OFFERING CIRCULAR

King Yuan Electronics Co., Ltd.

(Incorporated as a company limited by shares in Taiwan, Republic of China)

U.S. $50,000,000

Zero Coupon Convertible Bonds due 2019

Issue Price: 100%

The U.S.$50,000,000 Zero Coupon Convertible Bonds due 2019 (the "Bonds") will be issued in registered form by King Yuan Electronics Co., Ltd. ("KYEC", "Issuer", "we" or the "Company") in reliance of Regulation S ("Regulation S") under the U.S. Securities Act of 1933, as amended (the "Securities Act"). The Bonds will not bear interest except in the limited circumstances set forth herein. On 29 July 2019, we will redeem the Bonds at their principal amount, unless the Bonds have been previously converted, redeemed or repurchased and cancelled.

The Bonds constitute our direct, unconditional, unsecured and unsubordinated obligations and will rank at least pari passu without any preference or priority among themselves and shall at all times rank at least pari passu in right of payment with all our other unsecured and unsubordinated debt, except as may be required by mandatory provision of the law. Holders of the Bonds (the "Bondholders") may convert the Bonds into our common shares, par value NT$ 10 per share (the "Shares") at any time (subject to certain restrictions) on or after 29 August 2016 and prior to the close of business (at the place the Bond is deposited for conversion) on 19 July 2019. The Conversion Price will initially be NT$29 per share (equivalent to U.S. $0.90 per share based on the fixed exchange rate of NT$32.148 = U.S. $1.00) subject to adjustment in the manner provided herein. The Shares are listed on the Taiwan Stock Exchange (the "TWSE") and application will be made to list the Shares issued on conversion of the Bonds on the TWSE. On 26 July 2016, the closing price of our Shares on the TWSE was NT$28.5 per Share.

We will, at the option of any Bondholder, redeem all or part of the Bonds on 29 July 2018 at 101% of their principal amount. We may redeem the Bonds in whole, but not in part, at their principal amount in the event that changes to the ROC tax laws and regulations result in increase of tax obligations to us.

For a discussion of certain factors that should be considered in connection with an investment in the Bonds, see "Risk Factors on page 15 herein.

The Bonds and the Shares to be issued upon conversion of the Bonds have not been, and will not be, registered under the Securities Act, and may not be offered or sold within the United States or to or for the account on behalf of U.S. persons. The Bonds are not being offered in the United States.

Application has been made for the listing and quotation of the Bonds on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). Such permission will be granted when the Bonds have been admitted to the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained in this Offering Circular. Admission of the Bonds to the Official List of the SGX-ST and the quotation of the Bonds on the SGX-ST are not to be taken as an indication of the merits of the Issuer, its subsidiaries, its associated companies (if any), the Bonds or the Shares. It is expected that delivery of the Bonds will be made in book entry form through the facilities of Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, S.A. ("Clearstream, Luxembourg") on 29 July 2016 (the "Closing Date"). The Bonds will be evidenced by a Global Bond, and will be registered in the name of a nominee of Citibank Europe plc, as common depositary (the "Common Depositary") for Euroclear and Clearstream, Luxembourg.

Global Coordinator and Lead Manager
Fubon Securities Co., Ltd. Offshore Securities Unit

Coordinator
Horizon Security Co., Ltd.

The date of this Offering Circular is 26 July 2016

We, having made all reasonable inquiries to, confirm that this Offering Circular contains all information with respect to us, the Bonds and the Shares which is material in the context of the issue and offering of the Bonds (including all information required by applicable laws of the ROC), that the information contained herein (save as set out below) is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the Bonds, make this Offering Circular as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respects, that all reasonable inquiries have been made by us to verify the accuracy of such information, and that this Offering Circular does not contain any untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary in order to make the statements herein, in light of the circumstances under which they are made, not misleading. We accept responsibility accordingly. Information provided herein with respect to the ROC, its political status and economy, if any, has been derived from government and other public sources, and we accept responsibility only for accurately extracting information from such sources.

The distribution of this Offering Circular and the offering and sale of the Bonds in certain jurisdictions may be restricted by law. We and the Manager (as defined in the "Subscription and Sale" section) require persons into whose possession this Offering Circular comes to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Bonds and distribution of this Offering Circular, see "Subscription and Sale". This Offering Circular does not constitute an offer of, or an invitation by or on behalf of us, the Manager, the Trustee or the agents to subscribe for or purchase, any of the Bonds in any jurisdiction in which such offer or invitation would be unlawful.

No person is authorized in connection with the issue, offering or sale of the Bonds to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained herein must not be relied upon as having been authorized by us, the Manager, the Trustee or the Agents. Neither the delivery of this Offering Circular nor any sale or allotment made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of us since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

None of the Managers, the Trustee or the Agents accepts responsibility for the contents of this Offering Circular or for any other statements in connection with the issue and offering of the Bonds.

The Bonds will be represented by beneficial interests in a permanent global certificate (the "Global Certificate") in registered form, which will be registered in the name of a nominee of, and shall be deposited on 29 July 2016, as the Closing Date with a common depositary for Euroclear and Clearstream, Luxemburg.

We have prepared the audited financial statements as of and for the years ended 31 December 2014 and 2015 and as of and for the three months ended 31 March 2015 and 2016 in accordance with IFRS.

NOTICE TO INVESTORS

Each purchaser of the Bonds will be deemed to have represented and agreed as follows (terms that defined in Regulation S under the Securities Act and used in the following section have the meanings assigned in Regulation S):

(1) It is purchasing the Bonds for its own account or for an account with respect to which it exercises sole investment discretion, and any such account is outside the United States and it is not a U.S. person;

(2) It acknowledges that neither the Bonds nor the Shares issued upon conversion of the Bonds have been or will be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States except as set forth below;

(3) It understands and agrees that if in the future it decides to resell, pledge or otherwise transfer any Bond or beneficial interest therein, or any Shares issued upon conversion of the Bonds, it may do so only (i) in an offshore transaction meeting the requirements of Regulation S, (ii) pursuant to an exemption from registration under the Securities Act, if available, or (iii) pursuant to an effective registration statement under the Securities Act, and in each of cases (ii) and (iii), in accordance with applicable securities laws of the states of the United States;

(4) It agrees to, and each subsequent holder is required to, notify any purchaser from it of a Bond or beneficial interest therein of the resale restrictions referred to in section (3), if then applicable;

(5) It understands that, except in the circumstances referred to under the heading “The Global Bond”, the Bonds, and beneficial interests therein, will be represented by the Global Certificate;

(6) It understands that the Global Certificate will bear a legend to the following effect (unless otherwise agreed by us);

THE BONDS (“BONDS”) EVIDENCED HEREBY AND THE COMMON SHARES OF KING YUAN ELECTRONICS CO. LTD. TO BE DELIVERED UPON CONVERSION OF THE BONDS (THE “COMMON SHARES”) HAVE NOT BEEN AND ARE NOT EXPECTED TO BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THE BONDS NOR THE COMMON SHARES MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.
; and

(7) It acknowledges that we and the Manager and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements; and if it is acquiring the Bonds as a fiduciary agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

For further information about the requirements under the Indenture to effect exchanges or transfers of interests in the Global Certificates and of Bonds in certificated form, see “The Global Bond”.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements that involve risks and uncertainties. Forward-looking terminology includes “may,” “will,” ”expect,” ”anticipate,” ”estimate,” ”continue,” “Believe,” “forecast,” “ project” and other similar words. Statements that include such terminology are forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the risks and uncertainties face by us described elsewhere in this Offering Circular or otherwise. We undertake no obligation after the date of this Offering Circular to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future which may affect information contained herein.

ENFORCEABILTIY OF FOREIGN JUDGMENT IN THE ROC

King Yuan Electronic Co., Ltd. is a company limited by shares incorporated under the ROC Company Law. All of our directors, executive officers and supervisors are residents of the ROC and a substantial portion of our assets and assets of such persons are located in the ROC. As a result, it may not be possible for investors to effect service of process upon us or such persons outside the ROC, or to enforce against any of them judgments obtained in courts outside the ROC.

Any final judgment obtained against us or such persons in any court than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to the Bonds will be enforced by the courts of the ROC without further review of the merits only if the courts of the ROC in which enforcement is sought is satisfied that: (i) the court rendering the judgment has jurisdiction over the subject matter according to the laws of the ROC; (ii) the judgment and the court procedures based on which such judgment was rendered are not contrary to the public order or good morals of the ROC; (iii) if the judgment was rendered by default by the court rendering the judgment, we or such persons were duly served in a reasonable time within the jurisdiction of such court, or process was served on us or such persons with judicial assistance under the ROC laws; and (iv) judgments of the courts of the ROC are recognized and enforceable in the jurisdiction of the court rendering the judgment on a reciprocal basis. Remittance out of the ROC of any amount recovered from enforcing a foreign judgment in the ROC is also subject to the foreign exchange control statute and regulations.

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CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

Except where the context otherwise requires, all references herein to "our Company" are to King Yuan Electronics Co., Ltd., and all references herein to "we", "us", and "our" are to our Company or to our Company and our consolidated subsidiaries, as the context may require. All references herein to "Taiwan" or the "ROC" are to the island of Taiwan and other areas under the effective control of the Republic of China. All references herein to the "ROC Government" or the "ROC Company Law" are references to the government of the Republic of China and our Law of the Republic of China, respectively. All references herein to "IFRS" are to the International Financial Reporting Standards. All references herein to "TWSE" are to the Taiwan Stock Exchange and all references to "ROC FSC" are to the ROC Financial Supervisory Commission.

Expect as otherwise indicated, all financial information set forth herein with respect to our various members has been presented in New Taiwan Dollars.

We publish our financial statements in New Taiwan Dollars, the lawful currency of the ROC. All references herein to "New Taiwan Dollars", "NT Dollars" and "NT$" are to New Taiwan Dollars and references to "United States Dollars", "U.S. Dollars" and "U.S. $" are to United States Dollars. Except as otherwise indicated, the translations of the amounts as of and for the year ended 31 December 2015 from New Taiwan Dollars to United States Dollars were made on the basis of the average of the closing buying and selling exchange rates in NT Dollars per U.S. Dollar as certified by Bank of Taiwan of NT$32.825 = U.S. $1.00 as of 31 December 2015. All amounts translated into United States Dollars are provided solely for the convenience of the reader, and no representation is made that the NT Dollar or U.S. Dollar amounts referred to herein could have been or could be converted into U.S. Dollars or NT Dollars, as the case may be, at any particular rate, the above rates or at all. See "Exchange Rate". The closing rate between the NT Dollar and the U.S. Dollar on 26 July 2016 was NT$32.148= U.S. $1.00 as certified by Bank of Taiwan.

SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statement contained elsewhere herein.

The Company

We are one of Taiwan's leading independent providers of semiconductor testing and other backend semiconductor manufacturing services. According to the Market Share: Semiconductor Assembly and Test Service (SATS) Report, Worldwide, published by Gartner Market Statistics, we have the 12th highest company sales in the world in terms of testing and assembly revenue combined. We believe we are one of only a few Taiwanese companies to provide the full range of integrated circuit testing services. Our testing services include wafer probing and final testing for logic, mixed signal and memory semiconductor devices. Our backend semiconductor manufacturing services primarily include wafer grinding and dicing and semiconductor packaging.

Our corporate headquarters are located in Hsinchu, Taiwan. We currently operate four testing and manufacturing facilities; one is located adjacent to our corporate headquarters in Hsinchu, Taiwan, two are located in Miaoli, Taiwan, and a further one is located in Suzhou, the People's Republic of China (the "PRC"). As of June 30, 2016, we own 2580 testers, and operate another 16 testers through leasing and other arrangements. Taiwan is home to the world's largest independent wafer foundries and as such is home to some of the world's leading suppliers of outsourced semiconductor manufacturing services. Our close proximity to, and relationships with, Taiwan's leading wafer foundries allow us to benefit from the semiconductor industry's trend towards outsourcing and to respond quickly to our customers' needs. Our location in Taiwan also enables our customers to secure seamless services within Taiwan for all of their manufacturing needs, thereby minimizing the time required to deliver finished semiconductor devices to the market.

Our customers include major fabless integrated circuit design companies, integrated device manufacturers and semiconductor foundries. We provide services to customers designing or producing a wide range of integrated circuit devices, such as radio frequency and wireless chips, liquid crystal display drivers, memory products, networking processors, graphic chips, CMOS image sensors, and systems on chips. Our customers include leading companies operating in consumer electronics, computer and communication industries. We provide a dedicated customer support in infrastructure to our customers through our sales teams located in Taiwan, Singapore, Japan and the United States.

We believe our strong research and development capability differentiates us from our competitors. Out research and development activities focus on the research and development of our own testing equipment, including testers, and improvement of our testing flow, thereby achieving higher efficiency and cost savings, and the research and development of leading edge testing technology and testing programs which enable us to test higher-end products and meet our customers' evolving testing requirements. We believe we are one of only a few semiconductor testing companies in Taiwan which have the capability of researching and developing in-house testing equipment. This capability increases our competitiveness in relation to cost and will continue to be one of our major areas of focus in the near future.

Our net operating revenue were NT$16,277.8 million in 2014 and NT$17,128.5 million in 2015. We recorded income from continuing operations after income tax of NT$2,559.7 million in 2014 and NT$2,282.3 million in 2015. For the three months ended 31 March 2015 and 2016, our net operation revenues were NT$ 4,073.5 million and NT$ 4,358.4 million, respectively. We recorded an income from continuing operations after income tax of were NT$599.4 million and NT$603.1 million for the same periods, respectively.

