 2014 would have increased/decreased by $699 and 373, as a result of gains/losses on equity securities classified as available-for-sale.

Interest rate risk

At December 31, 2015 and 2014, if interest rates on NTD-denominated time deposits had been 0.25% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2015 and 2014 would have been $20,411 and $15,974 lower/higher, respectively, mainly as a result of higher/lower interest revenue on floating rate time deposits.

b) Credit risk

i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

ii. No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

iii. The individual analysis of financial assets that had been impaired is provided in the statement for each type of financial asset in Note 6.

c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Company and aggregated by Company finance. Company finance monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, and compliance with internal balance sheet ratio targets.

ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Company finance. Company finance invests surplus cash in interest bearing current accounts that are expected to readily generate cash inflows for managing liquidity risk.

iii. The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining periods at the balance sheet date to the

contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

December 31, 2015		Less than 1 year
Accounts payable	$	84,939
Accounts payable- related parties		57,071
Other payables		968,147
Other payables - related parties		214,417

Non-derivative financial liabilities:

December 31, 2014		Less than 1 year
Accounts payable	$	116,362
Accounts payable- related parties		91,326
Other payables		780,040
Other payables - related parties		182,428

(2) Fair value information

A. Details of the fair value of the Company's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A.

B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company's investment in listed stocks, beneficiary certificates, on-the-run Taiwan central government bonds and derivative instruments with quoted market prices is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Company's investment in off-the-run government bonds, corporate bonds, bank debentures, convertible bonds and most derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Company's investment in certain derivative instruments, equity investment without active market and investment property is included in Level 3.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2015 and 2014 is as follows:

December 31, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Recurring fair value measurements				
Equity securities	$ -	$ -	$ 13,978	$ 13,978

December 31, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Recurring fair value measurements				
Held for trading financial assets	$ 1,101,805	$ -	$ -	$ 1,101,805
Equity securities	-	-	7,450	7,450
Total	$ 1,101,805	$ -	$ 7,450	$ 1,109,255

D. The methods and assumptions the Company used to measure fair value are as follows:

(a) The instruments the Company used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	Listed shares	Closed-end fund	Open-end fund	Government bond	Corporate bond	Convertible (exchangeable) bond
Market quoted price	Closing price	Closing price	Net asset value	Transaction price	Weighted average quoted price	Closing

E. For the years ended December 31, 2015 and 2014, there was no transfer between Level 1 and Level 2.

F. The following chart is the movement of Level 3 for years ended December 31, 2015 and 2014:

	December 31, 2015	December 31, 2014
At January 1	$ 7,450	$ 4,412
Acquired in the period	6,528	3,038
At December 31,	$ 13,978	$ 7,450

G. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2015	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Venture capital shares Private equity fund investment	$ 13,978	Net asset value	Not applicable	-	Not applicable

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: None.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 1.

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company' s paid-in capital: Please refer to table 2.

E. Acquisition of real estate reaching NT$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching NT$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more: Please refer to table 3.

H. Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more: Please refer to table 4.

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

J. Significant inter-company transactions during the reporting periods: Please refer to table 5.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China)：Please refer to table 6.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 7.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 8.

14. SEGMENT INFORMATION

Disclosure is required only in consolidated financial statements.

HERMES MICROVISION, INC

STATEMENT OF CASH AND CASH EQUIVALENTS

DECEMBER 31, 2015

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Items		Description	Amount
Cash			
Cash on hand			$ 275
Cash in banks：			
demand deposits	-NTD		1,916,722
	-Foreign currency		
		USD 30,681 thousands , exchange rate @32.825	1,007,090
		JPY 7 thousands , exchange rate @0.273	2
Time deposits	-NTD		4,679,800
	-Foreign currency		
		USD 20,000 thousands , exchange rate @32.825	656,500
			$ 8,260,389

HERMES MICROVISION, INC

STATEMENT OF INVESTMENTS IN BONDS WITHOUT ACTIVE MARKETS

DECEMBER 31, 2015

(EXPRESS IN THOUSANDS OF NEW TAIWAN DOLLARS)

Name	Original Amount	Interest rates	Book Value	Note
Deposit over three months	USD 10,000 thousand	0.90%	$ 328,250	
	TWD 2,500,000 thousand	0.67%~0.80%	2,500,000	
			$ 2,828,250	

HERMES MICROVISION, INC

STATEMENT OF ACCOUNTS RECEIVABLE, NET

DECEMBER 31, 2015

(EXPRESS IN THOUSANDS OF NEW TAIWAN DOLLARS)

Client Name	Description	Amount	Note
Non related parties			
B		$ 290,895	
A		219,027	
D		177,255	
E		51,946	
I		37,319	
Others		134,762	The amount of individual clients included in others does not exceed 5% of the account balance
Less : Allowance for doubtful accounts		-	
		911,204	
Related parties			
Hermes Microvision Japan, Inc.		324,303	
Others		62,070	
		386,373	
Total		$ 1,297,577	

HERMES MICROVISION, INC

STATEMENT OF INVENTORIES

DECEMBER 31, 2015

(EXPRESS IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Amount	
Items	Cost	Net Realizable value
Raw materials	$ 708,099	$ 579,334
Work - in - process	853,102	853,102
Finished goods	228,434	1,504,195
	1,789,635	$ 2,936,631
Less : Allowance for valuation loss	(226,534)	
	$ 1,563,101	

