

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT
ACCOUNTANTS
FOR THE THREE-MONTH PERIODS ENDED
MARCH 31, 2016 AND 2015

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.



資誠

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

PWCR16000001

To Hermes Microvision, Inc.

We have reviewed the accompanying consolidated balance sheets of Hermes Microvision, Inc. and its subsidiaries as of March 31, 2016 and 2015, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the three-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion of these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the Statement of Auditing Standards No. 36 "Engagements to Review Financial Statements" in the Republic of China. A review consists primarily of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and International Accounting Standard 34 "Interim Financial Reporting" as endorsed by the Financial Supervisory Commission.

PricewaterhouseCoopers, Taiwan

PricewaterhouseCoopers, Taiwan
Hsinchu, Taiwan
Republic of China

April 29, 2016

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

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HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of March 31, 2016 and 2015 are reviewed, not audited)

Assets		Notes	March 31, 2016		December 31, 2015		March 31, 2015				
			AMOUNT	%	AMOUNT	%	AMOUNT	%			
Current assets											
1100	Cash and cash equivalents	6(1)	\$	8,604,609	52	\$	8,559,779	51	\$	7,450,854	47
1110	Financial assets at fair value	6(2)									
	through profit or loss - current			762,727	5		-	-		1,269,241	8
1147	Investments in debt instrument	6(4)									
	without active markets			1,711,550	10		2,828,250	17		1,471,100	10
1170	Accounts receivable, net	6(5)		1,600,638	10		1,329,965	8		2,365,620	15
1180	Accounts receivable - related	7									
	parties			32,324	-		29,332	-		24,908	-
1200	Other receivables			6,589	-		3,760	-		27,610	-
1210	Other receivables - related										
	parties			-	-		-	-		623	-
130X	Inventories, net	6(6)		2,585,486	15		2,634,265	16		2,073,824	13
1410	Prepayments			204,177	1		160,236	1		118,134	1
1470	Other current assets			28,016	-		60,856	-		29,907	-
11XX	Current Assets			15,536,116	93		15,606,443	93		14,831,821	94
Non-current assets											
1523	Available - for - sale financial	6(3)									
	assets - noncurrent			32,524	-		32,524	-		7,450	-
1600	Property, plant and equipment,	6(7)									
	net			1,005,121	6		975,021	6		942,486	6
1780	Intangible assets, net	6(8)		23,457	-		25,203	-		11,569	-
1840	Deferred income tax assets			59,076	1		56,638	1		50,135	-
1900	Other non - current assets			8,165	-		9,452	-		7,565	-
15XX	Non - current assets			1,128,343	7		1,098,838	7		1,019,205	6
1XXX	Total assets		\$	16,664,459	100	\$	16,705,281	100	\$	15,851,026	100

(Continued)

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of March 31, 2016 and 2015 are reviewed, not audited)

Liabilities and Equity		Notes	March 31, 2016		December 31, 2015		March 31, 2015	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current liabilities								
2170	Accounts payable		\$ 90,560	1	\$ 106,129	1	\$ 288,599	2
2200	Other payables	6(9)	1,495,527	9	1,690,655	10	1,192,891	8
2220	Other payables - related parties	7	39,013	-	43,663	-	51,488	-
2230	Current income tax liabilities		181,418	1	182,404	1	303,706	2
2250	Provisions for liabilities - current	6(12)	1,778,129	11	1,808,182	11	1,572,400	10
2300	Other current liabilities		40,369	-	105,292	-	48,112	-
21XX	Current Liabilities		3,625,016	22	3,936,325	23	3,457,196	22
Non-current liabilities								
2570	Deferred income tax liabilities		16,586	-	16,586	-	10,287	-
2600	Other non - current liabilities	6(10)	116,443	1	116,103	1	77,179	-
25XX	Non - current liabilities		133,029	1	132,689	1	87,466	-
2XXX	Total Liabilities		3,758,045	23	4,069,014	24	3,544,662	22
Equity								
Equity attributable to owners of parent company								
Share capital								
3110	Share capital - common stock	6(13)	710,000	4	710,000	4	710,000	5
3200	Capital surplus	6(14)	5,465,692	33	5,436,908	33	5,431,752	34
Retained earnings								
3310	Legal reserve		789,999	5	789,999	5	466,206	3
3350	Unappropriated retained earnings		5,826,469	35	5,574,668	33	5,608,645	36
Other equity interest								
3400	Other equity interest	6(16)	59,427	-	71,323	1	40,568	-
31XX	Equity attributable to owners of the parent company		12,851,587	77	12,582,898	76	12,257,171	78
36XX	Non - controlling interest		54,827	-	53,369	-	49,193	-
3XXX	Total equity		12,906,414	77	12,636,267	76	12,306,364	78
Significant contingent liabilities and unrecognised contract commitments								
3X2X	Total liabilities and equity		\$ 16,664,459	100	\$ 16,705,281	100	\$ 15,851,026	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)
(UNAUDITED)

		Three-month period ended March 31			
Items	Notes	2016		2015	
		AMOUNT	%	AMOUNT	%
4000 Operating revenue	6(17) and 7	\$ 986,221	100	\$ 1,572,758	100
5000 Operating costs	6(6)	(290,567)	(30)	(463,781)	(30)
5900 Net operating margin		695,654	70	1,108,977	70
Operating expenses	6(20)(21) and 7				
6100 Selling expenses		(88,162)	(9)	(149,189)	(10)
6200 General and administrative expenses		(118,085)	(12)	(126,003)	(8)
6300 Research and development expenses		(209,643)	(21)	(322,282)	(20)
6000 Total operating expenses		(415,890)	(42)	(597,474)	(38)
6900 Operating profit		279,764	28	511,503	32
Non-operating income and expenses					
7010 Other income	6(18)	16,373	2	23,572	2
7020 Other gains and losses	6(19)	(13,593)	(2)	(45,727)	(3)
7000 Total non-operating income and expenses		2,780	-	(22,155)	(1)
7900 Profit before tax		282,544	28	489,348	31
7950 Income tax expense	6(22)	(29,409)	(3)	(49,129)	(3)
8200 Profit for the period		\$ 253,135	25	\$ 440,219	28
Other comprehensive income for the period					
Components of other comprehensive income that will not be reclassified to profit or loss					
8311 Actuarial loss on defined benefit plan		\$ -	-	(\$ 32)	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		-	-	6	-
8310 Components of other comprehensive income that will not be reclassified to profit or loss		-	-	(26)	-
Components of other comprehensive income that will be reclassified to profit or loss					
8361 Cumulative translation differences of foreign operations		(14,209)	(1)	(11,482)	(1)
8399 Income tax relating to the components of other comprehensive income	6(22)	2,437	-	1,860	-
8360 Components of other comprehensive income that will be reclassified to profit or loss		(11,772)	(1)	(9,622)	(1)
8300 Other comprehensive income for the period		(\$ 11,772)	(1)	(\$ 9,648)	(1)
8500 Total comprehensive income for the period		\$ 241,363	24	\$ 430,571	27
Profit, attributable to:					
8610 Equity holders of the parent company		\$ 251,801	25	\$ 437,862	28
8620 Non-controlling interest		1,334	-	2,357	-
Profit for the period		\$ 253,135	25	\$ 440,219	28
Total comprehensive income attributable to:					
8710 Equity holders of the parent company		\$ 239,905	24	\$ 428,754	27
8720 Non-controlling interest		1,458	-	1,817	-
Total comprehensive income for the period		\$ 241,363	24	\$ 430,571	27
Earnings per share					
9750 Basic earnings per share	6(23)	\$ 3.55		\$ 6.17	
9850 Diluted earnings per share	6(23)	\$ 3.54		\$ 6.16	