Our Strategy

- Continuing to lower our cost and pursue margin growth
  - Developing our own testing equipment
  - Enhancing our efficiency by optimizing testing flow
  - Maximizing our utilization rate and test charges
- Focusing on testing area with potential for growth and high margin, including LCD Driver, Digital TC, CMOS Sensor, Wireless, NAND Flash, DDRII, automobile IC, and MEMS
- Offering a broader range of semiconductor services to our customers

THE ISSUE

Issuer	King Yuan Electronics Co., Ltd.
Bonds	U.S. $50,000,000 Zero Coupon Convertible Bonds due 2019 convertible into fully paid common shares with a par value of NT$ 10 each (the "Shares")
Issue Price	100%
The Offering	The Bonds will be offered publicly outside Taiwan, ROC. The Bonds will be offered only in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933
Closing Date	29 July 2016
Maturity Date	29 July 2019
Additional Amounts	Payment of principal of and premium and other amounts on the Bonds will be made without withholding for or on account of certain taxes of the ROC or such other jurisdiction in which we are then organized or resident for tax purposes to the extent set forth under "Description of the Bonds – Additional Amounts", unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Issuer will pay such additional amounts on the Bonds.
Tax Redemption	We may redeem all but not part of the Bonds at the Early Redemption Amount in the event of changes to the ROC tax laws and regulations resulting in increased tax obligations, the necessity to pay additional interest expenses, or additional costs to us.
Conversion	Subject to prior redemption and otherwise provided herein, the Bond are convertible at any time on or after 29 August 2016 up to the close of business (at the place at which the Bond is deposited for conversion) on 19 July 2019, except during any Closed Period, into Shares at a conversion price per share (subject to adjustment in certain circumstances) (the "Conversion Price") of NT$29 per share, which is equal to U.S.$ 0.90 per share, determined on the basis of a fixed exchange rate of NT$32.148 = U.S.$1.00 (the "Fixed Exchange Rate").
Redemption at the Option of Bondholders	Until and unless previously redeemed, converted or repurchased and cancelled, we will at the Bondholder's option, redeem all or part of the Bondholder's Bond on 29 July 2018 at 101% of the principal amount. The aforementioned amount shall be converted into NT Dollars using the Fixed Exchange Rate, and said NT Dollar amount shall be converted into U.S. dollars based on the applicable Prevailing Rate (with reference to the exchange rate indicated by Taipei Forex Inc.

	price reference information at 11:00 a.m. (Taipei time)) for payment.
Redemption at the Option of the Bondholders in the Event of Delisting	In the event that the Common Shares cease to be listed on the Taiwan Stock Exchange , each Bondholder shall have the right , at their option, to require us to repurchase all or part of the principal amount thereof of such Bondholders' Bonds on the 90th Business Day after the effective date of the Delisting at the Settlement Equivalent of the Early Redemption Amount. The aforementioned Early Redemption Amount shall be converted into NT Dollars using the Fixed Exchange Rate, and said NT Dollar amount shall be converted into U.S. dollars based on the applicable Prevailing Rate (with reference to the exchange rate indicated by Taipei Forex Inc. price reference information at 11:00 a.m. (Taipei time)) for payment.
Redemption at the Option of the Bondholders upon a Change of Control	If a Change of Control occurs with respect to the Company, each Bondholder hall have the right, at their option, to require us to repurchase all or part of the principal amount of such Bondholder's Bonds on the date set by us for such repurchase, which shall be not less than 30 nor more than 60 days following the date on which we notify the Trustee of the Change in Control, at the Settlement Equivalent of the Early Redemption Amount. The aforementioned Early Redemption Amount shall be converted into NT Dollars using the Fixed Exchange Rate, and said NT Dollar amount shall be converted into U.S. dollars based on the applicable Prevailing Rate (with reference to the exchange rate indicated by Taipei Forex Inc. price reference information at 11:00 a.m. (Taipei time)) for payment.
Redemption at the Option of the Issuer	At any time on or after July 30, 2018, the Bonds may be redeemed at the option of the Issuer, in whole or in part, on not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) and at the Settlement Equivalent of the Early Redemption Amount, provided that: (1) the Closing Price of the Common Shares for each of the 20 consecutive Trading Days, the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is more than 120% of the Conversion Price; and (2) the applicable Redemption Date does not fall within a Closed Period. Notwithstanding the foregoing, we may redeem the Bonds, in whole but not in part, from July 30, 2018 onwards, on not less than 30 nor more than 60 days' notice, at the Settlement Equivalent of the Early Redemption Amount on the Redemption Date, if more than 90% of the aggregate principal amount of the Bonds issued as of the Original Issue Date has been redeemed, repurchased and cancelled or converted, provided that the applicable Redemption Date does not fall within a Closed Period.

Form and Registration of the Bonds	The Company Bonds are unsecured convertible bonds in registered form. The Company Bonds shall be issued at 100% of par value in denomination of US $10,000 or in any integral multiples thereof.
Governing Law	The sale, management and other relevant procedures shall be governed by the laws of New York of the State of New York, United States of America. The application for Company Bonds issuance and the exercise of conversion rights shall be subject to the applicable ROC laws and Singapore laws.
Trustee	Citicorp International Limited
Registrar, Paying Agent, Conversion Agent and Transfer Agent	Citibank N.A, London Branch
Listing	Application has been made for the listing and quotation of the Bonds on the SGX-ST. Such permission will be granted when the Bonds have been admitted to the Official List of the SGX-ST. Admission of the Bonds to the Official List of the SGX-ST and quotation of the Bonds on the SGX-ST are not to be taken as an indication of the merits of our Company, our subsidiaries, our associated companies (if any), the Bonds or the Shares. The Bonds will be traded on the SGX-ST in a minimum board lot size of US$200,000 (or its equivalent in foreign currencies) for so long as the Bonds are listed on SGX-ST. The Shares are listed on the TWSE and application will be made for the Shares issuable upon conversion of the Bonds to be listed on the TWSE.
Use of Proceeds	The net proceeds from the offering of the Bonds, after deducting underwriting fees and other expenses, are estimated to be approximately U.S. 49.6 million. The net proceeds will be used to procure equipment and machinery.

SUMMARY FINANCIAL DATA

The summary consolidated income statement data and the summary consolidated balance sheet data from the years ended 31 December 2014, 2015 set forth below are derived from our audited consolidated financial statements included in this Offering Circular. The summary consolidated income statement data and the summary consolidated balance sheet data from the three months ended 31 March 2015 and 2016 set for below are derived from our interim consolidated financial statements, reviewed in accordance with the Statements of Auditing Standards No. 36 "Review of Financial Statements" of the ROC. All data are qualified in their entirety by reference to the abovementioned consolidated financial statements, including the notes thereto, and should be read in conjunction with them and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein. Financial information for such periods may not be comparable to financial information for subsequent periods.

Our consolidated financial statements have been prepared and presented in accordance with International Financial Reporting Standards ("IFRS").

	For the year ended 31 December				For the three months ended 31 March			
	(Audited)				(Unaudited)			
	2014		2015		2015		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
	(NT$ '000)		(NT$ '000)		(NT$ '000)		(NT$ '000)	
Net Sales	16,277,769	100	17,128,536	100	4,073,532	100	4,358,356	100
Operating costs	(11,396,039)	(70)	(12,334,553)	(72)	(2,915,957)	(72)	(3,171,070)	(73)
Gross profit	4,881,730	30	4,793,983	28	1,157,575	28	1,187,286	27
Operating expenses								
Selling expenses	(248,398)	(1)	(269,328)	(2)	(64,337)	(2)	(76,280)	(2)
Administrative expenses	(1,095,650)	(7)	(1,141,722)	(7)	(285,409)	(7)	(288,194)	(6)
Research and development expenses	(605,451)	(4)	(679,573)	(4)	(176,894)	(4)	(170,510)	(4)
Total operating expenses	(1,949,499)	(12)	(2,090,623)	(13)	(526,640)	(13)	(534,984)	(12)
Operating income	2,932,231	18	2,703,360	15	630,935	15	652,302	15
Net-operating income and expenses								
Other income	188,936	1	139,176	1	45,019	1	32,091	1
Other gains and losses	24,492	-	118,212	1	55,980	2	82,525	2
Finance costs	(138,847)	(1)	(171,768)	(1)	(40,990)	(1)	(47,814)	(1)
Share of profit of	112,548	1	59,621	-	25,084	1	11,176	-

associates and joint venture								
Total non-operating income and expenses	187,129	1	145,241	1	85,093	3	77,978	2
Net income before income tax	3,119,360	19	2,848,601	16	716,028	18	730,280	17
Income tax expense	(559,629)	(3)	(566,328)	(3)	(116,606)	(3)	(127,207)	(3)
Net income	2,559,731	16	2,282,273	13	599,422	15	603,073	14
Net income for the periods attributable to:								
Owners of the parent company	2,559,056	16	2,281,546	13	599,371	15	602,909	14
Non-controlling interests	675	-	727	-	51	-	164	-
	2,559,731	16	2,282,273	13	599,422	15	603,073	14
Total comprehensive income for the periods attributable to:								
Owners of the parent company	2,805,437	17	2,119,822	12	527,157	13	534,748	12
Non-controlling interests	353	-	886	-	(13)	-	409	-
	2,805,790	17	2,120,708	12	527,144	13	535,157	12

	As of 31 December (NT$ '000)		As of 31 March (NT$ '000)	
	2014	2015	2015	2016
Assets				
Current assets	12,923,358	11,095,165	11,653,797	10,455,271
Noncurrent assets	26,799,000	29,336,971	27,734,094	31,390,176
Total assets	39,722,358	40,432,136	39,387,891	41,845,447
Liabilities				
Current liabilities	5,611,642	6,143,296	6,368,530	6,348,180
Noncurrent liabilities	11,151,860	11,931,687	9,528,877	12,605,570
Total liabilities	16,763,502	18,074,983	15,897.407	18,953,750

Total equity	22,958,856	22,357,153	23,490,484	22,891,697
Total liabilities and equities	39,722,358	40,432,136	39,387,891	41,845,447

RISK FACTORS

You should pay particular attention to the fact that we are a ROC company and are subject to a legal and regulation environment that in some respects may be different from that prevailing in other countries. You should consider carefully all the information included in this Offering Circular and, in particular, should evaluate the following risks before deciding to invest in the Bonds and the Shares issuable upon conversion of the Bonds.

Risks Relating to Our Business and Our Industry

Impact from global economic conditions

Concerns over inflation and deflation, energy costs, availability and costs of credit contribute to varying levels of market volatility in the global economy. These factors, couple with volatile oil prices, reduced consumer confidence and increase unemployment may attribute to economic slowdown.

We are unable to assure you that we will maintain levels of profitability that we have achieved in the past or that losses will not occur in the current or future periods. Any prolonged economic downturn or global recession may decrease demand for our services, which may materially and adversely affect our business, financial condition and operating results.

Our operating results are subject to significant fluctuations and seasonal variations

Our revenue and net profit or loss have varied, at time significantly, from quarter to quarter. Typically, the demands of our testing and manufacturing services are higher in the third quarter and lower in the first quarter of each year. However, a more volatile market may affect our typical seasonal demands and makes it challenging for us to predict future market conditions and form proper capacity plans. In addition to seasonal factors, our revenue and net profit or loss may vary significantly due to a combination of factors, including:

Our ability to quickly adjust to unanticipated declines or shortfalls in demand and market prices for our testing services, due to our high percentage of fixed costs;

Timing of capital expenditures in anticipation of future orders;

Changes in prices of our testing services;

Volume of order relative to our testing capacity;

Our ability to obtain adequate testing equipment on a timely basis; and

The impact of nature disasters.

Our business, financial condition and operating results may be below our forecasts or the expectations of research analysts and investors due to the factors listed above.

If we are unable to maintain a high utilization rate, we may incur losses

The integrated circuit testing business requires large capital expenditures for testing machinery and equipment. During the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, we incurred approximately NT$ 8,427.8 million, NT$ 7,136.7 million and NT$ 3,561.3 million in capital expenditures, respectively. A substantial portion of our costs of goods sold represents depreciation in connection with our capital expenditure investments. For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively, the depreciation expenses represented approximately 35.44%, 38.14% and 39.59% of our costs of goods sold during those periods. Given the high fixed costs of our business, we need to maintain a high utilization rate for our testing equipment and other machinery to maintain our margin. Increases or decreases in our utilization rate can have a significant effect on our business.

There is no guarantee that a high utilization rate is sustainable, and we cannot assure you the semiconductor industry will not experience decline in the future, or that our utilization rate will not be seriously harmed if that happens, which will cause us to incur further losses.

If capital resources required for future expansion plans are not available, we may be unable to successfully implement our business strategy.

Our business growth and the growing demand for semiconductor testing have required and will continue to require significant capital expenditures on testing technology and equipment. In making planned capital expenditures, we may need to obtain additional capital resources or financing. We cannot assure you that additional capital resources or financing will be available when needed or available on terms satisfactory to us.

Global capital markets and credit markets have been experiencing deterioration and extreme volatility since the global financial crisis. The market has exerted downward pressure on the availability of credit. Deterioration, uncertainty or volatility in the capital markets or credit markets may limit our access to the capital necessary for operating and expanding our business or cause us to bear an unattractive cost of capital, which may decrease our profitability and significantly reduce our financial flexibility. In the event our current resources are not sufficient for our needs, we may have to seek additional financing. The availability of future banking facilities is subject to approval by lenders. If we are unable to obtain financing on favorable terms, or at all, we will not be able to implement our business strategy or maintain our operations, and our business, financial condition and operating results may be materially and adversely affected.

If we are unable to obtain equipment from our suppliers in a timely manner and at a reasonable cost, our business may be materially and adversely affected.

The semiconductor testing business is capital intensive and requires significant investment in expensive equipment manufactured by a limited number of suppliers. The market for semiconductor testing equipment is characterized by intense demand, limited supply and long delivery cycles. From time to time, increased demand for new equipment may cause lead times for delivery to our facilities to increase. In the past, increase demand for equipment has caused some equipment vendors to delay shipment of some or all of our equipment orders. If we are unable obtain the equipment we require in a timely manner, we may be unable to meet customer orders or implement expansion plans, which may reduce our revenue.

We may not be able to meet all of our financial covenants.

Under the terms of our loan agreements, we are required to maintain certain minimum financial rations. Certain of our loan agreements require that we maintain, among other financial ratios, a current ratio, a debt ratio, a debt service ratio and an interest coverage ratio at certain levels, and total net tangible assets of certain amount.

Under the terms of the credit facilities described above, the breach of one or more financial covenants could expose us to additional interest charges, potential acceleration of our obligations or financial penalties under the relevant agreement (which in turn could give rise to cross defaults under our other loan agreements or the Bonds). We cannot assure you that we will breach any financial covenants in the future and when it occurs that we will be able to secure any waivers with respect to any of those breaches. Any failure under or breach of, these financial covenants in the future may result in an acceleration in our relevant indebtedness, as well as certain other outstanding indebtedness, which may have a material adverse effect on our business, financial condition and operating results.

We do not have any significant backlog of orders because our customers do not place purchase orders far in advance, which makes us vulnerable to sudden changes in customer demand.

Our customers generally do not place orders far in advance and we do not normally require minimum purchases of our services from our customers. We typically require our customers to provide us with regular forecasts for us to plan ahead for our capacity but such forecasts are non-binding in nature. Our customers may cancel or reschedule orders or may deviate from their forecast from time to time. Our business may be significant affected if orders are cancelled or rescheduled or if customers' final orders deviate from their forecasts.

Moreover, our capital expenditure levels are based in part on our expectations of future revenue and we may be unable to adjust costs in a timely manner to compensate for revenue shortfalls. We cannot assure you that any of our customers will continue to place orders with us in the future at the same levels as in prior periods. We also cannot assure you that our customers' orders will be consistent with our expectations when we make the necessary investment in raw materials, labor and equipment.

We depend on a limited number of customers for a substantial portion of our revenue and a loss of any major customers or a decrease in demand for their products may result in the loss of a significant portion of our revenue.

In general we maintain a diversified customer base. However, several customers, including customers who are our related parties, have contributed a substantial portion to our revenue. In 2014, 2015 and the three months ended 31 March 2016, approximately 21.29%, 32.37% and 32.36% of our net operating revenues, respectively, were derived from the services provided to our customers who consists of at least 5% of our net operating revenues that year, and approximately 10.8%, 7.4% and 11.9% respectively, of our net operating revenues were derived from sales to our largest customer. We expect that we will continue to depend on these customers for a significant portion of our revenue because of the concentration of demand for our services. The ability to main close and satisfactory relationships with our customers is important to our future success. None of our customers is presently obligated to purchase testing services or to provide us with binding forecasts of purchases for any period. If any of our significant customers reduces, delays or cancels its orders, our business, financial condition and operating results may be materially and adversely affected. In addition, if there is a decrease in demand for the services or products of our customers, we may lose an important source of our revenue and our business, financial condition and operating results may be materially and adversely affected.

If we are unable to manage our growth effectively, our business, financial condition and operating results may be materially and adversely affected.

We have significantly expanded our testing capabilities in recent years and expect to continue to expand our operations in future periods in terms of our customer base, testing equipment and services. This expansion will continue to place pressure on our managerial, technical, financial, production, operational and other resources.

To manage our growth, we must continue to implement and improve our operation, financial and quality assurance systems and to expand, train and manage our employees. Furthermore, we will need to manage relationships with a greater number of customers, suppliers, equipment vendors and other third parties. We may not be able to continue to manage our expansion in the future.in particular, our cash flow may not be sufficient to finance our currently scheduled capital expenditures, and we may require additional external financing to support our future expansion, any failure to obtain sufficient funding may hamper the implementation of our expansion plans. Failure to implement our expansion plans in a timely manner may have a material adverse effect on our ability to maintain, expand and diversify our customer base.

