# HERMES MICROVISION, INC. AND SUBSIDIARIES

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

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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.

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# 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 performance 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

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



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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)

| | | | Years ended December 31 | | | |
|---|---|---|---|---|---|---|
| | | | 2015 | | 2014 | |
| | Items | Notes | AMOUNT | % | AMOUNT | % |
| 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) <u>Classification of current and non-current items</u>

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) <u>Cash and cash equivalents</u>

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) Derecognition of financial assets

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

(12) 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.

(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).

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 |

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.

(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. For the years ended December 31, 2015 and 2014, employees' bonus was accrued at $132,274 and $79,995, respectively. 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).

(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 | | | | |
| 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 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.And Subsidiaries.

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

For the year ended December 31, 2015

Table 1

Expressed in thousands of NTD

| Securities held by | Marketable securities (Note 1) | Relationship with the securities issuer (Note 2) | General ledger account | As of December 31, 2015 | | | | Footnote (Note 4) |
|---|---|---|---|---|---|---|---|---|
| | | | | Number of shares | Book value (Note 3) | Ownership (%) | Fair value | |
| Hermes Microvision, Inc. | TransPacific Medtech Fund, L.P. | Non-related party | Available-for -sale financial assets-noncurrent | - | $ 13,978 | 25% | $ 13,978 | None |
| HMI Holdings Inc. | Westone( Cavman) Ltd. | " | Available-for -sale financial assets-noncurrent | - | 18,546 | 15% | 18,546 | " |

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Leave the column blank if the issuer of marketable securities is non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

Table 2

Hermes Microvision, Inc.Inc.And Subsidiaries.
Acquisition or sale of the same security with the accumulated cost exceeding NT$300 million or 20% of the Company's paid-in capital
For the year ended December 31, 2015

Expressed in thousands of NTD

| Investor | Marketable securities (Note 1) | General ledger account | Counterparty (Note 2) | Relationship with the investor (Note 2) | Balance as at January 1, 2015 | | Addition (Note 3) | | Disposal (Note 3) | | | | Balance as at December 31, 2015 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Number of shares | Amount | Number of shares | Amount | Number of shares | Selling price | Book value | Gain (loss) on disposal | Number of shares | Amount |
| Hermes Microvision, Inc. | Franklin Templeton SinoAm Money Market Fund | Financial assets at fair value through profit or loss | - | - | 24, 703, 413 | $ 250, 456 | - | $ - | 24, 703, 413 | $ 251, 194 | $250, 000 | $ 1, 195 | - | $ - |
| " | UPAMC James Bond Money Market Fund | Financial assets at fair value through profit or loss | - | - | 12, 198, 581 | 200, 321 | 8, 511, 748 | 140, 000 | 20, 710, 329 | 340, 635 | 340, 000 | 635 | - | - |
| " | Union Money Market | Financial assets at fair value through profit or loss | - | - | 7, 715, 275 | 100, 135 | 7, 690, 592 | 100, 000 | 15, 405, 868 | 200, 257 | 200, 000 | 257 | - | - |
| " | Fuh Hwa Money Market | Financial assets at fair value through profit or loss | - | - | - | - | 14, 045, 536 | 200, 000 | 14, 045, 536 | 200, 076 | 200, 000 | 76 | - | - |
| " | Jih Sun Money Market Fund | Financial assets at fair value through profit or loss | - | - | 17, 223, 705 | 250, 249 | 13, 687, 099 | 200, 000 | 30, 910, 804 | 451, 240 | 450, 000 | 1, 240 | - | - |

Hermes Microvision, Inc.Inc.And Subsidiaries.

Purchases or sales of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more

For the year ended December 31, 2015

Table 3

Expressed in thousands of NTD

| | | | Transaction | | | | Differences in transaction terms compared to third party transactions (Note 1) | | Notes/accounts receivable (payable) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Purchaser/seller | Counterparty | Relationship with the counterparty | Purchases (sales) | Amount | Percentage of total purchases (sales) | Credit term | Unit price | Credit term | Balance | Percentage of total notes/accounts receivable (payable) | Footnote (Note 2) |
| Hermes Mirovision, Inc. | Hermes Microvision Japan Inc. | Subsidiary | Sales | ($ 992,086) | (14.91%) | 30 days after delivery | Approximately the same with third party transactions | Approximately the same with third party transactions | $ 324,303 | 23.86% | |
| " | Hermes Microvision Inc. (US) | " | Sales | ( 286,961) | (4.31%) | 30 days after delivery | " | " | 8,530 | 0.63% | |
| " | Hermes Microvision Inc. (US) | " | Purchases | 683,790 | 38.93% | 30 days after acceptance | " | " | ( 31,009) | (29.22%) | |
| " | HERMES MICROVISION CO., LTD (BEIJING) | " | Purchases | 225,511 | 12.84% | 30 days after acceptance | " | " | ( 19,983) | (18.83%) | |

Note 1: If terms of related-party transactions are different from third-party transactions, explain the differences and reasons in the 'Unit price' and 'Credit term' columns.