HERMES MICROVISION, INC

STATEMENT OF CHANGES IN INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

FOR THE YEAR ENDED DECEMBER 31, 2015

(EXPRESS IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Balance, January 1, 2014		Additions (Note)		Reductions			Balance, December 31, 2014			Market value or net assets value		
Investees	Shares	Amount	Shares	Amount	Shares	Amount	Share of profit of subsidiaries	Shares	%	Amount	Unit price (NT)	Total amount	Collateral
HMI Holdings Inc.	27,546,821	$ 939,980	-	$ 49,473	-	$ -	$ 73,273	27,546,821	100%	$ 1,062,726		1,062,726	None

Note：The difference comprises the cumulative translation adjustment resulted from the additional capital increase of long-term investment at equity, which is NT$ 30,927 thousands, and capital increase of HMI Holdings Inc., NT$ 18,546 thousands.

HERMES MICROVISION, INC
STATEMENT OF ACCOUNTS PAYABLE
DECEMBER 31, 2015
(EXPRESS IN THOUSANDS OF NEW TAIWAN DOLLARS)

Vendor Name	Amount	Note
Non related parties		
A	$ 16,770	
B	11,892	
C	8,764	
D	4,680	
E	4,460	
Others	38,373	The amount of individual clients included in others does not exceed 5% of the account balance
	84,939	
Related parties		
Hermes Microvision, Inc.	31,009	
Hermes Microvision Co., Ltd (Beijing)	19,983	
Others	6,079	
	57,071	
Total	$ 142,010	

HERMES MICROVISION, INC
STATEMENT OF NET OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2015
(EXPRESS IN THOUSANDS OF NEW TAIWAN DOLLARS)

Item	Amount	
Machine	$	6,165,583
Other operating revenue		558,608
Total revenue		6,724,191
Less: Sales return and allowance		-
	$	6,724,191

HERMES MICROVISION, INC

STATEMENT OF OPERATING COST

FOR THE YEAR ENDED DECEMBER 31, 2015

(EXPRESS IN THOUSANDS OF NEW TAIWAN DOLLARS)

Items	Amount
Raw materials	
Add : Balance, beginning of year	$ 476,107
Raw materials purchased	1,756,038
Transferred from expenses	284,988
Less : Raw material, end of year	(708,099)
Inventory loss on material	(245)
Scrapped loss on material	(17,601)
Sales of raw materials	(459,418)
Transferred to property, plant and equipment	(25,611)
Raw materials used	1,306,159
Manufacturing expenses	341,122
Manufacturing cost	1,647,281
Add : Work - in - process, beginning of year	392,441
Work - in - process purchased	73,925
Less : Work - in - process, end of year	(853,102)
Transferred to raw materials	(41,941)
Transferred to expenses	(133,152)
Cost of finished goods	1,085,452
Add : Finished goods, beginning of year	236,738
Finished goods purchased	20,519
Less : Finished goods, end of year	(228,434)
Others	(51,292)
Subtotal	1,062,983
Sales of raw materials	459,418
Provision for inventory valuation and obsolescence	(62,143)
Others	889,522
Total	$ 2,349,780

HERMES MICROVISION, INC

STATEMENT OF MANUFACTURING EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

(EXPRESS IN THOUSANDS OF NEW TAIWAN DOLLARS)

Items	Amount	Note
Payroll expenses	$ 284,350	
Depreciation	23,462	
Miscellaneous expenses	24,168	
Others	9,142	The amount of each item in others does not exceed 5% of the account balance.
	$ 341,122	

HERMES MICROVISION, INC

STATEMENT OF OPERATING EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

(EXPRESS IN THOUSANDS OF NEW TAIWAN DOLLARS)

Items	Amount	Note
Selling expenses		
Payroll expenses	$ 134,230	
Commission expenses	90,995	
Business promotion expenses	80,636	
Service expenses	81,394	
Import and export expenses	21,386	
Others	7,004	The amount of each item in others does not exceed 5% of the account balance.
Total	$ 415,645	
General and administrative expenses		
Payroll expenses	$ 184,607	
Depreciation	27,144	
Miscellaneous expenses	36,691	
Others	54,303	The amount of each item in others does not exceed 5% of the account balance.
Total	$ 302,745	
Research and development expenses		
Contracted research expenses	$ 1,158,503	
Payroll expenses	208,271	
Others	7,989	The amount of each item in others does not exceed 5% of the account balance.
Total	$ 1,374,763	

HERMES MICROVISION, INC

SUMMARY OF LABOR, DEPRECIATION, AMORTIZATION EXPENSES BY FUNCTION

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(EXPRESS IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2015			2014		
	Classified as manufacturing cost	Classified as operating expenses	Total Amount	Classified as manufacturing cost	Classified as operating expenses	Total Amount
Employee benefit expense						
Payroll expenses	$ 355,982	580,391	$ 936,373	$ 212,314	$ 471,304	$ 683,618
Labor and health insurance fees	12,187	26,266	38,453	10,663	18,974	29,637
Pension costs	4,429	12,747	17,176	5,461	10,509	15,970
Other personnel expenses	4,189	7,873	12,062	4,160	5,875	10,035
Depreciation expenses	23,462	34,672	58,134	23,740	12,656	36,396
Amotization expenses	-	6,310	6,310	-	3,254	3,254

Note：As of December 31, 2015 and 2014, the Company had 384 and 347 employees, respectively.