To implement our expansion plants, we expect to purchase a significant amount of additional testing equipment. If we purchase equipment beyond that need to meet our future demand, we may suffer from a low utilization rate for our equipment, which may have an adverse effect on our operating margins. The heavy swing in market demand for our services and the long lead times required for equipment orders make it more difficult to match our testing capacity to market demand. The need to purchase additional testing equipment may require us to seek further financing to make such purchases. Furthermore, the unavailability or failure of such equipment to operate in accordance with out specifications or requirements, or delays in the delivery of this equipment, may delay implementation of our expansion plans and thus restrict our revenue.

In addition, the implementation of our expansion plans may cause us to lose focus on our daily operations. Failure to implement our expansion plans in a timely manner may have a material adverse effect on our business, financial condition and operating results.

Our investments in different jurisdictions and our business with overseas customers may expose us to political regulatory, foreign investment and international trading risks.

We currently operate manufacturing facilities in Taiwan and the PRC. We also operate sales offices in the United States, Japan and Singapore. Our investments in different jurisdictions and any future expansion will cause our financial condition, operating results and future prospects to be subject to the political and economic situation, regulatory control and general legal developments in these jurisdictions and other foreign investment risks. Our operations in the PRC, in particular may be adversely affected if relations between Taiwan and the PRC become further strained. In addition, while we believe our current overseas investments, particularly the investments in the PRC, comply with ROC law governing investments, these laws and their implementing regulations are sometimes unclear and subject to interpretation by the relevant authorities, any decision by the ROC authorities or other regulator that our overseas investments violate any laws or regulations may result in fines or penalties on us or discontinuation of a restriction on our operations.

For 2014 and 2015 and the three months ended 31 March 2016, approximately 57.28%, 67.16% and 68.9% of our revenue was generated from sales which took place outside of Taiwan, respectively. We are therefore subject to the risk in connection with international trading. Any disruptions in the international trading environment, including adverse changes in foreign government regulations, political unrest and international economic downturns, may adversely affect the business of our customers or the demand for semiconductor services in the international market, which may in turn have a material adverse effect on our business, financial condition and operating results.

We may face significant competition from a number of competitors and from our customers' in-house test capabilities.

We operate in highly competitive semiconductor testing and backend manufacturing services market. Intense competition leads to price erosion and lower margins. We face competition from a number of international and local vendors, including companies offering full testing and packaging services and professional or niche testing companies. We also compete for the testing business of foundry companies, integrated device manufacturers and fabless integrated circuit design companies with their own in-house testing capabilities. Some of these manufacturers have commenced, or may commence, in-house testing operations in Taiwan and Asia.

Some of our competitors have greater financial and other resources than we do, including established relationships with many large semiconductor companies which are our current or potential customers. These relationships and lengthy qualification periods required by most of our potential customers may prevent us from securing new customers.

If growth in testing demand fails to match the growth in supply, we expect more intense competition and pressure on the pricing of our services. If we cannot respond to changes in market conditions rapidly, or if we cannot respond as swiftly or effectively as our competitors can responds, our business, financial condition and operating results may be materially and adversely affected.

If the outsourcing trend for testing and other backend semiconductor manufacturing services does not continue, we may lose a significant number of our current customers and we may be unable to implement our business plan.

We depend on outsourcing of testing and other backend semiconductor manufacturing services by semiconductor foundries, integrated device manufacturers and fabless integrated circuit design companies. We cannot assure you that the outsourcing trend will continue. If the services provided by independent semiconductor testing companies cannot meet their needs, they may return to utilizing in-house testing and other backend process capabilities. Moreover if there is an economic downturn, theses manufacturers may choose to use their in-house capacities before subcontracting to us. A reversal of, or slowdown in, the outsourcing trend may adversely affect our revenue and delay expansion plans.

The demand for and selling prices of our services may decline due to the cyclical nature of the semiconductor industry, general economic downturn, or downturn in the electronics industry.

The semiconductor industry, similar to its downstream electronic industry, is highly cyclical in nature. The cyclicality and economic downturns in the past have caused reduced demand for and erosion of the selling prices of our services, a low capacity utilization rate and production overcapacity. The cyclical nature of the semiconductor industry makes us particularly vulnerable to economic downturns and changes in demand. In addition, we derive the vast majority of our revenue from testing services provides on semiconductors used on consumer electronics, computer and communication products. Any decrease or fluctuations in the demand for these products could significantly affect the level of demand for and the prices of our services, and may in turn reduce our revenue and gross margins.

We cannot assure you that the semiconductor industry or any downstream electronic industry will not experience another round of severe downturn. When that occurs, our business, financial condition and operating results may be materially and adversely affected.

We depend on key management and technical personnel and the loss of any such personnel may disrupt our business.

Our success depends upon the continued service of our key senior management and engineering and technical personnel, as well as our ability to attract, retain and motivate skilled employees. Competition for qualified engineering and technical employees is fierce. We do not have employment contracts with our senior executives or key technical personnel that prevent them from leaving their posts. If we lose the services of key senior management or technical personnel it may be difficult to locate and integrate replacement personnel, which may adversely affect our client and supplier relationships, diminish our technical expertise and generally slow our operations.

Our failure to comply with environmental regulations or to defend against environmental claims may expose us to serious liabilities

Semiconductor wafer grinding and dicing processes and packaging require the use of chemicals and gases which are regulated by the government and generate pollutants. For example, liquid waste is produced when silicon wafer are diced into chips using diamond saws and cooled with running water. Environmental claims or the failure to comply with any environmental regulations may result in damages or fines against us or suspension of production. We may be required by new regulations to acquire costly equipment or to incur other significant expenses. If we fail to control the use of hazardous substances, we may incur future liabilities, including cleanup costs.

We are subject to exchange rate fluctuations.

A substantial portion of our operating revenues are denominated in NT Dollars and U.S. Dollars, while we purchase a substantial amount of machinery and equipment in Japanese Yen and U.S. Dollars. Accordingly, we are exposed to movements in the exchange rates between U.S. Dollars on the one hand, and NT Dollars and Japanese Yen on the other hand. In particular, fluctuations in the exchange rate between NT Dollars and U.S. Dollars will affect the U.S. Dollars equivalent of the NT Dollars price on the Shares on the TWSE and, as a result, may affect the market price of the Bonds. We create foreign currency denominated debts to balance our foreign currency position. We recorded net exchange gains of NT$ 110.1million, NT$ 80.6 million and NT$52.2 million in the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively. The effect of future changes in currency exchange rates on our operating results cannot be accurately predicted and we cannot assure you that we will not suffer foreign exchange loss in the future. In addition, our ability to service our foreign currency debt obligations is in general determined by our foreign currency asset position. If such asset position decreases, our ability to service our debt obligations may be adversely affected, which may in turn have a material adverse effect on our financial condition or operating results.

Risk Relating to Our Technologies

If we are unable to successfully test our customers' products within the acceptable range of precision, we will not be able to achieve satisfactory testing yields, which may have a material adverse effect on our business, financial condition and operating results.

Semiconductor testing processes are complex and involve a number of precise steps. Defective tests can result from a number of factors, including:

The level of contaminants in the testing environment;

Human error;

Equipment malfunction; and

Inadequate sample testing.

From time to time, we expect to experience lower than anticipated testing yields as a result of the above factors. In addition, our test yields for new products will be lower than average as we develop the necessary expertise and experience to test those products. If we fail to meet customer testing requirements, our reputation may suffer and our customers may cancel their orders or return their products for rework, which as a result may have a material adverse effect on our business, financial condition and operating results.

The complexity of the integrated circuit testing and packaging process increases the costs and production risks of our business

Integrated circuit testing and packaging involves significant technological and process expertise. To improve capacity utilization and the efficiency of our testing operations, we maintain advanced and costly equipment and develop software conversion programs which enable us to test particular integrated circuits on multiple equipment platforms. If we fail to successfully develop software conversion programs or if we are unable to effectively reduce the lead time necessary to interface our customers' integrated circuits with our testing equipment, our operations may become less efficient, which as a result may have a material adverse effect on our operating results.

In addition, our testing and packing operations take place in clean rooms where air purity, temperature and humidity are controlled. If we are unable to effectively control our testing and packaging environments, some integrated circuits or wafers may be damaged. We have from time to time experience, and may in the future experience, production interruptions due to technical problems in our testing and packaging processes. Any interruption in our operations may harm our client relationships as well as our reputation, which as a result may have a material adverse effect on our business, financial condition and operating results.

Our profitability depends on our ability to respond to rapid technological changes in the semiconductor industry.

The semiconductor industry is characterized by rapid increases in the diversity and complexity of semiconductors. As a result, we expect that we will need to constantly offer more sophisticated testing equipment, technology and processes to respond to competitive industry conditions and customer requirements. If we fail to develop, or obtain access to, advanced testing equipment, technology or processes, we may become less competitive and less profitable, which as a result may have a material adversely effect on our business, financial condition and operation results.

Disputes over intellectual property rights may be costly and deprive us of the technology to remain competitive

We may suffer legal liabilities and damages if we infringe on the intellectual property or proprietary rights of others or incur costs resulting from legal claims and adverse proceedings against us. Despite this, we have no means of knowing what patent applications have been filed in the United States or elsewhere until they are granted. The semiconductor industry is characterized by frequent litigation regarding patent and intellectual property rights. If any third party were to make valid intellectual property infringement claims against us or our customers, we may be required to:

Discontinue using disputed process technologies which would prevent us from offering some of our testing and packaging services;

Pay substantial monetary damages;

Seek to develop non-infringing technologies, which may not be feasible; or

Seek to acquire licenses to the infringed technology, which may not be available on commercially reasonable terms, if at all.

We may also be required to devote substantial recourse to defend any claim alleging our infringement of patents or other intellectual property rights. If we fail to obtain necessary licenses or if litigation relating to patent infringement or other intellectual property matters occurs, it may seriously harm us.

In addition, we have acquired patents and trademarks to protect some of our proprietary technologies and products. We cannot assure you, however, that these measures will provide meaningful protection of our intellectual property.

Political and Economic Risks Relating to the ROC and the PRC

We face substantial political risks associated with doing business in Taiwan, particularly due to the unstable relationship between Taiwan and the PRC, which may have a material adverse effect on our business, financial condition and operating results, as well as the market price and liquidity of our Shares.

Our principal executive offices and a majority of our assets are located in Taiwan and a majority of our revenue is derived from our operations in Taiwan. Accordingly, our business, financial condition and operating results, as well as the market price and liquidity of our Shares, may be materially and adversely affecting by changes in Taiwan economic conditions, governmental policies, taxation, inflation or interest rates and by social instability and diplomatic and social developments affecting Taiwan beyond our control.

Although significant economic and cultural relations have been established during recent years between Taiwan and the PRC, the government in mainland China has indicated that it may use military force to gain control over Taiwan if Taiwan declares independence. The PRC has in the past threatened to take hostile actions toward Taiwan if Taiwan does not officially endorse the PRC's "one China" policy. Relations between Taiwan and the PRC and other factors affecting the political or economic conditions of Taiwan may substantially impact our business and the market price and the liquidity of our Shares and the Bonds.

Political and economic policies of the PRC government may have a material adverse effect on our business, financial condition and operating results.

We have a facility located in the PRC and a portion of our revenue is derived from our operations in the PRC. As such, we are subject to the political economic and social conditions, laws, regulations and policies of the PRC. The economy of the PRC differs from the economies of most developed countries in a number of respects, including:

Its structure;

Level of government involvement:

Level of development;

Level of capital reinvestment;

Control of capital reinvestment;

Control of foreign exchange; and

Allocation of resources.

Although the PRC has pursued a policy of deregulation and market-based reforms, the PRC government continues to promulgate from time to time regulations and policies that directly after the development of the industries in which we conduct our business. We cannot assure you that changes in the PRC's political, economic and social conditions, laws, regulation and policies will not have any material adverse effect on our current or future business, financial condition or operating results.

The value of a Bond holder's investment may be adversely affected by the volatility of the ROC securities markets.

The ROC securities markets are small and volatile. In 1961, the Securities and Futures Commission established the TWSE to provide a marketplace for securities trading. The TWSE is a corporation owned by government-controlled and private banks and enterprises. The TWSE is independent of entities transacting business through it, each of which pays a user's fee. Generally, all transactions in listed securities by brokers, traders and integrated securities firms must be made through the TWSE.

Acts of God, acts of war and other disasters may affect our business.

Our business is subject to general and social conditions. Natural disasters, epidemics, acts of God and other disasters that are beyond our control may materially and adversely affect the economy, infrastructure and livelihoods of the people in our targeted markets. Taiwan is frequently under the threat of typhoon, flood or earthquake. Our business, financial condition and operating results may be materially and adversely affected in natural disasters occur. Potential war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot currently predict.

Disruption of operations at our facilities for any reason, including work stoppages, power outages, fires, earthquakes or other natural disasters, would cause delays in performing our services, which may cause customers to obtain services from other sources.

Any recurrence of outbreak of an epidemic, including avian influenza, may have a material adverse effect on our business, financial condition and operating results.

Epidemics threaten people's lives and may materially and adversely affect their livelihoods as well as their living and consumption patterns. The occurrence of an epidemic is beyond our control, and we cannot assure you that another outbreak will not happen. Any epidemic or pandemic occurring in areas in which we operate, or in our targeted markets, may materially and adversely affect our business, financial condition and operating results.

Risks Relating to the Bonds and Our Shares

Your right to receive payments on the Bonds subordinated to our secured debt.

The Bonds will be effectively subordinated to any of our secured obligations. The terms of the Bonds do not prevent us or any subsidiary from incurring additional debt in the future and we are generally permitted to secure indebtedness. In addition, we expect to incur significant capital expenditures in the future, a substantial portion of which may be financed through additional debt. If we incur further indebtedness, our ability to make payments on the Bonds and, if required, to redeem the Bonds may be adversely affected.

The bonds are subject to restrictions on transfer

The Bonds and our Share issuable upon conversion of the Bonds have not been registered under the U.S. Securities Act or any state securities laws. Absent registration, the Bonds and our Shares issuable upon conversion of the Bonds may be offered or sold only in transactions that are not subject to or that are exempt from registration requirements of the U.S. Securities Act and applicable state securities laws

The Bondholders' ability to exercise their conversion rights may be limited.

The Bonds are convertible into Shares at the option of the converting Bondholders pursuant to the terms of the Bonds. Purchasers of the Bonds will not be able to exercise their conversion rights during Closed Periods.

Our shareholders may have difficulty protecting their shareholder rights.

Our corporate affairs are governed by our articles of incorporation and by the laws governing corporations incorporated in Taiwan. The rights of our shareholders and the responsibilities of members of our board of directors under Taiwan law are different from those applicable to a corporation incorporated elsewhere and, therefore, our shareholders may have more difficulty protecting their interests in connection with actions by the management, members of our board of directors or our controlling shareholders than they would as shareholders of a corporation incorporated elsewhere.

You will be required to appoint a local agent or representative in Taiwan if you convert the Bonds into Shares.

Under current ROC law, a non-ROC holder of Bonds exercising its conversion rights is required to appoint a local agent or representative in the ROC to, among other things, open a securities trading account with a local securities brokerage firm, pay ROC taxed, remit funds, exercise shareholders' rights on behalf of, and as agent for, such converting holder, appoint a bank to act as custodian in respect of the securities and funds, report to the Central Bank of the Republic of china in accordance with the current ROC law and appoint a local securities firm or financial institution to act as the agent to open an NT Dollar bank account.

Shares eligible for future sale by our current shareholders may adversely affect the market price of our Shares.

While we are not aware of any plans by any major shareholders to dispose of a significant amount of our shares, we cannot assure you that one or more of our shareholders will no dispose of our Shares in the future. We also cannot predict the effect, if any, that future sales of our Shares, or the availability of our Shares for future sale, will have on the market price of our Shares prevailing from time to time. Sales of substantial amounts of our Shares in the public market, or the perception that such sales may occur, may adversely affect the prevailing market price of our Shares.

An active trading market for the Bonds may not develop.