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 THREE-MONTH PERIODS ENDED MARCH 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars)
(UNAUDITED)

		Equity attributable to owners of the parent							
		Retained Earnings				Cumulative translation differences of foreign operations	Total	Non-controlling interest	Total equity
Notes	Share capital - common stock	Capital surplus	Legal reserve	Unappropriated retained earnings					
<u>For the three-month period ended March 31, 2015</u>									
	\$	710,000	\$ 5,431,196	\$ 466,206	\$ 5,170,809	\$ 49,650	\$11,827,861	\$ 47,103	\$11,874,964
		-	-	-	437,862	-	437,862	2,357	440,219
Other comprehensive income for the period	6(16)	-	-	-	(26)	(9,082)	(9,108)	(540)	(9,648)
Adjustments arising from changes in percentages of ownership in subsidiary		-	556	-	-	-	556	273	829
Balance at March 31, 2015		<u>\$ 710,000</u>	<u>\$ 5,431,752</u>	<u>\$ 466,206</u>	<u>\$ 5,608,645</u>	<u>\$ 40,568</u>	<u>\$12,257,171</u>	<u>\$ 49,193</u>	<u>\$12,306,364</u>
<u>For the three-month period ended March 31, 2016</u>									
	\$	710,000	\$ 5,436,908	\$ 789,999	\$ 5,574,668	\$ 71,323	\$12,582,898	\$ 53,369	\$12,636,267
		-	-	-	251,801	-	251,801	1,334	253,135
Share-based payment transaction		-	28,784	-	-	-	28,784	-	28,784
Other comprehensive income for the period	6(16)	-	-	-	-	(11,896)	(11,896)	124	(11,772)
Balance at March 31, 2016		<u>\$ 710,000</u>	<u>\$ 5,465,692</u>	<u>\$ 789,999</u>	<u>\$ 5,826,469</u>	<u>\$ 59,427</u>	<u>\$12,851,587</u>	<u>\$ 54,827</u>	<u>\$12,906,414</u>

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)
(UNAUDITED)

	Notes	Three-month periods ended March 31	
		2016	2015
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 282,544	\$ 489,348
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(7)(20)	27,570	17,187
Amortization	6(8)(20)	2,433	1,278
Revaluation of financial assets at fair value	6(19)	(3,641)	(3,790)
Loss (gain) on disposal of property, plant, equipment and intangible assets	6(19)	2,145	(11)
Compensation cost of employee stock option	6(11)(21)	28,784	527
Compensation cost of stock appreciation right	6(11)(21)	(37,481)	234,542
Interest income	6(18)	(15,262)	(16,316)
Changes in operating assets and liabilities			
Changes in operating assets			
Accounts receivable		(270,673)	296,163
Accounts receivable - related parties		(2,992)	(4,774)
Other receivables		32	(17,148)
Other receivables - related parties		-	(623)
Inventories		32,458	(339,564)
Prepayments		(17,102)	(23,722)
Other current assets		32,840	(25,056)
Other non - current assets		(194)	1,768
Changes in operating liabilities			
Accounts payable		(15,569)	111,040
Other payables		(154,546)	(90,276)
Other payables - related parties		(4,650)	(26,689)
Provisions for liabilities		(30,053)	101,262
Other current liabilities		(64,923)	(38,941)
Other non - current liabilities		340	253
Cash (outflow) inflow generated from operations		(207,940)	666,458
Interest received		12,401	13,160
Income tax paid		(46,292)	(25,755)
Net cash flows (used in) from operating activities		(241,831)	653,863
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in financial assets at fair value through profit or loss		(759,085)	(163,646)
Proceeds from disposal (acquisition) of bond investments without active markets-current		1,116,700	(205,100)
Acquisition of property, plant and equipment	6(24)	(63,645)	(246,284)
Proceeds from disposal of property, plant, equipment and intangible assets		-	151
Acquisition of intangible assets	6(8)	(735)	(530)
Increased in deposits - out		1,480	102
Net cash flows from (used in) investing activities		294,715	(615,307)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from the exercise of subsidiaries' employee stock option		-	301
Net cash flows from financing activities		-	301
Effect of fluctuations in exchange rate		(8,054)	15,526
Net increase in cash and cash equivalents		44,830	54,383
Cash and cash equivalents at beginning of period	6(1)	8,559,779	7,396,471
Cash and cash equivalents at end of period	6(1)	<u>\$ 8,604,609</u>	<u>\$ 7,450,854</u>

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

HERMES MICROVISION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE-MONTHS ENDED MARCH 31, 2016 AND 2015

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

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 (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 April 29, 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”)

None.

(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	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
Clarifications to IFRS 15, 'Revenue from contract with customers' (amendments to IFRS 15)	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

Except for the following, the accounting policies applied in the consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2015. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

- A. The consolidated financial statements of the Group have been prepared in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and IAS 34, “Interim Financial Reporting” as endorsed by the FSC.
- B. Please refer to the Group’s consolidated financial statements for the year ended December 31, 2015.

(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 International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “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		
			March 31, 2016	December 31, 2015	March 31, 2015
Hermes Microvision Inc.	HMI Holdings Inc.	Investment holdings	100	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	100
HMI Holdings Inc.	Hermes Microvision Japan Inc.	Marketing of e-Beam inspection equipment and its components and related technical support services	100	100	100
HMI Holdings Inc.	HMI Investment Corp.	Investment holdings	100	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	100	100
HMI Investment Corp.	Hermes Microvision, Inc.	Research and development center	94	94	94

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) Pensions

Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation 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. And, the related information is disclosed accordingly.

(5) Income tax

The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

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 March 31, 2016, the carrying amount of inventories was \$2,585,486.