Note 2: In case related-party transaction terms involve advance receipts (prepayments) transactions, explain in the footnote the reasons, contractual provisions, related amounts, and differences in types of transactions compared to third-party transactions.

Note 3: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Hermes Microvision, Inc.Inc.And Subsidiaries.

Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more

For the year ended December 31, 2015

Table 4

Expressed in thousands of NTD

| Creditor | Counterparty | Relationship with the counterparty | Balance as at December 31, 2015 (Note 1) | Turnover rate | Overdue receivables | | Amount collected subsequent to the balance sheet date | Allowance for doubtful accounts |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action taken | | |
| Hermes Mirovision, Inc. | Hermes Microvision Japan Inc. | Subsidiary | $ 324,303 | 6.06 | $ - | - | $ 5,535 | - |

Note 1: Fill in separately the balances of accounts receivable–related parties, notes receivable–related parties, other receivables–related parties....

Note 2: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Hermes Microvision, Inc.Inc.And Subsidiaries.

Significant inter-company transactions during the reporting periods

For the year period ended December 31, 2015

Table 5

Expressed in thousands of NTD

| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | Transaction: General ledger account | Transaction: Amount | Transaction: Transaction terms | Transaction: Percentage of consolidated total operating revenues or total assets (Note 3) |
|---|---|---|---|---|---|---|---|
| 0 | Hermes Microvision Inc. (TW) | Hermes Microvision Inc. (US) | 1 | Sales | $ 286,961 | The price and terms were based on the ordinary course of business | 4.31% |
| 0 | " | " | 1 | Purchases | 683,790 | The price and terms were based on the ordinary course of business | 10.28% |
| 0 | " | " | 1 | Contracted research expense | 1,157,153 | No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms | 17.40% |
| 0 | " | " | 1 | Other expenses | 78,792 | No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms | 1.18% |
| 0 | " | " | 1 | Cost of goods sold | 256,629 | No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms | 3.86% |
| 0 | " | " | 1 | Accounts payable | 31,009 | Net 30 days, after acceptance | 0.19% |
| 0 | " | " | 1 | Other payable | 168,986 | Net 30 days, after acceptance | 1.01% |
| 0 | " | Hermes Microvision Japan Inc. | 1 | Sales | 992,086 | The price and terms were based on the ordinary course of business | 14.91% |
| 0 | " | " | 1 | Other expenses | ( 13,558) | No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms | (0.20%) |
| 0 | " | " | 1 | Accounts receivable | 324,303 | Net 30 days, after delivery | 1.94% |
| 0 | " | Hermes Microvision Korea Inc. | 1 | Sales | 66,188 | The price and terms were based on the ordinary course of business | 1.00% |

| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | Transaction: General ledger account | Transaction: Amount | Transaction: Transaction terms | Transaction: Percentage of consolidated total operating revenues or total assets (Note 3) |
|---|---|---|---|---|---|---|---|
| 0 | Hermes Microvision Inc. (TW) | Hermes Microvision Korea Inc. | 1 | Purchases | 43,614 | The price and terms were based on the ordinary course of business | 0.66% |
| 0 | " | " | 1 | Other expenses | 39,204 | No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms | 0.59% |
| 0 | " | " | 1 | Accounts receivable | 24,073 | Net 30 days, after delivery | 0.14% |
| 0 | " | HERMES MICROVISION CO., LTD (BEIJING) | 1 | Purchases | 225,511 | The price and terms were based on the ordinary course of business | 3.39% |
| 0 | " | " | 1 | Accounts payable | 19,983 | Net 30 days, after acceptance | 0.12% |
| 1 | Hermes Microvision Inc. (US) | HERMES MICROVISION CO., LTD (BEIJING) | 3 | Sales | 43,362 | The price and terms were based on the ordinary course of business | 0.65% |
| 1 | " | " | 3 | Purchases | 56,325 | The price and terms were based on the ordinary course of business | 0.85% |
| 1 | " | " | 3 | Contracted research expense | 117,255 | No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms | 2.66% |

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1)Parent company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.).

(1)Parent company to subsidiary.

(2)Subsidiary to parent company.

(3)Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: Only transactions with amount equal to or higher than NT $ 10,000 thousand are disclosed.

Hermes Microvision, Inc.And SubsidiariesInc.And Subsidiaries.