The bonds are a new issue of securities for which there is currently no trading market. We cannot predict whether an active trading market for the Bonds will develop or be sustained. If an active trading market were to develop, the Bonds would trade at prices that may be lower than the initial offering price. Whether or not the Bonds could trade at lower prices depends on many factors, including:

Our financial condition, historic financial performance and future prospects;

General economic condition; and

Prevailing interest rates and the markets for similar securities.

If an active market for the Bonds fails to develop or to be sustained, the trading price of the Bonds could be materially adversely affected. Application has been made to the SGX-ST for the listing and quotation of the Bonds on the SGX-ST. However, there can be no assurance that we will be able to obtain or maintain such a listing or that, if listed, a trading market will develop on the SGX-ST. The Bonds may not be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where registration may be required.

USE OF PROCEEDS

The net proceeds from the offering of the Bonds, after deducting underwriting fees and other expenses, are estimated to be approximately U.S. $49.6 million. The net proceeds will be used to procure equipment and machinery.

MARKET PRICE INFORMATION

The Shares have been listed and traded on the TWSE since 9 May 2001. The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the TWSE for the Shares (adjust for the effects of rights issues, employee bonus issues and stock dividends) and the high and low of TWSE index.

Year		Closing price per share (NT$)		Average daily trading volume (Thousands of shares)	TWSE Index	
		High	Low		High	Low
2015	First quarter	30.15	25.30	9,544	9,775.63	9,043.44
	Second quarter	28.70	26.15	4,914	10,014.28	9,170.09
	Third quarter	27.30	17.35	5,508	9,404.76	7,203.07
	Fourth quarter	23.10	19.90	6,214	8,871.87	7,980.59
2016	January	22.30	19.30	5,011	8,326.33	7,627.89
	February	26.45	21.70	8,591	8,432.74	7,953.99
	March	28.65	25.65	11,347	8,840.75	8,378.06
	April	28.90	25.95	6,842	8,743.35	8,352.23
	May	30.35	27.00	8,945	8,563.40	7,999.98
	June	31.00	26.85	6,686	8,754.82	8,374.26

On 26 July 2016, the reported closing price of the Shares was NT$28.5 per share and the TWSE Index closed at 9024.79.

DIVIDENDS AND DIVIDEND POLICY

The following table shows the cash dividends and stock dividends per share paid during each of the years indicated and the number of Shares outstanding on the record date in respect of the distribution of such dividends, except as otherwise noted.

	Cash dividend per share (NT$)	Stock dividend per share (NT$)	Number of outstanding Shares on record date
2014	1.300135	0	1,192,536,900
2015	1.800013	0	1,192,318,400
2016	1.20	0	1,162,294,400

We have historically paid dividends on Shares with respect to the preceding year after approval by the shareholders at the annual shareholder's meeting. The form, frequency and amount of future cash or stock dividends on the Shares will depend upon our earnings, cash flow, financial condition and other factors.

According to Article 19 of our articles of incorporation, the Company shall in accordance with the profit circumstances of a given year, distribute 8-10% of such profits as bonuses for employees, and 1% or less as remuneration for directors.

Employee bonuses may be distributed in the form of cash or shares, eligible employees include those employees of our subsidiaries who meet certain qualification requirements.

According to Article 20 of our articles of incorporation, out of our profits for each fiscal year after having provided for tax and losses incurred in previous years, a legal reserve of 10% must be set aside and thereafter a special reserve in accordance with Company operational needs and applicable laws and regulations may be further at aside when necessary. The remaining profits with any previously undistributed profits may be distributed according to a distribution plan proposed by the directors and approved by the shareholders.

Cash dividends of any given year shall not be less than 20% of the total amount of the distributions made to the shareholders.

EXCHANGE RATE

Fluctuations in the exchange rate between NT Dollars and U.S. Dollars will affect the U.S. Dollars equivalent of the NT Dollars price of the Shares on the TWSE and, as a result, may affect the market price of the Bonds.

Set forth below are the period-end average of buying and selling exchange rates in effect between the NT Dollars and the U.S. Dollars, expressed in NT Dollars per U.S. Dollars, for the period indicated.

Period End	Average	High	Low	NT$ per U.S. $1.00 Period-end
2014	30.377	31.894	29.77	31.718
2015	31.927	33.305	30.394	33.066
2016				
January	33.644	33.838	32.900	33.6
February	33.552	33.808	33.001	33.492
March	32.856	33.436	32.154	32.282
April	32.355	32.549	32.155	32.281
May	32.573	32.803	32.169	32.63
June	32.395	32.642	32.150	32.286

Source: Taipei Fubon Bank

CAPITALIZATION

The following table sets forth our consolidated total borrowings and our total capitalization as of 31 March 2016 and as adjusted only to reflect the issuance of the Bonds.

	As of 31 March 2016	
	Actual NT$ '000	As Adjusted NT$ '000
Current liabilities		
Short-term loans	0	0
Current portion of long- term loan	2,601,870	2,601,870
Total current liabilities	2,601,870	2,601,870
Noncurrent liabilities		
Long-term loan, less current portion	12,288,524	12,288,524
Total noncurrent liabilities	12,288,524	12,288,524
The Bonds now being issued	-----	1,609,250
Shareholders' equity		
Common stock	11,622,944	11,622,944
Capital surplus	5,987,334	5,987,334
Retained earnings	5,151,352	5,151,352
Other equity*	124,778	124,778
Non-controlling interests	5,289	5,289
Total shareholders' equity	22,891,697	22,891,697
Total capitalization	35,180,221	

*U.S. Dollar amounts have been translated into NT Dollars using the average of buying and selling exchange rates as certified by Bank of Taiwan on 31 March 2016 of NT$32.185 of U.S. $1.00 solely for the convenience of the reader.

OUR BUSINESS

Overview

We are one of Taiwan's leading independent providers of semiconductor testing and other backend semiconductor manufacturing services. According to the Gartner Market Share: Semiconductor Assembly and Test Services (SATS), worldwide, 2015 report, the Company placed 12th globally in the top 15 largest SATS companies in terms of revenue, constituting around 75% of the total market share. Our Company is the only one which specializes in professional testing. We believe we are only of only a few Taiwanese companies to provide the full range of integrated circuit testing services. Our testing services include wafer probing and final testing for logic, mixed signal and memory semiconductor devices. Our backend semiconductor manufacturing services primarily include wafer grinding and dicing and semiconductor packaging.

Our corporate headquarters are located in Hsinchu, Taiwan. We currently operate four testing and manufacturing facilities; one is located adjacent to our corporate headquarters in Hsinchu, two are located in Miaoli, Taiwan, and one is located in Suzhou, the People's Republic of China (the "PRC"). As of 31 March 2016, we owned 2580 testers, and operated another 16 testers through leasing and other arrangements. Taiwan is home to the world's largest independent wafer foundries and as such is home to some of the world's leading suppliers of outsourced semiconductor manufacturing services. Our close proximity to, and relationships with, Taiwan's leading wafer foundries allow us to benefit from the semiconductor's industry's trend towards outsourcing and to respond quickly to our customers' needs. Our location in Taiwan also enables our customers to secure seamless services within Taiwan for all of their manufacturing needs, thereby minimizing the time required to deliver finished semiconductor devices to the market.

Our customers include major fabless integrated circuit design companies, integrated device manufacturers and semiconductor foundries. We provide services to customers designing or producing a wide range of integrated circuit devices, such as radio frequency and wireless chips, liquid crystal display drivers, memory products, networking processors, graphic chips, CMOS image sensors, and systems on chips. Our customers include leading companies operating in consumer electronics, computer and communication industries. We provide a dedicated customer support infrastructure to our customers through our sales teams located in Taiwan, Singapore, Japan and the United States.

We believe our strong research and development capability differentiates us from our competitors. Our research and development activities focus on the research and development of our own testing equipment, including testers, the improvement of our testing flow, thereby achieving higher efficiency and cost savings, and the research and development of leading edge testing technology and testing programs which enable us to test higher-end products and meet our customers' evolving testing requirements. We believe we are one of only a few semiconductor testing companies in Taiwan which have the capability of researching and developing in-house testing equipment. This capability increases our competiveness in relation to cost and will continue to be one of major areas of focus in the near future.

Our net operating revenue were NT$16,277.8 million in 2014 and NT$17,128.5 million in 2015. We recorded income from continuing operations after income tax of NT$ 2,559.7 million in 2014 and NT$ 2,282.3 million in 2015. For the three months ended 31 March 2015 and 2016, our net operating revenue were NT$ 4,073.5 million and NT$ 4,358.4 million, respectively. We recorded an income from continuing operations after income tax of NT$599.4 million and NT$603.1 million for the same periods, respectively.

Our Strategy

Continuing to lower our cost and pursue margin growth

We have invested significant resources in researching and developing leading edge testing technology and cost saving initiative. Our recent research and development activities focus on further reducing our costs by measures including the following:

Developing our own testing equipment

We successfully developed our own integrated circuit testers and other testing equipment such as burn-in ovens. We launched our first series of testers in 2002. By operating a self-developed testing platform, we offer our customers alternative cost-effective testing solutions. We believe we are currently one of a few semiconductor testing companies in Taiwan which possess the capability to develop our own testing equipment. This capability increases our competitiveness in relation to cost and will continue to be one of our major areas of focus in the near future. Developing our own testing equipment also helps us to reduce capital expenditure commitments on equipment purchases.

Enhancing our efficiency by optimizing testing flow

We will continue to focus our research and development activities on optimizing our testing flow, which enables us to enhance our efficiency and achieve cost savings. We have, for example, developed a universal platform testing program conversion system to increase the utilization rate of our testers, and have developed contact quality technology to further improve our testing yield by optimizing the quality of the contact between tester accessories and testing devices. We also develop technologies which aim at improving the testing yields for specific devices. For instance, we have successfully developed electromagnetic interference ("EMI") noise detection on-board solution to raise the testing yield for our radio frequency device testing and to reduce our cost in building up facilities to immune our testing process from EMI.

Minimizing our utilization rate and test charges

The depreciation costs in association with our testing equipment generally constitute approximately 40% of our cost of goods sold. Given the high proportion of the fixed cost, we need to maintain a high equipment utilization rate and hourly test charges to achieve profitability. On the one hand, we have developed automatic configuration detection system which can automatically detect the configuration currently applied to our testing equipment and conduct testing work planning accordingly to maximize the utilization of our equipment. On the other hand, we endeavor to increase our test charges by providing value-added engineering services, such as debugging services during the initial state of product development, to our customers through our on-line service portal. We aim increase our utilization rate and hourly test charges by maintaining a steady flow of customer orders, carefully planning product testing cycles to maximize testing time per machine and continuing to provide value-added service to our customers. We also intend to maintain and pursue further margin growth by carefully balancing our product and customer mix.

Focusing on testing areas with potential for growth and high margin

We target to develop new testing technology to capture new market opportunities. We are, for instance able to test certain latest products such as gyroscopes and accelerators applying micro-electro-mechanical ("MEMS") technology which are now widely used on the latest generation of mobile phones. We have successfully developed our testing capability for high-end products such as CMOS image sensors, graphic chips and networking processors, and we will continues to develop our high-end testing capability to cate for emerging market demands.

In addition, we intend to expand to new areas which we consider to have potential for growth. In selecting new industries, we consider various factors such as our own capability and corporate resource, the volatility of the respective industry and the level of competition. We have developed testing capability on automobile integrate circuit systems, and have maintained ISO/TS16949:2009 accreditation for the production of integrate circuit electron mechanics module and control components as required in the testing of automotive-related products. We have recently begun to provide testing services on automotive products to our existing customers who also manufacture and sell automotive products, and we plan to continue to grow our business in this area.

Moving forward, we plan to focus more high-end services and areas with potential for growth, while maintaining a stable source of income from testing basic semiconductor devices. We may leverage our comprehensive testing capability to adjust the mix of products that we accept for testing to quickly respond to the growing needs of, or market fluctuations occurring in, a particular market segment.

Offering a broader range of semiconductor service to our customers

We plan to increase the depth of our services by expanding our semiconductor packaging business. In the past, we only provided packing services upon customers' request as part of our turnkey arrangements with certain customers. We currently are expanding such services with a view to providing a more comprehensive semiconductor services to meet our customers' needs and to achieving further economies of scale. In October 2009, we acquired Suzhou Zhenkun Technology Ltd., a packaging service company located in Suzhou, the PRC. We aim to reinforce our relationships with our existing customers and further expand our customer base by offering one-stop-shopping services to meet all semiconductor backend services requirements.

Our Services

The production of a semiconductor is a complex process that requires increasingly sophisticated engineering and manufacturing expertise. The production process can be broadly divided into three primary stages:

Wafer fabrication, including wafer probing;

Assembly of bare semiconductors, or die, into finished semiconductors (referred to as "assembly" or "packaging"); and

Final testing of assembled semiconductors.

Testing services

Semiconductor testing aims at ensuring the performance, functionality and reliability of a packaged semiconductor device. Testing semiconductor devices requires significant technical expertise and knowledge of the specific applications and functions of the semiconductors tested. In addition to maintaining different types of advanced testing equipment which enable us to test a variety of semiconductor functions, we work closely with our customers to develop and convert programs to test particular semiconductor products on multiple equipment platforms. Aside from the impact of demand and volume on prices, the charge for any specific testing service is dependent on testing time, usually measure in seconds, the customer's specification, the complexity of the testing be performed and the fixed cost of the testing machine required to run the test.

Wafer probing. Wafer probing is the process of electrically testing each die on a wafer to ensure that the wafer has no inherent problems that may result in low electrical yields after the wafer has been assembled into units. We are capable of handling a full range of wafers ranging up to 12 inches. Depending on customers' specifications, we map failing dices on a wafer through both wafer map inkless services and off-line ink processes. Aside from the general probing process, we offer burn-in testing services at wafer level, through which a wafer is subjected to extremely high temperatures over a long period of time for ensuring overall reliability under extreme conditions.

Final testing. We conduct final testing of a wide variety of logic, mixed signal and memory integrated circuits, including complex and high-performance integrated circuits. We tested a full range of semiconductor devices from radio frequency and wireless chips, liquid crystal display drivers, memory products, networking processors, graphic chips, CMOS image sensors, systems on chips and other integrated circuits used on consumer products. We also provide final testing services for a variety of memory products such as state access memory circuits, dynamic random access memory circuits and single-bit read only erasable programmable memory integrated circuits. The testing of memory products requires different equipment that that used in logic and mixed signal testing. Our burn-in testing services are also available at final integrated circuits level.

Backend semiconductor manufacturing services

Wafer grinding and dicing. As part of our backend semiconductor manufacturing services, we grind the wafers provided by customers to designated thicknesses and dice the wafer into dies, or chips. The wafer grinding and dicing process requires high-precision technologies and equipment to achieve precise tolerances.

Packaging. We currently provide packaging services from our facilities in Miaoli, Taiwan and Suzhou, the PRC.

Other services. We provide other services such as testing program development for our customers. In addition, we provide ancillary testing services on other products, such as flash cards, to fulfill our customers' specific requirements.

The table below sets out our consolidated net operating revenues by type of service for the periods indicate.

Service	For the year ended 31 December				For the three months ended 31 March	
	2014		2015		2016	
	Amount (NT$ million)	%	Amount (NT$ million)	%	Amount (NT$ million)	%
Testing Services						
Wafer Probing	6,669.05	40.97	6,856.07	40.03	1,674.71	38.43
Final Testing	7,712.68	47.38	8,297.78	48.44	2,211.77	50.75
Others	1,896.04	11.65	1,974.69	11.53	471.88	10.82
Total	16,277.77	100	17,128.54	100	4,358.36	100

The semiconductor products that we test are widely applied on consumer electronics, computer and communication products such as digital still cameras and remote controls. Certain products we test are used in some product categories and not others. By tracking the types of products in which our tested devices are used, we are able to predict, to a certain extent, market demand for certain products which, in turn, often gives us an indication of the level of demand for the type of testing services that would be required in the near future. We believe the coverage of our services to include a full range of consumer, computer and communication product integrated circuits enables us to obtain a full picture of the downstream application market and to plan our capacity and resources accordingly.