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 March 31, 2016, the carrying amount of accrued warranty liabilities was \$1,778,129.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Cash on hand	\$ 687	\$ 483	\$ 271
Checking accounts and demand deposits	596,198	3,128,091	1,376,783
Time deposits	8,007,724	5,431,205	6,073,800
Total	<u>\$ 8,604,609</u>	<u>\$ 8,559,779</u>	<u>\$ 7,450,854</u>

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	March 31, 2016	December 31, 2015	March 31, 2015
Current items:			
Financial assets held for trading - beneficiary certificates	\$ 760,000	\$ -	\$ 1,265,000
Valuation	2,727	-	4,241
Total	<u>\$ 762,727</u>	<u>\$ -</u>	<u>\$ 1,269,241</u>

A.The Group recognized net gain of \$3,641 and \$3,790 on financial assets held for trading for the three-month periods ended March 31, 2016 and 2015, 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	March 31, 2016	December 31, 2015	March 31, 2015
Non-listed and emerging stocks	\$ 32,524	\$ 32,524	\$ 7,450
Valuation adjustment of available-for-sale financial assets	-	-	-
Total	<u>\$ 32,524</u>	<u>\$ 32,524</u>	<u>\$ 7,450</u>

The Group did not recognize any other comprehensive income for fair value change for the three-month periods ended March 31, 2016 and 2015.

(4) Investments in debt instrument without active markets

Item	March 31, 2016	December 31, 2015	March 31, 2015
Time deposits	<u>\$ 1,711,550</u>	<u>\$ 2,828,250</u>	<u>\$ 1,471,100</u>

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

B. The Group recognized interest of \$615 and \$130 in profit for the three-month periods ended March 31, 2016 and 2015, respectively.

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

(5) Accounts receivable

	March 31, 2016	December 31, 2015	March 31, 2015
Accounts receivable	\$ 1,600,638	\$ 1,329,965	\$ 2,365,620
Less: allowance for bad debts	-	-	-
	<u>\$ 1,600,638</u>	<u>\$ 1,329,965</u>	<u>\$ 2,365,620</u>

A. Analysis of movement of impaired accounts receivable:

As of March 31, 2016 and December 31, 2015 and March 31, 2015, 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

	March 31, 2016		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 1,249,565	(\$ 281,133)	\$ 968,432
Work - in - process	1,729,409	(251,908)	1,477,501
Finished goods	199,849	(60,296)	139,553
Total	<u>\$ 3,178,823</u>	<u>(\$ 593,337)</u>	<u>\$ 2,585,486</u>

	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	<u>\$ 3,166,919</u>	<u>(\$ 532,654)</u>	<u>\$ 2,634,265</u>

	March 31, 2015		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 963,307	(\$ 220,844)	\$ 742,463
Work - in - process	1,393,865	(156,510)	1,237,355
Finished goods	228,831	(134,825)	94,006
Total	<u>\$ 2,586,003</u>	<u>(\$ 512,179)</u>	<u>\$ 2,073,824</u>

The cost of inventories recognized as expense for the period:

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
Cost of goods sold	\$ 219,697	\$ 445,518
Loss on decline in market value	70,870	18,263
	<u>\$ 290,567</u>	<u>\$ 463,781</u>

(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
<u>At January 1, 2016</u>									
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)
	<u>\$ 796,614</u>	<u>\$ 67,645</u>	<u>\$ 4,704</u>	<u>\$ 1,570</u>	<u>\$ 34,272</u>	<u>\$ 12,245</u>	<u>\$ 44,307</u>	<u>\$ 13,664</u>	<u>\$ 975,021</u>
<u>Three-month period ended March 31, 2016</u>									
Opening net book amount	\$ 796,614	\$ 67,645	\$ 4,704	\$ 1,570	\$ 34,272	\$ 12,245	\$ 44,307	\$ 13,664	\$ 975,021
Additions	52,834	4,836	-	410	550	-	-	1,913	60,543
Disposals	-	(2,117)	(28)	-	-	-	-	-	(2,145)
Reclassifications	3,274	545	-	-	-	-	8,427	(12,246)	-
Depreciation charge	(14,683)	(6,177)	(532)	(238)	(2,970)	(1,078)	(1,892)	-	(27,570)
Net exchange differences	-	(523)	(75)	(20)	(16)	(93)	-	(1)	(728)
Closing net book amount	<u>\$ 838,039</u>	<u>\$ 64,209</u>	<u>\$ 4,069</u>	<u>\$ 1,722</u>	<u>\$ 31,836</u>	<u>\$ 11,074</u>	<u>\$ 50,842</u>	<u>\$ 3,330</u>	<u>\$ 1,005,121</u>
<u>At March 31, 2016</u>									
Cost	\$ 871,429	\$ 279,328	\$ 10,343	\$ 6,392	\$ 62,679	\$ 46,050	\$ 56,653	\$ 3,330	\$ 1,336,204
Accumulated depreciation and impairment	(33,390)	(215,119)	(6,274)	(4,670)	(30,843)	(34,976)	(5,811)	-	(331,083)
	<u>\$ 838,039</u>	<u>\$ 64,209</u>	<u>\$ 4,069</u>	<u>\$ 1,722</u>	<u>\$ 31,836</u>	<u>\$ 11,074</u>	<u>\$ 50,842</u>	<u>\$ 3,330</u>	<u>\$ 1,005,121</u>

		Computer and communication equipment	Transportation equipment	Furniture and fixtures	Leasehold improvements	Other equipment	Prepayments for equipment and construction in progress	Total
	Machinery							
<u>At January 1, 2015</u>								
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)
	<u>\$ 75,917</u>	<u>\$ 5,040</u>	<u>\$ 2,565</u>	<u>\$ 15,163</u>	<u>\$ 22,662</u>	<u>\$ 16,299</u>	<u>\$ 611,885</u>	<u>\$ 749,531</u>
<u>Three-month period ended March 31, 2015</u>								
Opening net book amount	\$ 75,917	\$ 5,040	\$ 2,565	\$ 15,163	\$ 22,662	\$ 16,299	\$ 611,885	\$ 749,531
Additions	393	759	-	2,312	99	483	210,312	214,358
Disposals	(88)	-	(52)	-	-	-	-	(140)
Reclassifications	-	-	-	-	-	11,727	(11,727)	-
Depreciation charge	(9,001)	(476)	(238)	(1,578)	(5,307)	(587)	-	(17,187)
Net exchange differences	2,981	(57)	(17)	(26)	(123)	(3,407)	(3,427)	(4,076)
Closing net book amount	<u>\$ 70,202</u>	<u>\$ 5,266</u>	<u>\$ 2,258</u>	<u>\$ 15,871</u>	<u>\$ 17,331</u>	<u>\$ 24,515</u>	<u>\$ 807,043</u>	<u>\$ 942,486</u>
<u>At March 31, 2015</u>								
Cost	\$ 271,001	\$ 9,844	\$ 5,985	\$ 36,160	\$ 56,597	\$ 25,423	\$ 807,043	\$ 1,212,053
Accumulated depreciation and impairment	(200,799)	(4,578)	(3,727)	(20,289)	(39,266)	(908)	-	(269,567)
	<u>\$ 70,202</u>	<u>\$ 5,266</u>	<u>\$ 2,258</u>	<u>\$ 15,871</u>	<u>\$ 17,331</u>	<u>\$ 24,515</u>	<u>\$ 807,043</u>	<u>\$ 942,486</u>