Information on investees

For the year ended December 31, 2015

Table 6

Expressed in thousands of NTD

| | | | | Initial investment amount | | Shares held as at December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Investor | Investee (Notes 1 and 2) | Location | Main business activities | Balance as at December 31, 2015 | Balance as at December 31, 2014 | Number of shares | Ownership (%) | Book value | Net profit (loss) of the investee for the year ended December 31, 2015 (Note 2(2)) | Investment income(loss) recognised by the Company for the year ended December 31, 2015 (Note 2(3)) | Footnote |
| Hermes Microvision Inc. | HMI Holdings Inc. | Samoa | Investment holdings | $ 861,591 | $ 843,045 | 28,146,822 | 100% | $ 1,062,726 | $ 73,273 | $ 73,273 | Subsidiary |
| HMI Holdings Inc. | Hermes Microvision Korea Inc. | Korea | Marketing of e-Bean inspection equipment and its components and related technical support services | 2,140 | 2,140 | 500 | 100% | 19,990 | 3,754 | - | Indirect subsidiary |
| HMI Holdings Inc. | Hermes Microvision Japan Inc. | Japan | Marketing of e-Bean inspection equipment and its components and related technical support services | 52,574 | 52,574 | 2,980 | 100% | 67,428 | 11,087 | - | " |

| Investor | Investee (Notes 1 and 2) | Location | Main business activities | Initial investment amount | | Shares held as at December 31, 2015 | | | Net profit (loss) of the investee for the year ended December 31, 2015 (Note 2(2)) | Investment income(loss) recognised by the Company for the year ended December 31, 2015 (Note 2(3)) | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Balance as at December 31, 2015 | Balance as at December 31, 2014 | Number of shares | Ownership (%) | Book value | | | |
| HMI Holdings Inc. | HMI Investment Corp. | Samoa | Investment holdings | 654,592 | 654,592 | 21,546,822 | 100% | 789,934 | 48,086 | - | " |
| HMI Investment Corp. | Hermes Microvision Inc. | America | Reserch and development | 665,970 | 665,970 | 61,785,000 | 94% | 789,934 | 51,334 | - | " |

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

(1)The columns of 'Investee', 'Location', 'Main business activities', Initial investment amount' and 'Shares held as at December 31, 2015' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column..

(2)The 'Net profit (loss) of the investee for the year ended December 31, 2015' column should fill in amount of net profit (loss) of the investee for this period.

(3)The 'Investment income (loss) recognised by the Company for the year ended December 31, 2015' column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognised by regulations.

Hermes Microvision, Inc.Inc.And Subsidiaries.

Information on investments in Mainland China

For the year ended December 31, 2015

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investee in Mainland China | Main business activities | Paid-in capital | Investment method (Note 1) | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2015 | Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2015: Remitted to Mainland China | Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2015: Remitted back to Taiwan | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2015 | Net income of investee as of December 31, 2015 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognised by the Company for the nine-month period ended December 31, 2015 (Note 2(2)B) | Book value of investments in Mainland China as of December 31, 2015 | Accumulated amount of investment income remitted back to Taiwan as of December 31, 2015 | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Hermes Microvision Co., Ltd. (Beijing) | Reserch, development and manufacturing of semuconductor machinery and equipment and related technical support services | $ 133, 738 | (2) | $ 133, 738 | None | None | $ 133, 738 | $ 10, 346 | 100% | $ 10, 346 | $ 166, 827 | None | |

| Company name | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2015 | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) | Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA |
|---|---|---|---|
| Hermes Microvision Co., Ltd. (Beijing) | $ 133, 738 | $ 133, 738 | $ 7, 549, 739 |

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

(1)Directly invest in a company in Mainland China..

(2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.

(3) Others

Note 2: In the 'Investment income (loss) recognised by the Company for the year ended December 31, 2015' column:

(1)It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.

(2)Indicate the basis for investment income (loss) recognition in the number of one of the following three categories:

A.The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.

B.The financial statements that are audited and attested by R.O.C. parent company's CPA.

C.Others.

Note 3: The numbers in this table are expressed in New Taiwan Dollars.

Hermes Microvision, Inc.Inc.And Subsidiaries.

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

For the year ended December 31, 2015

Table 8

Expressed in thousands of NTD

| Investee in Mainland China | Sale (purchase) | | Property transaction | | Accounts receivable (payable) | | Provision of endorsements/guarantees or collaterals | | Financing | | | | Others |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Balance at December 31, 2015 | % | Balance at December 31, 2015 | Purpose | Maximum balance during the nine-month period ended December 31, 2015 | Balance at December 31, 2015 | Interest rate | Interest during the nine-month period ended December 31, 2015 | |
| Hermes Microvision Co., Ltd. (Beijing) | $ 4,457 | 0.07% | None | None | $ 134 | 0.01% | None | None | None | None | None | None | None |
| " | ( 225,511) | (12.84%) | None | None | ( 19,983) | (18.83%) | None | None | None | None | None | None | None |