Customers

We provide testing services to semiconductor companies who design or manufacture wafers and integrated circuits. Our customers are primarily fables integrated circuit design companies, integrated device manufacturers and found companies located in Taiwan, North America, Asia and Europe.

Industry-leading companies require early access to advanced testing and packaging because they manufacture products which have first to market technologies. Our close relationships with industry leading customers help us to further develop their technology and position us to benefit from the high unit volumes produced by these major semiconductor customers.

We believe we have benefited from our location in Taiwan where an outsourced semiconductor manufacturing infrastructure is well-established. Our long-term relationship with the world's largest independent wafer foundries is important to the continued growth of our business. The majority of the semiconductor devices we test have been manufactures in or for Taiwan's leading fabless design houses, integrated device manufacturers and wafer foundries. As these companies grow, we expect them to increase their demand for our services. Moreover, we believe that we can leverage relationships with wafer foundries to jointly market seamless outsourced semiconductor manufacturing services from design to drop shipment and remain at the forefront in semiconductor manufacturing services from design to drop shipment and remain at the forefront in semiconductor technology. We also believe that our close proximity and close relationships to wafer foundries enable our customers to more efficiently manage their supply chains and find comprehensive solutions to their semiconductor needs. In addition, we believe integrated device manufacturers are well-positioned for growth in their industry and we expect that our existing relationships with such manufacturers will enable us to consequently experience an increase in our services to them.

We generally enter into to three year framework agreements with our customers. The agreements typically summarize the scope of the required testing services by they do not set forth specific information with regard to each testing program, pricing or quantity of units to be tested. Our customers need to place separate orders for each testing program specifying the type of products to be tested, the quantity of such products, and the price and detailed specification for each testing program. As we believe is common within the semiconductor manufacturing industry, our customers generally do not place purchase orders far in advance. Firm orders normally arrive only days before to even simultaneously with the shipment of wafers or integrated circuits to be tested by us. We typically require our customers to provide us regular forecasts to enable us to plan ahead for our capacity but such forecasts are non-binding in nature. The accuracy rate of the forecasts provided by each customer in the past often forms a basis of our future resource planning. Our customers may cancel or reschedule orders or may deviate from their forecast from time to time.

We sometimes enter into consignment arrangements with respect to our testing equipment with certain customers pursuant to which we operate such customers' equipment for their exclusive use. See "– Equipment and Materials."

Sales and Marketing

We operate a global sales network consisting of account sales managers and marketing staff located in our headquarters in Hsinchu, Taiwan, and sales offices in the United States, Japan and Singapore. The sales team at each of our offices is responsible for developing new customer relationships and keeping close communication with our customers located in the area to provide them with prompt support. Our sales staff works closely with our technical staff in providing technical services to our customers when required.

We carry out reviews of all of our customers on at least a quarterly basis. We regularly collect data from different segments of the semiconductor industry and, when possible we work closely with our customers to design and develop testing solutions for their new products. These co-development projects can be critical when customers seek large scale early market entry with a new product.

Our sales and marketing strategy is focused on providing high quality semiconductor device testing and other backend services, on-time delivery and technical support and competitive pricing. We believe that this strategy is best implemented by servicing a select number of customers whom we consider to have a high level of anticipated growth.

Set forth below is the geographic breakdown of our consolidated net operating revenues for the periods presented below:

Location / Year	For the year ended 31 December				For the three months ended 31 March	
	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
	(NT$ million)		(NT$ million)		(NT$ million)	
Taiwan	6,953.9	42.72	5,624.3	32.84	1,355.3	31.10
Asia (1)	6,003.0	36.88	7,884.1	46.03	2,047.9	46.99
North America	2,444.2	15.02	2,777.7	16.22	788.4	18.09
Others (2)	876.7	5.38	842.4	4.91	166.7	3.82
Total	16,277.8	100.00	17,128.5	100.00	4,358.4	100.00

(1) Include Hong Kong, Israel, Japan, Korea, Malaysia and Singapore and excludes Taiwan
(2) Includes Bermuda and the Cayman Islands

Sales generated outside Taiwan accounted for approximately 57.3%, 67.2% and 68.9% or our net operating revenue in 2014, 2015 and the three months ended 31 March 2016, respectively. Our overseas customers are mostly fabless integrated circuit design companies and integrated device manufacturers which contract their wafer foundry services to major independent foundries in Taiwan.

Research and Development

Our research and development activities focus on the research and development of our own testing equipment, including testers, the improvement of our testing flow, thereby achieving higher efficiency and cost savings, and the research and development of leading edge testing technology and testing programs which enable us to test higher-end products and meet our customers' evolving testing requirements. We believe we are one of only a few semiconductor testing companies in Taiwan which have the capability of researching and developing in-house testing equipment. We have, for example, successfully developed integrated circuit testers and burn-in ovens used at both wafer probing and final testing levels. Recently, we have been focusing on developing high-end testing equipment such as high power burn-in overs to cate for emerging market demand.

Our research and development efforts have also enabled us to lower our costs by maximizing the utilization of our equipment and optimizing our testing flow. We have for example, utilized the universal platform testing program conversion system and automatic configuration detection system developed through our own research and development to further improve the utilization of our equipment. We also endeavor to raise our testing yield by researching and development new testing technology, such as the EMI noise detection on-board solution used to detect and shield EMI when testing radio frequency integrated circuits.

Our strong research and development team allows us to test devices, such as products applying MEMS technology and CMOS image sensors smaller than 2x2mm ship-scape packages, which certain of our competitors are not yet able to test by automation. Our research and development division and sales personnel work closely with customers in designing and modifying testing software and with equipment vendors to increase the efficiency and reliability of testing equipment. Our research and development staff also works closely with our customers to provide effective value-added engineering solutions, such debugging services during the initial stage of product development, through our on-line service portal to further increase our test charges.

Our research and development personnel include many employees with advanced degrees in electrical engineering or other related disciplines. For 2014, 2015, and the three months ended 31 March 2016, we spent NT$ 605.5 million and NT$ 679.6 million and NT$ 170.5 million respectively on research and development, which represented approximately 3.72%, 3.97% and 3.91% of our net operating revenue for each period.

Equipment and Materials

We make large capital investments in testing equipment. As of 31 March 2016, we own 2580 testers and operate another 16 testers through leasing and consignment arrangements and for demonstration purposes.

Procurement of testing equipment

We generally purchase equipment with broad functionality and flexibility for use in multiple testing applications where possible, but are often required by the nature of our clients' testing needs to purchase limited-use testing equipment. We purchase testing equipment from a variety of major international manufacturers mainly in Japan, Singapore and the United States, including Advantest Corporation, LTX Corporation, Verigy LTD and Teradyne Inc. we will continue to acquire or enter into alternative arrangements with respect to testing equipment in the future to the extent market conditions and demand for our services make it desirable to do so, and make equipment purchasing decisions in close consultation with certain key customers.

Nonetheless, given the heavy swings in market demands for our services and the long lead times required for equipment orders, it is often difficult to completely match our testing capacity to market demand. In addition, our conclusion of any significant agreements for the provision of testing services to a large or new customer would require us to purchase additional testing equipment to meet their needs and would result in our seeking further financing to make such purchases. The lead time for our equipment orders typically requires two to three months. See "Risk Factors – Risk Relating to Our Business and Our Industry – if we are unable to obtain equipment from our suppliers in a timely manner and at a reasonable cost, our business may be materially and adversely affected."

Development of our own testing equipment

In addition to acquiring testing equipment, we have also developed our own testing equipment. We are continuing to upgrade the functionality of our testing equipment to access higher end markets. Such testing equipment contributes to our breadth of services by providing our customers with a cost-effective alternative to our higher-priced testing services. We expect the development of our own testing equipment to serve an important function of broadening the range resting charges we are able to offer to our customers and increasing our competitiveness in relation to cost.

Alternative arrangement with respect to testing equipment

Other than acquiring testing equipment or developing our own testing equipment, we enter into leasing arrangements for testing equipment with equipment vendors or leasing companies. We may choose to lease testing equipment when testing demand in connection with such equipment could potentially fluctuate or decrease within a short term due to various reasons, such as market conditions, or is limited to specific products. Under such arrangements, we lease the testing equipment for a fixed term and for a monthly fee, which is calculated by reference to a percentage of the revenue we generate though use of such testing equipment.

We have also entered into consignment arrangements with our customers in which we reserve such customer's equipment for their exclusive use. Our test charges are based on the costs we incur for performing testing services on consigned equipment, such as labor costs and overheads. The consignment arrangements enable us to secure stable income without major capital expenditure. Moving forward, we will continue to employ a leasing or consignment business model to allow for more flexible arrangements to accommodate customer needs and to mitigate our exposure to market downturns.

We do not use raw materials for our testing services. Our packaging operations require supplies of materials and equipment on a timely basis. The principal raw materials used in packaging are substrates, gold wire, lead frames, controllers and molding compound. For other services, particularly tape and reel, we require limited materials such as plastic tapes and wrapping materials.

Facilities

Our headquarters are located in Hsinchu, Taiwan. We own and operate four testing and manufacturing facilities in Hsinchu and Miaoli in Taiwan, and one facility in Suzhou, the PRC.

The following table sets out the details of our facilities as of 31 March 2016:

Facilities	Location	Commencement of operation	Principal use	Floor space	Number of testers as of 31 March 2016
Headquarters	Hsinchu, Taiwan	July 2000	Administrative, logic wafer probing	16,155 m2	390
Chunghwa	Miaoli, Taiwan	January 2000	Testing and packaging	256,909 m2	1,311
Tongluo	Miaoli, Taiwan	January 2014	Testing and packaging	59,256 m2	557
Suzhou facility	Suzhou, the PRC	September 2002	Testing and packaging	46,200 m2	322

We have not experience any significant interruptions in production at any of our production facilities due to equipment failure or breakdown, raw material shortages, power interruptions, fires or labor disputes.

Quality Control

We employ quality control procedures at every critical testing stage, with the aim of identifying and solving problems at the earliest possible stage of the testing process. Our quality control procedures include statistical process control, which involves sampling tests to control and monitor the testing process. Our quality control team also monitors our testing environment, including temperature and humidity control, which are customized in accordance with testing requirements. If a problem is detected, failure analysis will be used to determine the cause. To ensure that our quality control procedures are effectively applied, production line employees are provided with ongoing training.

Our operations are undertaken in clean rooms where air purity, temperature and humidity are controlled. To ensure stability and integrity of operations, we maintain clean rooms at our facilities that meet our customers' requirements. Our comprehensive quality control programs in Taiwan have received numerous accredited International Standards Organization (ISO) certifications including ISO 9001, TL9000, ISO/TS16949:2009, ISO14001 and OHSAS 18001. We undergo periodic audits to maintain our quality control certification.

Although some semiconductor companies view the ISO certification as a basis for initiating contact with a potential subcontractor, they generally perform separate production and quality audits of the subcontractor themselves. In addition, testing service customers generally require that our facilities undergo a stringent "qualification" process during which the customer evaluates our operations and production processes.

Competition

We operate in a highly competitive semiconductor testing and backend manufacturing services market. We face competition from a number of vendors, including companies offering full testing and packing service such as ASE Test Limited, Siliconware Precision Industries Co., Ltd. and STATS ChiPAC Co., Ltd., and other professional or niche testing companies such as Siguard Microelectronics Corporation and Ardentec Corporation. We also compete for the testing business of foundry companies, integrated device manufacturers and fabless integrated circuit design companies with their in-house testing capabilities. Some of these manufactures have commenced, or may commence, in-house testing operations in Taiwan and Asia.

Although we have witnessed the trend of increasing outsourcing, integrated device manufacturers that use the services provided by us, in particular, continuously evaluate our performance against their own in-house testing capabilities. These integrated device manufacturers may have access to more advanced technologies, and greater financial and other resources than we do. We believe we offer a wider range of equipment and services in terms of complexity and technology to meet evolving testing needs as compared to the in-house testing operations of integrated device manufacturers.

Information Service System

We implement information service systems to coordinate our testing operations, realize performance improvements from our testing and other services, manage our business and take orders and share process information with our customers.

Maximizing capacity utilization is essential to our profitability; we manage the entry, preparation, testing and shipment of all our clients' products down to the hour using proprietary software. This allows us to not only keep our testing machines operating at higher utilization levels, but to also assess the value and appropriate timing of potential testing jobs based on our hourly charges, the amount of work involved and the fixed cost and capacity of the testing machines to be used.

In addition, we provide e-business solutions by working with our customers through our business-to-business platform, electronic information data system and other internet-based communication channels to provide testing and post-testing data, receiving business orders and provide work-in-progress reports. In addition, we maintain for our customers a use-friendly and secure online service portal to enable them to directly access their product test results, browse analysis reports, or track logistical progress of their products in our system.

Environmental Matters

The semiconductor testing business involves no environmentally sensitive processes. Our facilities conducting such services are therefore free from environmental concerns and no anti-pollution devices are required to be installed in any of our facilities. The wafer grinding and dicing process required by some of our customers is, however, environmentally sensitive. Liquid waste is produced at the stage where silicon wafers are diced into chips with the aid of diamond saws and cooled with running water. Our packaging operations generate limited amounts of waste. We have installed treatment equipment for liquid waste water and have contracted with a qualified company for the treatment of solid waste generated from our wafer grinding and dicing packaging processes. We believe that we have adopted adequate anti-pollution measures for the effective maintenance of environmental protection standards that are consistent with the semiconductor industry practice in Taiwan.

We believe that we are in substantial compliance with all material environmental regulations. We have not been subject to any material fines or legal action involving non-compliance with any relevant environmental regulations, nor are we aware of any threatened or pending action by any environmental regulatory authority.

Legal Proceedings

We have not been involved in any material legal proceedings or investigations.

Insurance

We maintain insurance policies with independent third parties in respect of buildings, goods in transit, equipment and certain inventories covering loss due to fire, explosion, earthquake, typhoon, flood and certain other risks. While we believe our insurance policies to be adequate and in line with industry norms in Taiwan, significant damage to any of our facilities could have material adverse effect on us. Insurance coverage on property, plant and equipment amounted to approximately NT$29.3 billion a as of 31 March 2016. In addition, we carry insurance policies for business interruption and directors' liabilities.

Employees

As of 31 March, we had approximately 5,023 employees. We conduct campus recruiting and utilize the Internet in our recruitment. In addition, we give our employee bonuses as a reward for retaining our employees and as an incentive to attract new employees. We source some employees from Southeast Asia, the majority of whom work on our testing and packaging production line. Our employees are not covered by any collective bargaining agreements. We consider our relationship with our employees to be good. In compliance with ROC law, we provide health benefits to our employees under the national health plan and the labor health plan. To date, we have not experienced any material labor disputes.

Subsidiaries

We maintain shareholdings in our subsidiaries for long-term strategic and financial investment purposes. The table below sets forth certain information as of 31 March 2016 regarding our consolidated subsidiaries in which we hold a significant equity interest.