(8) Intangible assets

	<u>Computer Software</u>
<u>At January 1, 2016</u>	
Cost	\$ 50,186
Accumulated amortization and impairment	(24,983)
	<u>\$ 25,203</u>

<u>Three-month period ended March 31, 2016</u>	
Opening net book amount	\$ 25,203
Additions - acquired separately	735
Amortization charge	(2,433)
Net exchange differences	(48)
Closing net book amount	<u>\$ 23,457</u>

<u>At March 31, 2016</u>	
Cost	\$ 50,717
Accumulated amortization and impairment	(27,260)
	<u>\$ 23,457</u>

	<u>Computer Software</u>
<u>At January 1, 2015</u>	
Cost	\$ 29,396
Accumulated amortization and impairment	(17,039)
	<u>\$ 12,357</u>

<u>Three-month period ended March 31, 2015</u>	
Opening net book amount	\$ 12,357
Additions - acquired separately	530
Amortization charge	(1,278)
Net exchange differences	(40)
Closing net book amount	<u>\$ 11,569</u>

<u>At March 31, 2015</u>	
Cost	\$ 29,826
Accumulated amortization and impairment	(18,257)
	<u>\$ 11,569</u>

Details of amortization on intangible assets are as follows:

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
Operating expenses	\$ 2,433	\$ 1,278

(9) Other payables

	March 31, 2016	December 31, 2015	March 31, 2015
Accrued salaries and bonuses	\$ 1,166,064	\$ 1,332,789	\$ 884,302
Accrued employees' bonuses and directors' and supervisors' remuneration	229,971	202,757	115,208
Accrued commission	17,281	23,648	36,095
Payables on equipment	697	3,799	13,612
Others	81,514	127,662	143,674
	<u>\$ 1,495,527</u>	<u>\$ 1,690,655</u>	<u>\$ 1,192,891</u>

(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 insufficient 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) For the aforementioned pension plan, the Group recognised pension costs of \$636 and \$518 for the three-month periods ended March 31, 2016 and 2015, respectively.
- (c) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2016 amounts to \$1,858.

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 three-month periods ended March 31, 2016 and 2015 were \$13,570 and \$11,792, 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	December 31, 2013	1,104,000	3 years	Note 1
Stock appreciation rights plan	January 1, 2014	729,700	5 years	Note 2
Stock appreciation rights plan	April 1, 2014	50,500	5 years	Note 2
Stock appreciation rights plan	July 1, 2014	40,000	5 years	Note 2
Stock appreciation rights plan	October 1, 2014	61,600	5 years	Note 2
Stock appreciation rights plan	January 1, 2015	78,800	5 years	Note 2
Stock appreciation rights plan	April 1, 2015	48,800	5 years	Note 2
Stock appreciation rights plan	July 1, 2015	20,000	5 years	Note 2
Employee stock options plan	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.

Note 3: 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	67.97%	3 Years	0%	0.41%	\$ 262.87
Stock appreciation rights plan 2	January 1, 2014	54.57%~67.97%	5 Years	0%	0.40%~0.43%	\$259.55~293.11
Stock appreciation rights plan 3	April 1, 2014	52.83%~59.18%	5 Years	0%	0.40%~0.45%	\$184.80~228.83
Stock appreciation rights plan 4	July 1, 2014	52.07%~58.58%	5 Years	0%	0.40%~0.48%	\$248.38~290.61
Stock appreciation rights plan 5	October 1, 2014	51.27%~57.68%	5 Years	0%	0.40%~0.51%	\$231.73~278.52
Stock appreciation rights plan 6	January 1, 2015	50.66%~56.78%	5 Years	0%	0.41%~0.52%	\$171.35~223.67
Stock appreciation rights plan 7	April 1, 2015	50.11%~56.39%	5 Years	0%	0.41%~0.53%	\$149.00~201.64
Stock appreciation rights plan 8	July 1, 2015	49.64%~54.57%	5 Years	0%	0.43%~0.54%	\$128.87~182.01

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

	<u>Vested after 2</u> <u>years' service</u>	<u>Vested after 3</u> <u>years' service</u>	<u>Vested after 4</u> <u>years' service</u>
Dividend rate	1.5%	1.5%	1.5%
Expected price volatility	47.63%	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:

	<u>Three-month period ended</u> <u>March 31, 2016</u>	<u>Three-month period ended</u> <u>March 31, 2015</u>
	<u>No. of Rights</u>	<u>No. of Rights</u>
Rights outstanding at beginning of the period	423,170	691,643
Rights granted	-	-
Rights forfeited	(173)	(1,320)
Rights exercised	(37,729)	(108,016)
Rights outstanding at end of the period	<u>385,268</u>	<u>582,307</u>
Rights exercisable at end of the period	<u>385,043</u>	<u>264,127</u>

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

	<u>Three-month period ended</u> <u>March 31, 2016</u>	<u>Three-month period ended</u> <u>March 31, 2015</u>
	<u>No. of Rights</u>	<u>No. of Rights</u>
Rights outstanding at beginning of the period	518,045	695,300
Rights granted	-	-
Rights forfeited	(1,250)	(12,375)
Rights exercised	(7,978)	(65,620)
Rights outstanding at end of the period	<u>508,817</u>	<u>617,305</u>
Rights exercisable at end of the period	<u>195,167</u>	<u>108,205</u>

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

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
	No. of Rights	No. of Rights
Rights outstanding at beginning of the period	42,285	48,500
Rights granted	-	-
Rights forfeited	(2,200)	-
Rights exercised	-	-
Rights outstanding at end of the period	40,085	48,500
Rights exercisable at end of the period	14,489	-

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

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
	No. of Rights	No. of Rights
Rights outstanding at beginning of the period	35,618	40,000
Rights granted	-	-
Rights forfeited	-	-
Rights exercised	(312)	-
Rights outstanding at end of the period	35,306	40,000
Rights exercisable at end of the period	11,862	-

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

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
	<u>No. of Rights</u>	<u>No. of Rights</u>
Rights outstanding at beginning of the period	51,290	61,600
Rights granted	-	-
Rights forfeited	(1,375)	(2,000)
Rights exercised	<u>-</u>	<u>-</u>
Rights outstanding at end of the period	<u>49,915</u>	<u>59,600</u>
Rights exercisable at end of the period	<u>15,673</u>	<u>-</u>

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

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
	<u>No. of Rights</u>	<u>No. of Rights</u>
Rights outstanding at beginning of the period	74,800	-
Rights granted	-	78,800
Rights forfeited	- (4,000)
Rights exercised	<u>-</u>	<u>-</u>
Rights outstanding at end of the period	<u>74,800</u>	<u>74,800</u>
Rights exercisable at the end of the period	<u>18,700</u>	<u>-</u>