Shareholder	Subsidiary Name	Place of Incorporation	Book value of our investments as of 31 March 2016 (in NT$ millions/US$ thousands)	Percentage of common shares owned by us as of 31 March 2016	Date of incorporation
KYEC	KYEC USA Corp	USA	14.7	100	6 July 2000
KYEC	KYEC Singapore Pte. Ltd.	Singapore	4.9	100	22 December 2006
KYEC	KYEC Japan K.K.	Japan	46.7	89.83	26 April 2002
KYEC	KYEC Investment International Co., Ltd.	British Virgin Islands	4,399.1	100	7 May 2002
KYEC	KYEC Technology Management Co., Ltd.	Samoa	262.8	100	13 January 2003
KYEC Investment International Co., Ltd.	KYEC Microelectronics Co., Ltd.	Cayman Islands	USD 117,365	93.51	23 May 2002
KYEC Technology Management Co., Ltd.			USD 8,166	6.49	
KYEC Investment International Co., Ltd.	Sino-Tech Investment Co., Ltd.	Samoa	USD 10,651	100	17 September 2008
KYEC Investment International Co., Ltd.	Strong Outlook Investment Limited	British Virgin Islands	USD 8,668	100	26 July 2005

KYEC Microelectronics Co., Ltd.	King Long Technology (Suzhou) Ltd.	PRC	4,040.2	100	30 September 2002
Sino-Tech Investment Co., Ltd.	Suzhou Zhenkun Technology Ltd.	PRC	621.8	61.88	8 December 2005
Strong Outlook Investment Ltd.				38.12	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion should be read in conjunction with our audited financial statements as of and for the years ended 31 December 2014 and 2015, and our reviewed interim financial statements as of and for the three months ended 31 March 2015 and 2016, including the notes thereto, included elsewhere in this Offering Circular. Our financial statements have been prepared and presented on a consolidated basis in accordance with IFRS.

Overview

We are one of Taiwan's leading independent providers of semiconductor testing and other backend semiconductor. We believe we are one of only a few Taiwanese companies to provide the full range of integrated circuit testing services. Our testing services include wafer probing and final testing for logic, mixed signal and memory semiconductor devices. Our backend semiconductor manufacturing services primarily include wafer grinding and diving and semiconductor packaging. We provide services to customers operating in consumer electronics, computer and communication industries.

The majority of our revenues is derived from testing services, which accounted for approximately 88.4%, 88.5% and 89.2% of our total operating revenues for the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively. Revenue for other backend semiconductor manufacturing services as a whole accounted for approximately 11.6%, 11.5%, and 10.8% of our total operating revenues for the year ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively.

Our test charges are calculated based on hourly rates for the testing machines. Test charges for a single machine may vary depending on the time required for testing different semiconductor or devices and the complexity of the product being tested. More complex devices that require the most advanced testers and testing configurations generally command higher hourly test charges.

Our cost of goods sold primarily comprises direct labor costs, raw materials, costs and overheads, mainly depreciation cost on our equipment and facilities. A majority of our cost of goods sold are of a fixed nature. Our depreciation costs constituted approximately 40% of our cost of goods sold for the three months ended 31 March 2016. Due to high fixed costs of our equipment, it is critical for us to maximize our equipment utilization rate and hourly test charges to maintain our profitability.

Our net operating revenue were NT$16,277.8 million in 2014 and NT$17,128.5 million in 2015. We recorded income from continuing operations after income tax of NT$ 2,559.7 million in 2014, and NT$ 2,282.3 million in 2015. For the three months ended 31 March 2015 and 2016, our net operating revenues were NT$ 4,073.5 million and NT$ 4,358.4 million, respectively. We recorded income from continuing operations after income tax of NT$ 599.4 million and NT$603.1 million for the same periods, respectively.

Factors Affecting Our Results of Operation and Financial Condition

Our business, financial condition and operating results are significantly affected by a number of factors, many of which may be beyond our control.

Seasonality and volatility of operating results

Our financial performance relies on the success of our customers, whose success in turn depends on the condition and viability of the consumer electronics, computer and communication industries. Each of these industries is subject to pronounced market cycles. Typically, we experience seasonal peaks during the third quarter of the year, primarily as a result of increased demand from back-to-school and end-of-year winter season sales. The market volatility makes it challenging for us to predict future market conditions and form proper capacity plans.

Testing services are typically provided immediately prior to the integration of individual semiconductors into electronic products. Accordingly, the sale trends for semiconductor testing services closely mirror the seasonal sales trends for downstream electronic products. During market downturns, inventory build-up by downstream electronic products manufacturers may significantly offset the increased demand during peak seasons for semiconductor testing and packing services.

Substantial capital expenditure and high proportion of fixed costs

The semiconductor testing industry is characterized by substantial capital expenditures. In connection with the expansion of our testing capacity and the need to provide advanced testing services, we incurred expenditures for plant, property and equipment of approximately NT$ 8,427.8 million, NT$ 7,136.7 million and NT$ 3,561.3 million in the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively. A substantial portion of our cost of goods sold represents depreciation in connection with our capital expenditure investments. For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively, the depreciation expenses represented approximately 35.44%, 38.14% and 39.59% of our cost of goods sold during the same periods.

Operations at or near capacity have a significant positive effect on profitability, assuming constant or increasing prices, because a substantial percentage of our cost of goods sold is of a fixed nature. Our gross margin was NT$ 4,881.73 million, NT$ 4,793.98 million and NT$ 1,187.29 million for the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively.

Service mix and margin

Our overall margin varies depending on the mix businesses between semiconductor testing services and other backend manufacturing services, the mix of products tested by us and our capacity utilization rate. Our testing revenue is set in part based on hourly testing rates for the testers used to test our customers' products. In general, the more complex the device is, the more advanced testers and testing configurations it will require, and the higher our hourly testing charges will be. Our capability of performing testing services on a full range of semiconductor products enables us to adjust the mix of products that we accept for testing to quickly respond to the growing need of, or market fluctuations occurring in, a particular market segment.

Our packing services generally produce lower margin compared to our testing services due to our competitive pricing and relatively higher manufacturing cost before we reach significant economies of scale at the stage where we are expanding such business. The margin of our packing services varies with types of product and package format and our customers' requirements.

Our equipment utilization rate can also affect our margins. Due to high fixed costs of our equipment, it is critical for us to maximize our equipment utilization rate and hourly testing charges to maintain our margin. The equipment utilization rate and hourly testing charges may decline during cyclical demand fluctuations, market downturn and the period when industry capacity increases. Our cost reduction engineering had helped us to lower our costs by optimizing our testing flow and enhancing our testing efficiency. Our ability to maintain or enhance our margin depends on the extent to which we are able to adjust our service mix and achieve higher utilization rates by maintaining a steady flow of customer orders, planning product testing cycles carefully to maximize testing times per tester and sourcing high-end testing work from our customers.

Product cycles and price erosion

The sales for a service we provide for a product typically increases during the early to middle phases of the product's life cycle, reflecting increased demand and market acceptance for the product and the technology it incorporates. The volume and prices of our service eventually decrease from the middle to late phases of the product's life cycle due to a variety of factors such as product obsolescence resulting from rapid technological advances and increased competition. Normally, as product sales prices decline, so do the fees we charge to test such products. However, such pricing and sales trends are no linear and are subject to frequent fluctuations, particularly during the transition period from the early to middle phases and during the phase-out period of a product life cycle. It is therefore important for us to keep updating our technology and introducing new products to our testing line so the new products can produce higher margin to complement the lower-margin services that we perform on phasing-out products.

Results of Operations

The following table summarized our results of operations as a percentage of consolidated net operating revenues for the periods shown:

	For the year ended 31 December				For the three months ended 31 March			
	(Audited)				(Unaudited)			
	2014		2015		2015		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
	(NT$ '000)		(NT$ '000)		(NT$ '000)		(NT$ '000)	
Net Sales	16,277,769	100	17,128,536	100	4,073,532	100	4,358,356	100
Operating costs	(11,396,039)	(70)	(12,334,553)	(72)	(2,915,957)	(72)	(3,171,070)	(73)
Gross profit	4,881,730	30	4,793,983	28	1,157,575	28	1,187,286	27
Operating expenses								
Selling expenses	(248,398)	(1)	(269,328)	(2)	(64,337)	(2)	(76,280)	(2)
Administrative expenses	(1,095,650)	(7)	(1,141,722)	(7)	(285,409)	(7)	(288,194)	(6)
Research and development expenses	(605,451)	(4)	(679,573)	(4)	(176,894)	(4)	(170,510)	(4)
Total operating expenses	(1,949,499)	(12)	(2,090,623)	(13)	(526,640)	(13)	(534,984)	(12)
Operating income	2,932,231	18	2,703,360	15	630,935	15	652,302	15
Net-operating income and expenses								
Other income	188,936	1	139,176	1	45,019	1	32,091	1
Other gains and losses	24,492	-	118,212	1	55,980	2	82,525	2
Finance costs	(138,847)	(1)	(171,768)	(1)	(40,990)	(1)	(47,814)	(1)
Share of profit of associates and joint	112,548	1	59,621	-	25,084	1	11,176	-

venture								
Total non-operating income and expenses	187,129	1	145,241	1	85,093	3	77,978	2
Net income before income tax	3,119,360	19	2,848,601	16	716,028	18	730,280	17
Income tax expense	(559,629)	(3)	(566,328)	(3)	(116,606)	(3)	(127,207)	(3)
Net income	2,559,731	16	2,282,273	13	599,422	15	603,073	14
Net income for the periods attributable to:								
Owners of the parent company	2,559,056	16	2,281,546	13	599,371	15	602,909	14
Non-controlling interests	675	-	727	-	51	-	164	-
	2,559,731	16	2,282,273	13	599,422	15	603,073	14
Total comprehensive income for the periods attributable to:								
Owners of the parent company	2,805,437	17	2,119,822	12	527,157	13	534,748	12
Non-controlling interests	353	-	886	-	(13)	-	409	-
	2,805,790	17	2,120,708	12	527,144	13	535,157	12

Revenue by service type

The table below sets forth the breakdown of our net consolidated operating revenues by service type and the percentage of each service represented in our net consolidated operating revenues for the relevant periods:

Service	For the year ended 31 December 2014		2015		For the three months ended 31 March 2016	
	Amount (NT$ million)	%	Amount (NT$ million)	%	Amount (NT$ million)	%
Testing Services						
Wafer Probing	6,669.05	40.97	6,856.07	40.03	1,674.71	38.43
Final Testing	7,712.68	47.38	8,297.78	48.44	2,211.77	50.75
Others	1,896.04	11.65	1,974.69	11.53	471.88	10.82
Total	16,277.77	100	17,128.54	100	4,358.36	100

Liquidity and Capital Resources

We finance our operations primarily through cash from operations and band loans. We require cash primarily for equipment purchases, factory expansion and working capital.

As of 31 March 2016, our primary source of liquidity was NT$5,359.4 million of cash and cash equivalents and NT$2,601.9million of current portion of long-term loans. We also had NT$ 12,288.5 million drawn down under long-term facilities as of the same date. The interest rates for the borrowings under these facilities ranged from 0.90% to 2.20% per annum.

Bank	Original principal amount	Maturity Date	Drawn down amount (NT$ million)	Repayment term
Taiwan Business Bank	320	2017/10/22	312.2	Revolving Credit
E. SUN Bank	400	2018/03/03	96.6	Revolving Credit
Mega International Commercial Bank	643.7	2017/09/18	160.9	Revolving Credit
Citibank	1,190.9	2017/11/30	64.4	Revolving Credit
HSBC	1,609.3	2017/10/31	831.3	Revolving Credit
Land Bank	500	2017/12/30	128.7	Revolving Credit
Bank SinoPac	1,287.4	2018/04/30	547.1	Revolving Credit
17 Syndicated banks including Chinatrust Commercial Bank	13,000	2018/03/10	3,900	Repayable in 4 semi-annual instalments from March 10, 2013. The initial repayment would be 66th months since the borrowing day and repayment shall be made semi-annually then. The initial repayment had been extended until March 10, 2015.
9 syndicated banks including Fubon Bank	3,800	2020/09/10	3,200	The Company reached a three-year loan extension agreement as of December 31, 2014. The loan will be repayable in 6 semi-annual installments from March 10, 2018.
12 syndicated banks including Taipei Fubon Bank	3,900	2020/04/17	3,900	25% of principal will be repaid on the day of three and

				half years from April 17, 2015. The remaining part will be repaid on maturity day.
13 syndicated banks including Land Bank	5,000	2021/03/10	975	25% of principal will be repaid on the day of three and half years from March 10, 2016. The remaining part will be repaid on maturity day
Taiwan Cooperative Bank - King Long Technology (Suzhou) Ltd.	160.93	2018/01/19	103	Repayable in 6 semi-annual installments from July 20, 2015.
Mega International Commercial Bank-King Long Technology (Suzhou) Ltd.	160.9	2017/05/12	120.7	Repayable in 4 semi-annual installments from December 6, 2015.
KGI Bank - King Long Technology (Suzhou) Ltd.	160.9	2018/12/08	32.2	Repayable in 5 semi-annual installments from December 8, 2016.
HSBC – King Long Technology (Suzhou) Ltd.	257.5	2017/03/11	193.1	Repayable in 2 semi-annual installments at first and 1 five monthly installments at last starting from October 15, 2015.
Mega International Commercial Bank-Suzhou Zhenkun Technology Ltd.	160.9	2017/05/12	120.7	Repayable in 7 quarter installments from December 16, 2015.
Bank SinoPac – Suzhou Zhenkun Technology Ltd.	160.9	2016/12/15	80.5	Repayable in 6 quarter installments from September 15, 2015.
HSBC- Suzhou Zhenkun Technology Ltd.	160.9	2017/03/11	120.7	Repayable in 2 semi-annual installments at first and 1 five monthly installments at last starting from April 15, 2016.
KGI Bank- Suzhou Zhenkun Technology Ltd.	160.9	2017/01/18	32.2	Principal is due at maturity.

We had net cash provided by operating activities of NT$ 1,808.5 million for the three months ended 31 March 2016, which was primarily attributable to income from the same period and the effect of non-cash depreciation expenses. Our net cash used in investment activities during the three months ended 31 March 2016 was NT$ 3,488.1 million, which mainly reflected our purchase of plant, property and equipment of NT$3,561.3 million. Our net cash flow in financing activities in the three months ended 31 March 2016 was NT$ 855.3 million, primarily reflecting the borrowing of our long-term loans.

Capital expenditures

Based on our estimate of expected demand, we incurred capital expenditure on plant, property and equipment of NT$ 8,427.8 million, NT$ 7,136.7 million and NT$ 3,561.3 million for the years ended 31 December 2014 and 2015 and for the three months ended 31 March 2016, respectively. The following table shows the breakdown of our capital expenditures for these periods:

	For the year ended 31 December (NT$ million)		For the three months ended 31 March 2016 (NT$ million)
	2014	2015	2016
Land, building and facilities	659.9	1,225.6	272.2
Machinery and others	7,767.9	5,911.1	3,289.1
Total	8,427.8	7,136.7	3,561.3

Our capital expenditures were primarily incurred to expand our semiconductor testing and backend manufacturing capacities. We have currently budgeted approximately NT$8,000 million for capital expenditures for 2016 mainly for operation costs.

Bank borrowings

From 2014 to the three months ended 31 March 2016, our capital expenditures had been primarily financed by cash from our operations and proceeds from long-term bank loans. Our borrowing policy requires us to maintain a lower ratio of short-term loans against long-term loans.