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

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
	No. of Rights	No. of Rights
Rights outstanding at beginning of the period	48,800	-
Rights granted	-	-
Rights forfeited	-	-
Rights exercised	-	-
Rights outstanding at end of the period	48,800	-
Rights exercisable at the end of the period	-	-

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

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
	No. of Rights	No. of Rights
Rights outstanding at beginning of the period	20,000	-
Rights granted	-	-
Rights forfeited	-	-
Rights exercised	-	-
Rights outstanding at end of the period	20,000	-
Rights exercisable at the end of the period	-	-

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

	Three-month period ended March 31, 2016		Three-month period ended March 31, 2015	
	No. of options	Weighted-average exercise price (in dollars)	No. of options	Weighted-average exercise price (in dollars)
Options outstanding at beginning of the period	750,000	\$ 1,185	-	\$ -
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options expired	-	-	-	-
Options outstanding at end of the period	<u>750,000</u>	\$ 1,185	<u>-</u>	\$ -
Options exercisable at end of the period	<u>-</u>	-	<u>-</u>	-

E. The weighted-average stock price of stock appreciation rights at exercise dates for the three-month periods ended March 31, 2016 and 2015 was \$1,106 (in dollars) and \$1,682 (in dollars), respectively.

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

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
Cash settled-stock : Stock appreciation rights plan	(\$ 37,481)	\$ 234,542
Equity settled-Empolyee stock options	28,784	-
	<u>(\$ 8,697)</u>	<u>\$ 234,542</u>

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

	March 31, 2016	December 31, 2015	March 31, 2015
Liabilities on cash-settled stock appreciation rights plan (shown in other payables)	<u>\$ 972,522</u>	<u>\$ 1,029,964</u>	<u>\$ 754,049</u>

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

- A. As of March 31, 2016, 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	180,001	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:

	Three-month period ended March 31, 2016		Three-month period ended March 31, 2015	
	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 period	182,000	\$ 0.8700	254,574	\$ 0.8658
Options exercised	-	-	(20,210)	0.8278
Options expired	(1,999)	0.8700	-	-
Options outstanding at end of the period	<u>180,001</u>	\$ 0.8700	<u>234,364</u>	\$ 0.8691
Options exercisable at end of the period	<u>180,001</u>	\$ 0.8700	<u>192,657</u>	\$ 0.8689

- C. The weighted-average stock price of stock options at exercise dates for the three-month periods ended March 31, 2016 and 2015 was \$0.87 (in US dollars) and \$0.8278 (in US dollars), respectively.
- D. The expiry date and exercise price of stock options outstanding at balance sheet date are as follows:

Date of the plan	Expiry date	March 31, 2016		December 31, 2015	
		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	180	\$ 0.87	182	\$ 0.87

Date of the plan	Expiry date	March 31, 2015	
		No. of shares (in thousands)	Exercise price (in US dollars)
April 1, 2005~ November 1, 2011	March 31, 2020~ October 31, 2021	234	\$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:

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
Equity-settled	\$ -	\$ 527

(12) Provisions

	Warranty
At January 1, 2016	\$ 1,808,182
Unused amounts reversed	(30,053)
At March 31, 2016	\$ 1,778,129
	Warranty
At January 1, 2015	\$ 1,471,138
Additional provisions	101,262
At March 31, 2015	\$ 1,572,400

(13) Share capital

A. As of March 31, 2016, 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 March 31, 2016, the outstanding shares of GDRs were 439 thousand units representing 439 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, 2016	\$ 5,411,867	\$ 3,399	\$ 21,642
Share-based payment transaction	-	28,784	-
Adjustments arising from changes in ownership percentage in subsidiary	-	-	-
At March 31, 2016	<u>\$ 5,411,867</u>	<u>\$ 32,183</u>	<u>\$ 21,642</u>

	Share premium	Employee stock options	Adjustments arising from changes in ownership percentage in subsidiary
At January 1, 2015	\$ 5,411,867	\$ -	\$ 19,329
Adjustments arising from changes in ownership percentage in subsidiary	-	-	556
At March 31, 2015	<u>\$ 5,411,867</u>	<u>\$ -</u>	<u>\$ 19,885</u>

(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. 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(21).

(16) Other equity

	Currency translation
At January 1, 2016	\$ 71,323
Cumulative translation difference of foreign operations	(14,333)
Tax on cumulative translation difference of foreign operations	2,437
At March 31, 2016	<u>\$ 59,427</u>
	Currency translation
At January 1, 2015	\$ 49,650
Cumulative translation difference of foreign operations	(10,942)
Tax on cumulative translation difference of foreign operations	1,860
At March 31, 2015	<u>\$ 40,568</u>

(17) Operating revenue

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
Sales revenue	\$ 826,169	\$ 1,490,103
Other operating revenue	160,052	82,655
	<u>\$ 986,221</u>	<u>\$ 1,572,758</u>

(18) Other income

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
Interest income:		
Interest income from bank deposits	\$ 15,262	\$ 16,316
Others	1,111	7,256
Total	<u>\$ 16,373</u>	<u>\$ 23,572</u>

(19) Other gains and losses

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
(Loss) gain on disposal of property, plant and equipment	(\$ 2,145)	\$ 11
Net currency exchange loss	(15,089)	(49,239)
Gain on valuation of financial assets	2,727	2,436
Gain on disposal investments	914	1,354
Other losses	-	(289)
Total	<u>(\$ 13,593)</u>	<u>(\$ 45,727)</u>

(20) Expenses by nature

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
Employee benefit expense	\$ 399,805	\$ 653,397
Depreciation charges on property, plant and equipment	27,570	17,187
Amortization charges on intangible assets	2,433	1,278
Total	<u>\$ 429,808</u>	<u>\$ 671,862</u>

(21) Employee benefit expense

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
Wages and salaries	\$ 341,319	\$ 375,763
Compensation cost of employee stock options and stock appreciation right (8,697)	235,069
Labor and health insurance fees	30,668	23,170
Pension costs	14,206	12,310
Other personnel expenses	22,309	7,085
	<u>\$ 399,805</u>	<u>\$ 653,397</u>

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 compensation, based on the distributable profit of the current year, in a fixed amount or a ratio 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. A company may, by a resolution adopted by a majority vote at a meeting of board of directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation distributed in the form of shares or in cash; and in addition thereto a report of such distribution shall be submitted to the 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.

B. For the three-month periods ended March 31, 2016 and 2015, employees' compensation was accrued at \$27,347 and \$24,739, respectively; directors' and supervisors' remuneration was accrued at \$1,367 and \$2,474, respectively. The aforementioned amounts were recognised in salary expenses.