As of 31 March 2016, we had NT$12,288.5 million outstanding long-term loans which will fall due after 2017, and we had a current portion of long-term loans of NT$2,601.9 million that will fall due within a year. We plan to primarily use the proceeds from our bank loans to finance the acquisition of further machinery and equipment. The following table shows the details of the long-term credit facilities available to us as of 31 March 2016:

Bank	Original principal amount	Maturity Date	Drawn down amount (NT$ million)	Repayment term
Taiwan Business Bank	320	2017/10/22	312.2	Revolving Credit
E. SUN Bank	400	2018/03/03	96.6	Revolving Credit
Mega International Commercial Bank	643.7	2017/09/18	160.9	Revolving Credit
Citibank	1,190.9	2017/11/30	64.4	Revolving Credit
HSBC	1,609.3	2017/10/31	831.3	Revolving Credit
Land Bank	500	2017/12/30	128.7	Revolving Credit
Bank SinoPac	1,287.4	2018/04/30	547.1	Revolving Credit
17 Syndicated banks including Chinatrust	13,000	2018/03/10	3,900	Repayable in 4 semi-annual

Commercial Bank				instalments from March 10, 2013. The initial repayment would be 66th months since the borrowing day and repayment shall be made semi-annually then. The initial repayment had been extended until March 10, 2015.
9 syndicated banks including Fubon Bank	3,800	2020/09/10	3,200	The Company reached a three-year loan extension agreement as of December 31, 2014. The loan will be repayable in 6 semi-annual installments from March 10, 2018.
12 syndicated banks including Taipei Fubon Bank	3,900	2020/04/17	3,900	25% of principal will be repaid on the day of three and half years from April 17, 2015. The remaining part will be repaid on maturity day.
13 syndicated banks including Land Bank	5,000	2021/03/10	975	25% of principal will be repaid on the day of three and half years from March 10, 2016. The remaining part will be repaid on maturity day
Taiwan Cooperative Bank - King Long Technology (Suzhou) Ltd.	160.93	2018/01/19	103	Repayable in 6 semi-annual installments from July 20, 2015.
Mega International Commercial Bank-King Long Technology (Suzhou) Ltd.	160.9	2017/05/12	120.7	Repayable in 4 semi-annual installments from December 6, 2015.
KGI Bank - King Long Technology (Suzhou) Ltd.	160.9	2018/12/08	32.2	Repayable in 5 semi-annual installments from December 8, 2016.
HSBC – King Long Technology	257.5	2017/03/11	193.1	Repayable in 2 semi-annual

(Suzhou) Ltd.				installments at first and 1 five monthly installments at last starting from October 15, 2015.
Mega International Commercial Bank- Suzhou Zhenkun Technology Ltd.	160.9	2017/05/12	120.7	Repayable in 7 quarter installments from December 16, 2015.
Bank SinoPac – Suzhou Zhenkun Technology Ltd.	160.9	2016/12/15	80.5	Repayable in 6 quarter installments from September 15, 2015.
HSBC- Suzhou Zhenkun Technology Ltd.	160.9	2017/03/11	120.7	Repayable in 2 semi-annual installments at first and 1 five monthly installments at last starting from April 15, 2016.
KGI Bank- Suzhou Zhenkun Technology Ltd.	160.9	2017/01/18	32.2	Principal is due at maturity.

In 2010, we issued U.S. $30 million convertible zero yield puttable securities due 2013. The securities have been fully redeemed or converted.

Commitments and contingencies

As of 31 March 2016, we have entered into construction contracts for the expansion of our facilities totaling NT$2,573 million of which a total of NT$ 444.4 million remained unpaid.

Our open letters of credit as of 31 March 2016 totaled NT$1,422.7 million. In addition, we have provided guarantee totaling NT$27,848.8 million mainly for the loans extended by our Company and our subsidiaries as of the same date.

Quantitative and Qualitative Disclosures about Market Risk

The financial market risks to which we are exposed are principally risks relating to changes in exchange rates and interest rates.

Foreign currency risk

A substantial portion of our operating revenues are denominated in NT$ and U.S. Dollars, while we purchase a substantial amount of machinery and equipment in Japanese Yen and U.S. Dollars. Accordingly, we are exposed to movement in the exchange rates between U.S. Dollars on the one hand, and NT Dollars and Japanese Yen on the other hand. We create foreign currency denominated debts to balance our foreign currency position. We recorded net exchange gains of NT$ 110.1million, NT$ 80.6 million and NT$52.2 million in the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively.

The effect of future changes in currency exchange rates on our results of operations cannot be accurately predicted. We continuously renew our positions in relation to the various relevant currencies, and may enter into foreign currency forward contracts where available when we consider it appropriate to do so in order to hedge exposure. We, however, do not have any foreign currency forward or hedging contracts of any nature currently in effect.

To the extent possible, we attempt to match the currencies of our costs, expenses and liabilities to the currencies of our revenues.

Interest rate risk

We have not entered into interest swaps or other hedging arrangements.

The following table shows the interest rates applied to the long-term and short-term bank loans outstanding as of 31 December 2014 and 2015 and as of 31 March 2016:

Short-term loans:

As of	Principal amount (NT$ million)	Interest Rate %
31 December 2014	0	--
31 December 2015	0	--
31 March 2016	0	--

Long-term loans (including current portion of long-term loans)

As of	Principal amount (NT$ million)	Interest Rate %
31 December 2014	12,784.3	0.88~2.20
31 December 2015	14,090.6	0.83~2.20
31 March 2016	14,890.4	0.90~2.20

Income Tax

We are subject to income taxes in the ROC. Pursuant to the ROC Income Tax Law, the statutory income tax rate applicable to us, as a profit-seeking enterprise, is 17%.

We record NT$559.6 million, NT$566.3 million and NT$127.2 million as tax expenses in the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively.

We are also subject to the income tax rates applicable to us in the jurisdictions where we operate. The income tax rate applicable to our operations in the PRC is currently 15%.

MANAGEMENT AND EMPLOYEES

Directors

Our board of directors is elected by the shareholders in a general meeting at which a quorum, consisting of a majority of all issued and outstanding common shares, is present. The Chairman is elected by the board from among the directors. Our nine member board of directors is responsible for the management of our business.

The term of office for our directors is three years. Directors may serve any number of consecutive terms and may be removed from office at any time by a resolution adopted at a general meeting of shareholder. In the event one-third or more of the seats of directors of a public company, such as us, are vacant, the board of directors of such company shall, within 60 days, convene an extraordinary meeting of shareholder to elect new directors.

The following table sets forth the name of each of our current directors, his or her background in our Company, the percentage of Shares held, and other significant positions held by him or her.

Name	Position	Percentage of Shares held	Qualifications	Other significant positions
Chin-Kung Lee	Director & Chairman	2.74%	Bachelor's degree from the Department of Shipping and Transportation Management, National Taiwan Ocean University	CEO Director, Dawning Leading Technology Inc.; Director & Chairman, KYEC Investment International Co., Ltd.; Director & Chairman, KYEC Microelectronics Co., Ltd.; Director & Chairman, Sino-Tech Investment Co., Ltd., Director & Chairman, Strong Outlook Investments Limited, Director & Chairman, King Long Technology (Suzhou) Ltd.; Director & Chairman, Suzhou Zhenkun Technology Ltd.; independent Director, Quang Viet Enterprise Co., Ltd.
Chi-Chun Hsieh	Director & Vice-Chairman	0.46%	Bachelor's degree from the College of Medicine, Taipei Medical University	Doctor
An-Hsuan Liu	Director	0.09%	PhD in Mechanical Engineering from North Carolina State University, president at Intematix Technology Center	President Director & Chairman, KYEC USA Corp.; Director & Chairman, KYEC Singapore Pte. Ltd.; President, King Long Technology (Suzhou) Ltd.; President, Suzhou Zhenkun Technology Ltd.

China Development Industrial Bank	Director	0.75%	N/A	N/A
Kao-Yu Liu	Director	0.41%	PhD in Architecture from the University of Tokyo	Director & Chairman of LC Architecture Realization Company
Kuan-Hua Chen	Director	0.27%	Master of Science in Financial Engineering, Carnegie Mellon University (USA)	Weikeng Industrial Co., Ltd. Supervisor
Hsi-Jer Shen	Independent Director	0.01%	MBA, from Kyushu University (Japan), Nomura Securities Co., Ltd. Co-Director	Director of Jian American English Short Tem Learning Institute
Hsien-Tsun Yang	Independent Director	N/A	Bachelor's degree from the College of Journalism, Chinese Culture University, Executive Vice Editor, China Times Editor-in-Chief, China Times Express	Member of Audit Committee and Salary Committee
Hui-Chun Hsu	Independent Director	N/A	Master's degree from the Institute of Preventive Medicine, National Taiwan University	Doctor Member of Audit Committee and Salary Committee

Audit Committee

Pursuant to the Securities and Exchange Act, we may implement an audit committee instead of supervisors. Our audit committee constitute of all three of our independent directors. The Securities and Exchange Act requires that that at least one of the independent directors shall have accounting or financial expertise. The following table sets for the name of each of our audit committee members.

Name	Position	Percentage of Shares held	Qualifications	Other significant positions
Hsi-Jer Shen	Independent Director	0.01%	MBA, from Kyushu University (Japan), Nomura Securities Co., Ltd. Co-Director	Director of Jian American English Short Tem Learning Institute

Hsien-Tsun Yang	Independent Director	N/A	Bachelor's degree from the College of Journalism, Chinese Culture University, Executive Vice Editor, China Times Editor-in-Chief, China Times Express	Member of Audit Committee and Salary Committee
Hui-Chun Hsu	Independent Director	N/A	Master's degree from the Institute of Preventive Medicine, National Taiwan University	Doctor Member of Audit Committee and Salary Committee

In accordance with ROC law, both individual persons and legal persons who are shareholders may serve as our directors. An individual may serve in his personal capacity or as the representative of another legal entity. Of the current directors, only one is a legal person; the remaining directors are individual persons and serve in their personal capacity.

Executive Officers

The following table set forth information relating to our executive officers

Name	Position	Qualifications	Years with us	Age
Chin-Kung Lee	CEO	Bachelor's degree from the Department of Shipping and Transportation Management, National Taiwan Ocean University	25	60
An-Hsuan Liu	President	PhD in Mechanical Engineering from North Carolina State University	10	58
Gauss Chang	Executive Vice President	MBA, Saginaw Valley State University (USA)	16	51
K.K Lee	Senior Vice President	Bachelor's degree from the Department of Industrial Engineering, Tunghai University	8	54
Steven Chang	Senior Vice President	Master's degree from College of Electrical Engineering & computer Science	18	53

		of National Central University		
Andy Liang	Vice President	MBA, Minghsin University of Science and Technology	17	48
Sam Lee	Assistant Vice President	Master's degree from the college of finance, National Chung Cheng University	10	47
Logan Chao	Assistant Vice President	Bachelor's degree from the college of accounting, Chinese Culture University	18	49

Compensation of Directors and Executive Officers

For the years ended 31 December 2014 and 2015 we paid to our directors and the executive officers approximately NT$82.6 million and NT$98.3 million in aggregate cash remuneration. (The employee remuneration of executive officers in 2015 is proposed.)

Interests of Management in Certain Transactions and Related Party Transactions

The details of our related party transactions are disclosed in the financial statements included in this Offering Circular.

Employees

Overview

We had the following number of employees as of the dates indicated:

	As of 31 December 2015	As of 31 March 2016
Administrative	347	344
Research and development	278	287
Testing and manufacturing services	4215	4299
Sales and marketing	93	93
Total	4933	5023

None of our employees is represented by a collective bargaining organization, such as a union, or is subject to any bargaining agreements. As of 31 March 2016 approximately 96.86% of our research and development personnel held a bachelor's degree or higher education qualification. We have collaborated with various research institutions on research and development projects, and through such collaborations have been able to identify and train students who may potentially become employed by us on graduation from such institutions.

Our employees in the ROC are not unionized and we have not experience any significant labor disputes in the past three years.

Employee remuneration

Employee salaries are generally reviewed annually. Salaries are adjusted based on industry standards, inflation, operational results and individual performance. In addition, employees may also participate in annual profit distributions pursuant to our articles of incorporation.

Article 19 of our articles of incorporation provides that 8-10% of our distributed earning (after having provided for tax and losses incurred in previous years, deduction of the legal reserve and other necessary reserves), as resolved by the shareholders' meeting, must be allocated as a bonus to employees. Employee bonuses may be distributed in form of cash or shares. Employee bonuses may be distributed to employees of the Company or of our subsidiaries who meet certain qualification requirements. In addition, ROC Company Law requires that employees of the Company be given preemptive rights to subscribe for 10% to 15% of offerings of new Shares by the Company, except issuance in connection with exercises of employee stock options, exercises of warrants, conversion of bonds, mergers and spin-odds or by way of a private placement.

Employee retirement plan

We have put in place an individual noncontributory-defined benefit retirement plan and a defined contribution retirement plan pursuant to ROC Labor Standards Law and ROC Labor Pension Act. At the time when ROC Labor Pension Act came into effect on 1 July 2005, our then existing employees in Taiwan who were subject to the Labor Standards Law may choose to remain under the person mechanism under the Labor Standard Law, or opt into the defined contribution retirement plan under the Labor Pension Act. All employees joining us in Taiwan after such date are required to join the defined contribution retirement plan.

Under the individual noncontributory-defined benefit retirement plan, we provide lump-sum retirement benefits to retiring employees based on length of service, age and other specified factors. Pursuant to the relevant rules, we contribute on a monthly basis an amount equal to 2% of the total monthly salary of all participating employees to the pension fund. Under the defined contribution retirement plan, we contribute on a monthly basis an amount equal to 6% of each participating employee's month salary to each such employee's individual pension fund account.

Employee insurance

We carry our own account group insurance through a third-party insurance provider for our employees which covers the employees' emergency medical needs and provides accident insurance.

PRINCIPAL SHAREHOLDERS

As of 31 March 2016, no person held more than 10% of our Shares.

CHANGES IN ISSUED SHARE CAPITAL

The following table shows the changes in our issued shares capital since January 2012 to 31 March 2016:

Date of Issue	Type of Issue	Number of Shares Issued	Number of Shares Outstanding after Issue
April 2012	Cancellation of treasury shares and conversion of convertible bonds	27,344,072	1,197,544,282
July 2012	Cancellation of treasury shares and conversion of convertible bonds	27,301,382	1,170,241,900
October 2012	employee restricted stock and conversion of convertible bonds	16,647,500	1,186,889,400
January 2013	Conversion of convertible bonds	38,625,000	1,190,751,900
April 2013	Cancellation of employee restricted stock	80,000	1,190,671,900
May 2013	employee restricted stock	2,000,000	1,192,671,900
May 2013	Cancellation of employee restricted stock	40,000	1,192,631,900
August 2013	Cancellation of employee restricted stock	95,000	1,192,536,900
March 2014	Cancellation of employee restricted stock	94,500	1,192,442,400
July 2014	Cancellation of employee restricted stock	1,240,000	1,192,318,400
March 2015	Cancellation of employee restricted stock	150,000	1,192,303,400
May 2015	Cancellation of employee restricted stock	9,000	1,192,294,400
November 2015	Cancellation of treasury shares	30,000,000	1,162,294,400

DESCRIPTION OF THE BONDS

The Bonds are to be issued under an indenture, to be dated as of 29 July 2016 (the "Indenture") between King Yuan Electronics Co., Ltd. (the "Issuer" or the "Company") and Citicorp International Limited, in its capacity as trustee (the "Trustee). The following summary of certain provisions of the Bonds and the Indenture is subject to, and it qualified in its entirety by reference to, the provisions of the Bonds and the Indenture, including the definitions of certain terms therein. Copies of the Indenture will be available on or after the Original Issue Date (as defined below) at the corporate trust office of the Trustee.

General

Except in the limited circumstances set forth under "The Global Bond – Certificated Bonds," Bonds will only be issued in book-entry form. Accordingly, the following description of the Bonds which makes reference to Bonds in definitive form should be read in conjunction with the information set forth under "The Global Bond."

The Bonds will be issued on 29 July 2016 (the date on which the Bonds are originally issued under the Indenture being referred to herein as the "Original Issue Date") as direct, unsecured and unsubordinated obligations of the Issuer limited in aggregate principal amount to US$ 50,000,000 and will be redeemed on 29 July 2019 (the "Maturity Date") unless earlier redeemed, repurchased and cancelled or converted pursuant to the terms thereof and of the Indenture.

The Bonds will not bear interest except in the limited circumstances described below in "Default Interest".

Each Bond will be convertible, subject to compliance with certain conditions and procedures (see " – Conversion – Procedures; Conversion Notice; Taxes and Duties" below), at the Holder's election on any Business Day (as defined below) during the period (the "Conversion Period") commencing 30 August 2016 (the day immediately following one (1) month after the Original Issue Date) and ending at the close of business in the location of the applicable Paying Agent (as defined below) on 29 July 2019. The Conversion Period shall not include any Closed Period (as defined below).