The employees' compensation and directors' and supervisors' remuneration as resolved at the Board of Directors' meeting and the amount recognised in the 2015 financial statements amounting to \$132,247 and \$13,200, respectively. The difference had been adjusted in the profit or loss of 2016 amounting to \$27.

Employees' compensation and directors' and supervisors' remuneration of 2014 as resolved at the Board of Directors' meeting were in agreement with those amounts recognised in the 2014 financial statements.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved at the Board of Directors' meeting 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:

	Three-month period March 31, 2016	Three-month period March 31, 2015
Current tax:		
Current tax on profits for the period	\$ 22,009	\$ 49,129
Adjustments in respect of prior period	7,400	-
Total current tax	29,409	49,129
Deferred tax:		
Origination and reversal of temporary differences	-	-
Income tax expense	\$ 29,409	\$ 49,129

(b) The income tax (charge)/credit relating to components of other comprehensive income are as follows:

	Three-month period March 31, 2016	Three-month period March 31, 2015
Cumulative translation differences of foreign operations	\$ 2,437	\$ 1,860
Remeasurement of defined benefit plan	-	6

B. As of March 31, 2016, the Company's income tax returns have been assessed and approved by the Tax Authority through 2013.

C. Unappropriated retained earnings:

	March 31, 2016	December 31, 2015	March 31, 2015
Earnings generated in and after 1998	\$ 5,826,469	\$ 5,574,668	\$ 5,608,645

D. As of March 31, 2016, December 31, 2015 and March 31, 2015, the balance of the imputation tax credit account was \$473,599, \$461,260 and \$254,759 respectively. The creditable tax rate was 8.27% for 2015 and was estimated to be 8.13% for 2016.

E. 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

	Three-month period ended March 31, 2016		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to equity holders of the parent company	\$ 251,801	71,000	\$ 3.55
<u>Diluted earnings per share</u>			
Profit attributable to equity holders of the parent company	\$ 251,801	71,000	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	111	
Profit attributable to equity holders of the parent company plus assumed conversion of all dilutive potential ordinary shares	\$ 251,801	71,111	\$ 3.54

	Three-month period ended March 31, 2015		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to equity holders of the parent company	\$ 437,862	71,000	\$ 6.17
<u>Diluted earnings per share</u>			
Profit attributable to equity holders of the parent company	\$ 437,862	71,000	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	58	
Profit attributable to equity holders of the parent company plus assumed conversion of all dilutive potential ordinary shares	\$ 437,862	71,058	\$ 6.16

A. The Company's employee stock options had anti-dilution effect on earnings per share for the three-month period ended March 31, 2016. Thus, they were not included in the calculation of diluted earnings per share.

(24) Supplemental cash flow information

Investing activities with partial cash payments:

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
Purchase of property, plant and equipment	\$ 60,543	\$ 214,358
Add: opening balance of payable on equipment	3,799	45,538
Less: ending balance of payable on equipment	(697)	(13,612)
Cash paid during the period	<u>\$ 63,645</u>	<u>\$ 246,284</u>

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

A. Operating revenue:

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
Sales of goods:		
The entity with significant influence over the Group	<u>\$ 13,653</u>	<u>\$ 14,392</u>

There are no significant differences in sale prices and collection terms between related parties and third parties.

B. Purchases of services:

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
Technology service charge -		
The entity with significant influence over the Group	<u>\$ 888</u>	<u>\$ 6,565</u>
Commission expense -		
The entity with significant influence over the Group	<u>\$ 3,065</u>	<u>\$ 11,668</u>
Other expenses -		
The entity with significant influence over the Group	<u>\$ 3</u>	<u>\$ 4</u>

The above transactions are under normal commercial terms and conditions.

C. Accounts receivable:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
Receivables from the entity with significant influence over the Group	<u>\$ 32,324</u>	<u>\$ 29,332</u>
		<u>March 31, 2015</u>
Receivables from the entity with significant influence over the Group		<u>\$ 24,908</u>

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:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
Payables from the entity with significant influence over the Group	<u>\$ 39,013</u>	<u>\$ 43,663</u>
		<u>March 31, 2015</u>
Payables from the entity with significant influence over the Group		<u>\$ 51,488</u>

E. Leases:

	<u>Three-month period ended March 31, 2016</u>	<u>Three-month period ended March 31, 2015</u>
Rental expense-		
The entity with significant influence over the Group	<u>\$ 1,000</u>	<u>\$ 5,072</u>

(2) Key management compensation

	<u>Three-month period ended March 31, 2016</u>	<u>Three-month period ended March 31, 2015</u>
Salaries and other short-term employee benefits	\$ 18,784	\$ 13,098
Share-based payment	<u>1,067</u>	<u>2,268</u>
	<u>\$ 19,851</u>	<u>\$ 15,366</u>

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 \$24,284 and \$23,380 were recognized for the three-month periods ended March 31, 2016 and 2015, 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:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Not later than one year	\$ 76,285	\$ 73,941	\$ 26,146
Later than one year but not later than five years	231,231	244,190	40,716
Later than five years	<u>37,495</u>	<u>38,471</u>	<u>44,193</u>
Total	<u>\$ 345,011</u>	<u>\$ 356,602</u>	<u>\$ 111,055</u>

B. Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2015</u>
Future payments for plant and equipment	<u>\$ 73,800</u>	<u>\$ 73,800</u>	<u>\$ 81,900</u>

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 March 31, 2016, December 31, 2015 and March 31, 2015, the Group's ratios of total liabilities divided by total assets were as follows:

	March 31, 2016	December 31, 2015
Total liabilities	\$ 3,758,045	\$ 4,069,014
Total assets	\$ 16,664,459	\$ 16,705,281
Total liabilities/total assets ratio	23%	24%
		March 31, 2015
Total liabilities		\$ 3,544,662
Total assets		\$ 15,851,026
Total liabilities/total assets ratio		22%

(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

No significant change was made during the three-month period ended March 31, 2016. For more information, please refer to the Group's consolidated financial statements for the year ended December 31, 2015.

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, CNY 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:

March 31, 2016				
	Foreign currency		Exchange rate	Book value (NTD)
	amount (in thousands)			
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$	72,000	32.185	\$ 2,317,315
JPY:NTD		1,169,731	0.286	334,894
USD:CNY		481	6.473	15,477
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	\$	9,546	32.185	\$ 307,230
USD:JPY		554	112.417	17,823
USD:KRW		546	1,133.674	17,568
December 31, 2015				
	Foreign currency		Exchange rate	Book value (NTD)
	amount (in thousands)			
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$	90,301	32.825	\$ 2,964,127
JPY:NTD		1,169,623	0.273	318,956
USD:KRW		397	1,167.942	13,038
USD:CNY		783	6.572	25,690
USD:JPY		35	120.370	1,161
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	\$	9,838	32.825	\$ 322,777
USD:JPY		165	120.370	5,400
USD:KRW		733	1,167.942	24,073

March 31, 2015			
(Foreign currency: functional currency)	Foreign currency		
	amount (in thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 154,828	31.30	\$ 4,846,114
JPY:NTD	366,784	0.26	95,511
USD:KRW	310	1,101.53	9,707
USD:CNY	997	6.21	31,202
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 11,430	31.30	\$ 357,746
USD:KRW	252	1,101.53	7,875

v. Total unrealized exchange gain (loss), including realized and unrealized, arising from significant foreign exchange variation on the monetary item held by the Group for the three-month periods ended March 31, 2016 and 2015, amounted to (\$15,089) and (\$49,239) respectively.

vi. Analysis of foreign currency market risk arising from significant foreign exchange variation is as follows:

	Three-month period ended March 31, 2016			
	Sensitivity Analysis			
				Effect on Other
(Foreign currency: functional currency)	Extent of Variation	Effect on Profit or Loss		Comprehensive Income
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	23,173	\$ -
JPY:NTD	1%		3,349	-
USD:CNY	1%		155	-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	3,072	\$ -
USD:JPY	1%		178	-
USD:KRW	1%		176	-

Three-month period ended March 31, 2015				
Sensitivity Analysis				
	Extent of Variation	Effect on Profit or Loss	Effect on Other Comprehensive Income	
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	48,461	\$ -
JPY:NTD	1%		955	-
USD:KRW	1%		97	-
USD:CNY	1%		312	-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	3,577	\$ -
USD:KRW	1%		79	-

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 three-month periods ended March 31, 2016 and 2015 would have increased / decreased by \$1,626 and \$373, respectively, as a result of gains / losses on equity securities classified as available-for-sale.

Interest rate risk

At March 31, 2016 and 2015, 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 three-month periods ended March 31, 2016 and 2015 would have been \$24,298 and \$18,862 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:

March 31, 2016	<u>Less than 1 year</u>
Accounts payable	\$ 90,560
Other payables	1,495,527
Other payables - related parties	39,013

Non-derivative financial liabilities:

December 31, 2015	<u>Less than 1 year</u>
Accounts payable	\$ 106,129
Other payables	1,690,655
Other payables - related parties	43,663

Non-derivative financial liabilities:

March 31, 2015	Less than 1 year
Accounts payable	\$ 288,599
Other payables	1,192,891
Other payables - related parties	51,488

(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 March 31, 2016, December 31, 2015 and March 31, 2015 :

March 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Held for trading financial assets	\$ 762,727	\$ -	\$ -	\$ 762,727
Equity securities	-	-	32,524	32,524
Total	<u>\$ 762,727</u>	<u>\$ -</u>	<u>\$ 32,524</u>	<u>\$ 795,251</u>
December 31, 2015	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,524</u>	<u>\$ 32,524</u>

<u>March 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Held for trading financial assets	\$ 1,269,241	\$ -	\$ -	\$ 1,269,241
Equity securities	-	-	7,450	7,450
Total	<u>\$ 1,269,241</u>	<u>\$ -</u>	<u>\$ 7,450</u>	<u>\$ 1,276,691</u>

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:

	<u>Listed shares</u>	<u>Closed-end fund</u>	<u>Open-end fund</u>	<u>Government bond</u>	<u>Corporate bond</u>	<u>Convertible (exchangeable) bond</u>
Market quoted price	Closing price	Closing price	Net asset value	Transaction price	Weighted average quoted price	Closing price

E. For the three-month periods ended March 31, 2016 and 2015, 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 for the three-month periods ended March 31, 2016 and 2015.

	<u>2016</u>
	<u>Equity securities</u>
At January 1	\$ 32,524
Acquisition	-
At March 31	<u>\$ 32,524</u>

	2015
	<u>Equity securities</u>
At January 1	\$ 7,450
Acquisition	-
At March 31	<u>\$ 7,450</u>

- 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 March 31, 2016	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity					
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

	Fair value at March 31, 2015	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non- derivative equity Venture capital shares Private equity fund	\$ 7,450	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: None.
- H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 3.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 5.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 6.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 7.

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:

Three-month period ended March 31, 2016

	Amount
Revenue from external customers	\$ 986,221
Inter-segment revenue	\$ -
Segment income	\$ 282,544
Total segment assets	\$ 16,664,459

Three-month period ended March 31, 2015

	Amount
Revenue from external customers	\$ 1,572,758
Inter-segment revenue	\$ -
Segment income	\$ 489,348
Total segment assets	\$ 15,851,026

(3) Reconciliation for segment income (loss)

None.

Hermes Microvision, Inc. And Subsidiaries.

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

For the three-month period ended March 31, 2016

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 March 31, 2016				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
"	Fuh Hwa Strategic High Income Fund of Funds	"	Financial assets at fair value through profit and loss- current	7,659,791	101,186	-	101,186	"
"	Fuh Hwa Global Fixed Income Fund of Funds	"	"	6,868,620	101,243	-	101,243	"
"	Union Advantage Global FI Portfolio Fund	"	"	1,925,991	29,972	-	29,972	"
"	Jih Sun Asian High Yield Bond Fund	"	"	4,169,203	50,440	-	50,440	"
"	Jih Sun China High Yield Bond Fund	"	"	3,811,431	40,261	-	40,261	"
"	Nomura Asia Pacific High Yield Bond Fund	"	"	2,433,268	30,138	-	30,138	"
"	Allianz Gbl Inv Global Bond Fund	"	"	4,069,838	50,185	-	50,185	"
"	Allianz Gbl Inv All Seasons Ret FOBF	"	"	3,474,089	50,385	-	50,385	"
"	Yuanta China Opportunity Bond Fund	"	"	4,719,653	49,869	-	49,869	"
"	Yuanta Global USD Corporate Bond Fund	"	"	5,000,000	49,500	-	49,500	"
"	Nomura US Premium High Yield Bond Fund	"	"	2,967,476	29,854	-	29,854	"
"	Cathay Emerging China Bond Fund	"	"	4,435,259	49,605	-	49,605	"

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of March 31, 2016				Footnote (Note 4)
				Number of shares	Book value (Note 3)	Ownership (%)	Fair value	
Hermes Microvision, Inc.	Nomura Global Short Duration Bond Fund	Non-related party	Financial assets at fair value through profit and loss- current	7,000,000	\$ 70,010	-	\$ 70,010	"
"	JPMorgan (Taiwan) Asia HiYld Ttl Rt Bd	"	"	2,411,265	30,024	-	30,024	"
"	Union Emerging Asia Bond Fund	"	"	2,621,392	30,056	-	30,056	"
HMI Holdings Inc.	Westone (Cayman) 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.

Hermes Microvision, 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 three-month period ended March 31, 2016

Table 2

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, 2016		Addition (Note 3)		Disposal (Note 3)				Balance as at March 31, 2016	
					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.	Jih Sun Money Market Fund	Financial assets at fair value through profit or loss	-	-	-	\$ -	20,516,749	\$ 300,000	20,516,749	\$ 300,246	\$ 300,000	\$ 246	-	\$ -
"	Franklin Templeton SinoAm Money Market Fund	Financial assets at fair value through profit or loss	-	-	-	-	29,415,225	300,000	29,415,225	300,238	300,000	238	-	-
"	Union Money Market Fund	Financial assets at fair value through profit or loss	-	-	-	-	22,993,615	300,000	22,993,615	300,152	300,000	152	-	-
"	Yuanta De-Bao Money Market Fund	Financial assets at fair value through profit or loss	-	-	-	-	25,264,009	300,000	25,264,009	300,149	300,000	149	-	-
"	FSITC Taiwan Money Market	Financial assets at fair value through profit or loss	-	-	-	-	19,863,603	300,000	19,863,603	300,129	300,000	129	-	-

Hermes Microvision, Inc. And Subsidiaries.
Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more
For the three-month period ended March 31, 2016

Table 3

Expressed in thousands of NTD

Creditor	Counterparty	Relationship with the counterparty	Balance as at March 31, 2016 (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	\$ 352,631	0.22	\$ -	-	\$ -	-

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. And Subsidiaries.
Significant inter-company transactions during the reporting periods
For the three-month period ended March 31, 2016

Table 4

Expressed in thousands of NTD

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction		Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount		
0	Hermes Microvision Inc.(TW)	Hermes Microvision Inc.(US)	1	Sales	\$ 46,997	The price and terms were based on the ordinary course of business	4.77%
0	"	"	1	Purchases	76,514	The price and terms were based on the ordinary course of business	7.76%
0	"	"	1	Contracted research expense	237,781	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	24.11%
0	"	"	1	Other expenses	15,791	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	1.60%
0	"	"	1	Cost of goods sold	112,555	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms	11.41%
0	"	"	1	Accounts payable	68,588	Net 30 days, after acceptance	0.41%
0	"	"	1	Other payable	164,131	Net 30 days, after acceptance	0.99%
0	"	Hermes Microvision Japan Inc.	1	Sales	18,357	The price and terms were based on the ordinary course of business	1.86%
0	"	"	1	Accounts receivable	352,631	Net 30 days, after delivery	2.12%
0	"	Hermes Microvision Korea Inc.	1	Sales	23,174	The price and terms were based on the ordinary course of business	2.35%

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction		Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	
0	Hermes Microvision Inc.(TW)	Hermes Microvision Korea Inc.	1	Purchases	\$ 12,869	The price and terms were based on the ordinary course of business 1.30%
0	"	"	1	Accounts receivable	17,568	Net 30 days, after delivery 0.11%
0	"	Hermes Microvision Co.,Ltd. (Beijing)	1	Purchases	19,620	The price and terms were based on the ordinary course of business 1.99%
1	Hermes Microvision Inc.(US)	Hermes Microvision Co.,Ltd. (Beijing)	3	Purchases	24,250	The price and terms were based on the ordinary course of business 2.46%
1	"	"	3	Contracted research expense	34,303	No similar types of transactions for comparison as these transactions were based on mutually agreed price and terms 3.48%
1	"	"	3	Accounts payable	10,451	Net 30, days, after acceptance 0.06%

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 Subsidiaries Inc.

Information on investees

For the three-month period ended March 31, 2016

Table 5

Expressed in thousands of NTD

Investor	Investee (Notes 1 and 2)	Location	Main business activities	Initial investment amount		Shares held as at March 31, 2016			Net profit (loss)	Investment income(loss)	Footnote
				Balance as at March 31, 2016	Balance as at December 31, 2015	Number of shares	Ownership (%)	Book value	of the investee for the	recognised by the Company	
									three-month period ended March 31, 2016 (Note 2(2))	for the three-month period ended March 31, 2016 (Note 2(3))	
Hermes Microvision Inc.	HMI Holdings Inc.	Samoa	Investment holdings	\$ 873,891	\$ 861,591	28,519,369	100%	\$ 1,098,914	\$ 17,036	\$ 17,036	Subsidiary
HMI Holdings Inc.	Hermes Microvision Korea Inc.	Korea	Marketing of e- Bean inspection equipment and its components and related technical support services	14,440	2,140	5,000	100%	34,952	1,788	-	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%	69,340 (1,952)	-	"

Investor	Investee (Notes 1 and 2)	Location	Main business activities	Initial investment amount		Shares held as at March 31, 2016			Net profit (loss) of the investee for the three-month period ended March 31, 2016 (Note 2(2))	Investment income(loss) recognised by the Company for the three-month period ended March 31, 2016 (Note 2(3))	Footnote
				Balance as at March 31, 2016	Balance as at December 31, 2015	Number of shares	Ownership (%)	Book value			
HMI Holdings Inc.	HMI Investment Corp.	Samoa	Investment holdings	654,592	654,592	21,546,822	100%	811,513	20,584	\$ -	"
HMI Investment Corp.	Hermes Microvision Inc.	America	Research and development	665,970	665,970	61,785,000	94%	811,513	21,975	-	"

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 March 31, 2016' 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 three-month period ended March 31, 2016' 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 three-month period ended March 31, 2016' 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. And Subsidiaries.
Information on investments in Mainland China
For the three-month period ended March 31, 2016

Table 6

Expressed in thousands of NTD

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, 2016	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the three-month period ended March 31, 2016		Accumulated amount of remittance from Taiwan to Mainland China as of March 31, 2016	Net income of investee as of March 31, 2016	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the three-month period ended March 31, 2016 (Note 2(2)B)	Book value of investments in Mainland China as of March 31, 2016	Accumulated amount of investment income remitted back to Taiwan as of March 31, 2016	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Hermes Microvision Co.,Ltd. (Beijing)	Research, development and manufacturing of semiconductor machinery and equipment and related technical support services	\$ 133,738	(2)	\$ 133,738	None	None	\$ 133,738	(\$ 3,383)	100%	(\$ 3,383)	\$ 164,564	\$ -	
Company name	Accumulated amount of remittance from Taiwan to Mainland China as of March 31, 2016	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	\$ 7,710,952										

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 three-month period ended March 31, 2016' 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. And Subsidiaries.

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

For the three-month period ended March 31, 2016

Table 7

Expressed in thousands of NTD

Investee in Mainland China	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing				
	Amount	%	Amount	%	Balance at March 31, 2016	%	Balance at March 31, 2016	Purpose	Maximum balance during the three-month period ended March 31, 2016	Balance at March 31, 2016	Interest rate	Interest during the three-month period ended March 31, 2016	Others
Hermes Microvision Co.,Ltd. (Beijing)	\$ 149	0.02%	None	None	\$ 4	0.00%	None	None	None	None	None	None	None
"	(19,620)	(10.54%)	None	None	(5,024)	(5.55%)	None	None	None	None	None	None	None