The principal of, and premium (if any) on, the Bonds will be payable in U.S. dollars by the Issuer pursuant to the terms of the Bonds, and the Bonds may be presented for registration of transfer, exchange or conversion, at the office or agency of the Issuer designated or maintained for such purpose (each, a "paying, conversion and transfer agent," being referred to herein as the "Paying Agent"), which will initially be Citibank, N.A., London branch, currently located at 1 North Wall Quay, Dublin 1, Ireland. However, at the option of the Issuer, payment of principal of, and premium (if any) on, the Bonds may be made by check mailed to the address of the Holder as such address appears in the Bonds register. Any principal and premium (if any) payable on the Bonds held through Euroclear and Clearstream, Luxembourg will be paid by the Issuer to the Paying Agent at least one (1) Business Day prior to its due date.

The Issuer reserves the right, subject to the provisions of the Indenture, at any time to vary or terminate the appointment of any Paying Agent and to appoint further or other Paying Agents; provided that the Issuer will at all times maintain a Paying Agent having offices in London, and so long as the Bonds are listed on the SGX-ST and the SGX-ST so require, in Singapore. Notice of any such termination or appointment and of any changes in the specified offices of the Paying Agents will be given promptly by the Issuer to the Holders (and other applicable parties) in accordance with the notice provisions of the Indenture as described below "—Notices."

The Bonds will be issued only in fully registered form, without interest coupons, in denominations of US$10,000 or in any integral multiples thereof. See "—Book Entry; Delivery and Form" below. No service charge will be payable for any registration of transfer or exchange of the Bonds or for the conversion thereof, but the Issuer may require payment by a Holder of a sum sufficient to cover any transfer or stamp tax or other similar governmental charge payable in connection therewith.

The issuer and its Affiliates may at any time, subject to applicable law, purchase Bonds in the open market, or otherwise, at any price. Any Bonds owned by the Issuer or any of its Affiliates will be deemed not to be outstanding in determining whether the Holders of the requisite principal amount of Bonds have given or concurred in any request, demand, authorization, direction, notice, consent or waiver under the Indenture. In addition, any Bonds redeemed, repurchased (including in the open market) or converted will be cancelled and will not be re-issued.

Ranking

The Bonds will (i) be direct, unconditional, unsubordinated and unsecured obligations of the Issuer, (ii) rank pari passu in right of payment with all other unsecured and unsubordinated Debt (as defined below) of the Issuer now or hereafter outstanding (except to the extent that such other Debt (x) ranks above such obligation solely by reason of Liens (as defined below) permitted under the Indenture or (y) is preferred by mandatory provisions of law), and (iii) be senior in right of payment to all Debt of the Issuer that is expressed to be subordinated in right of payment of the Bonds.

The Bonds will be effectively subordinated to all secured obligations of the Issuer with respect to claims against the assets securing such obligations (the “Secured Debt”).

Sinking Fund

The Bonds will not be entitled to be benefit of a sinking fund.

Additional Amounts

All payments of the principal of, and premium (if any) on, the Bonds and all deliveries of Common Shares (as defined below) made on conversion of the Bonds are to be made free and clear of, and without withholding or deduction for, any taxed, duties, assessments or other governmental charges (“Taxes”) imposed, levied, collected, withheld or assessed by or within the ROC or any other jurisdiction in which the Issuer or any successor is organized or resident for tax purposes or from which any payment on the Bonds is made (or any political subdivision or Taxing Authority (as defined below) thereof or therein), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Issuer will pay such additional amounts on the Bonds (all such additional amounts being referred to herein as “Additional Amounts”) as will result in receipt by the Holder of each Bond of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable for or on account of:

(i) Any Taxes that would not have been imposed but for:

a. The existence of any present or former connection between the Holder of such Bond and the ROC or any other jurisdiction in which the Issuer or any successor is organized or resident for tax purposes, other than merely holding such Bond, including such Holder being or having a national, domiciliary or resident of or treated as a resident thereof or being or having been present or engaged in an trade or business therein or having had a permanent establishment therein;

b. The presentation of such Bond (if presentation is required) more than 30 days after the later of the date on which the payment of the principal of such Bond became due and payable pursuant to the terms thereof or the date that such payment was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Bond for payment on any date within such 30-day period; or

c. The presentation of such Bond for payment in the ROC or any other jurisdiction in which the Issuer or any successor is organized, unless such Bond could not have been presented for payment elsewhere;

(ii) Any estate, inheritance, gift, sale, transfer, stamp, personal property or similar tax, assessment or other governmental charge;

(iii) Any withholding or deduction imposed on a payment to an individual that is required to be made pursuant to any European Union Directive on the taxation of savings, or any law implementing or complying with, or introduced in order to conform to such Directive;

(iv) Any withholding or deduction that is imposed on such Bond that is presented for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent in a Member State of the European Union;

(v) Or any combination of Taxes referred to in the preceding clauses (i) and (iv).

The Issuer will not pay Additional Amounts if the registered Holder of the Bond is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that the beneficiary, partner or settler with respect to such fiduciary, partnership or person, or the beneficial owner of that payment, would not have been entitled to the Additional Amounts if it had been the registered Holder of the Bonds.

Whenever there is mentioned, in any context, (i) the payment of principal of and premium (if any) on any Bond, or (ii) the delivery of Common Shares or cash payments (if any) on conversion of any Bond, such mention shall be deemed to include the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable with respect thereto.

Redemption for Taxation Reasons

The Bonds may be redeemed, in whole but not in part, at the option of the Issuer, at any time, upon giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) and upon notice to the Trustee, at the Early Redemption Amount (as defined below) on the Redemption Date (as defined below), if the Issuer determines and certifies to the Trustee in an officer's certificate immediately prior to the giving of such notice that, as a result of any change in, or amendment to, the laws (including any regulations or rulings promulgated thereunder) of the ROC or such other jurisdiction in which the Issuer or any successor is then organized or resident for tax purposes (or any political subdivision or Taxing Authority thereof or therein) affecting taxation, or any change in official position regarding the application, interpretation or administration of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction), which change, amendment, application, interpretation or administration is proposed and becomes effective on or after the Original Issue Date (or, in the case of any jurisdiction other than the ROC, the date on which the Issuer or any successor first becomes organized or resident for tax purposes in such other jurisdiction with respect to any payment due or to become dues on the Bonds (including the delivery of listed Common Shares upon conversion of the Bonds), the Issuer is required to pay Additional Amounts in connection therewith and such requirement to pay Additional Amounts cannot be avoided by the taking of reasonable measures by the Issuer; provided that such right cannot be exercised earlier than 45 days prior to the first date on which the Issuer would be so obligated to pay such Additional Amounts with respect to all of substantially all of the outstanding Bonds were a payment then due. Prior to the giving of any such notice of redemption, the Issuer is required to deliver to the Trustee (i) an officer's certificate stating that such change or amendment has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Issuer taking reasonable measures and (ii) an opinion of counsel or written advice of a qualified tax expert that the circumstances referred to in the preceding sentence exist as a result of such change, amendment, application, interpretation or administration.

Notwithstanding the foregoing, if the Issuer has given a redemption notice according to this subsection and if the aggregate principal amount of the Bonds outstanding at the time when such redemption notice is given is greater than 10% of the aggregate principal amount issued as of the Original Issue Date, each Holder will have the right to elect, and the redemption notice will state that each Holder will have the right to elect, that all or a portion of its Bonds should not be redeemed. Upon the exercised of such right by the Holder, the provisions set forth in "—Additional Amounts" will not apply to any payment in respect of such Bonds that is due after the relevant Redemption Date, and such payment will be made subject to the deduction of any ROC tax (or tax or such other jurisdiction in which the Issuer or any successor is then organized or resident for tax purposes) require to be withheld or deducted. To exercise such right, a Holder must deliver written notice of the exercise of such right (a "Non-Redemption Notice") to any Paying Agent on a Business Date not later than 15 days prior to the relevant Redemption Date. Any Holder's Non-Redemption Notice may be withdrawn by the Holder by a written notice of withdrawal delivered to such Paying Agent at least seven days prior to the relevant Redemption Date.

The aforementioned Early Redemption Amount shall be converted into NT Dollars using the Fixed Exchange Rate, and said NT Dollar amount shall be converted into U.S. dollars based on the applicable Prevailing Rate (with reference to the exchange rate indicated by Taipei Forex Inc. price reference information at 11:00 a.m. (Taipei time)) for payment.

Redemption at the Option of the Issuer

At any time on or after 30 July 2018 (the day after the 2nd anniversary of the Issue Date), the Bonds will be redeemable at the option of the Issuer, in whole but not in part, on not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) and upon notice to the Trustee, at the Early Redemption Amount on the Redemption Date; provided, however that no such redemption may be made unless:

(i) The Closing Price (as defined below) of the Common Shares (converted into U.S. dollars at the Fixed Exchange Rate (as determined on the Pricing Date)) for a period or 20 Trading Days (as defined below) out of 30 consecutive Trading Days, is more than 120.0% of the Conversion Price (converted into U.S. dollars using the Fixed Exchange Rate); and

(ii) The applicable Redemption Date does not fall within a Closed Period.

Notwithstanding the foregoing, the Issuer may redeem the remaining outstanding Bonds in whole but not in part, at any time, on not less than 30 nor more than 60 days' notice, at the Early Redemption Amount on the Redemption Date if more than 90% of the aggregate principal amount issued as of the Original Issue Date has been redeemed, repurchased and cancelled or converted; provided that the applicable Redemption Date does not fall within a Closed Period.

Notice of any such redemption will be given by the Issuer to the Holders (and other applicable parties) in accordance with the notice provisions of the Indenture as described below under "– Notices."

If there shall occur an event giving rise to a change in the Conversion Price during any period described in subsection (i) above, appropriate adjustments for the relevant days, determined by an opinion of an independent, internationally recognized investment bank selected by the Issuer and notified to the Trustee, shall be made for the purpose of calculating the Closing Price for such days. Notice of any such adjustments in the Conversion Price will be given promptly by the Issuer to the Trustee.

The aforementioned Early Redemption Amount shall be converted into NT Dollars using the Fixed Exchange Rate, and said NT Dollar amount shall be converted into U.S. dollars based on the applicable Prevailing Rate (with reference to the exchange rate indicated by Taipei Forex Inc. price reference information at 11:00 a.m. (Taipei time)) for payment.

Redemption at Maturity

Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Issuer will redeem the Bonds on the Maturity Date at a redemption price equal to 100.0% of the principal amount thereof. The Bonds may be redeemed or repurchased prior to the Maturity Date only as described above and under "– Repurchase of the Bonds" below.

The maturity redemption price shall be converted to NT Dollars using the principal amount and the Fixed Exchange Rate, and said New Taiwan dollars amount shall be converted into U.S. dollars based on the applicable Prevailing Rate (with reference to the exchange rate indicated by Taipei Forex Inc. price reference information at 11:00 a.m.(Taipei Time)) for payment.

Redemption Procedures

Payment of the relevant redemption price for a Certificated Bond is conditioned upon delivery of such Bond) together with necessary endorsements) to any Paying Agent (including, so long as the Bonds are listed on the SGX-ST, the Paying Agent in Singapore). Payment of the relevant redemption price for any Bond will be made on the Redemption Date or, if such Bond is a Certificated Bond and has not been so delivered on or prior to the Redemption Date, at the time of delivery of such Bond. Payment of the relevant redemption price will be made (i) by transfer to the registered account of the Holder of the Bonds or (ii) if such Holder does not have the registered account, by check mailed to its registered address. If the Paying Agent holds, in accordance with the terms of the Indenture, cash sufficient to pay the relevant redemption price of such Bond on the Redemption Date, then, immediately after such Redemption Date, such Bond will cease to be outstanding, whether or not such Bond is delivered to a Paying Agent, and all other rights of the Holder with respect to such Bond shall terminate (other than the right to receive the relevant redemption price).

In the case of any redemption other than on the Maturity Date, notice of redemption to each Holder shall specify the Redemption Date, the price at which such Bonds will be redeemed and the place of places of payment and that payment will be made upon presentation and surrender of the Bonds to be redeemed. Such notice shall also specify the Conversion Price then in effect and the date on which the right to convert such Bonds will expire.

Repurchase of the Bonds

Repurchase of Bonds at the Option of the Holders

Each Holder shall have the right (the "Holders' Put Right"), at such Holder's option, to require the Issuer to repurchase all or any portion of the principal amount thereof (which is US$10,000 or any integral multiples thereof) of such Holder's Bonds on 29 July 2018 (the "Holder's Put Date") at a price equal to 101.0% of the outstanding principal amount of the outstanding principal amount thereof on that Holder's Put Date.

The aforementioned amount shall be converted into NT Dollars using the Fixed Exchange Rate, and said NT Dollar amount shall be converted into U.S. dollars based on the applicable Prevailing Rate (with reference to the exchange rate indicated by Taipei Forex Inc. price reference information at 11:00 a.m. (Taipei time)) for payment.

Repurchase of Bonds in the Event of Delisting

In the event that the Common Shares cease to be listed on the Taiwan Stock Exchange (a "Delisting"), each Holder shall have the right (the "Delisting Put right"), at such Holder's option, to require the Issuer to repurchase all or any portion of the principal amount thereof (which is US$10,000 or any integral multiples thereof) of such Holder's Bonds on the Delisting Put Date (as defined below) at the Early Redemption Amount (which is the amount equal to the principal amount of the Bonds plus a yield of 0.5% per annum) with respect to such Holder's Bonds to be repurchased on the Delisting Put Date.

The aforementioned Early Redemption Amount shall be converted into NT Dollars using the Fixed Exchange Rate, and said NT Dollar amount shall be converted into U.S. dollars based on the applicable Prevailing Rate (with reference to the exchange rate indicated by Taipei Forex Inc. price reference information at 11:00 a.m. (Taipei time)) for payment.

Repurchase of Bonds in the Event of Change of Control

If a Change of Control (as defined below) occurs with respect to the Issuer, each Holder shall have the right (the "Change of Control Put Right"), at such Holder's option, to require the Issuer to repurchase all or any portion of the principal amount thereof (which is US$10,000 or any integral multiples thereof) of such Holder's Bonds on the date set by the Issuer for such repurchase (the "Change of Control Put Date"), which shall be not less than 30 nor more than 60 days following the date on which the Issuer notifies the Trustee, the Paying Agent and the Holders of the Change of Control, at the Early Redemption Amount with respect to such Holder's Bonds to be repurchased on the change of Control Put Date.

The aforementioned Early Redemption Amount shall be converted into NT Dollars using the Fixed Exchange Rate, and said NT Dollar amount shall be converted into U.S. dollars based on the applicable Prevailing Rate (with reference to the exchange rate indicated by Taipei Forex Inc. price reference information at 11:00 a.m. (Taipei time)) for payment.

The definition of certain terms used in this section are listed below.

"control" means the right to appoint and/or remove all or the majority of the members of the Issuer's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

A "Change of Control" occurs when:

(i) Any person (as defined below) or persons action together acquire control of the Issuer if such person or persons do not have, and would not be deemed to have, control of the Issuer as of 25 July 2016;

(ii) the Issuer consolidates with or merges into or sells or transfers all or substantially all of the Issuer's assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over the Issuer or the successor entity; or

(iii) One or more other persons acquire the legal or beneficial ownership of all or substantially all of the Issuer's capital stock.

However, a Change of Control will not be deemed to have occurred (i) solely as a result of the issuance or transfer, with the Issuer's cooperation, of any preferred shares in the Issuer's capital or (ii) if the Closing Price per Common Share for any five Trading Days within the period of ten consecutive Trading Days ending immediately after the later of the Change of Control or the public announcement of the Change of Control equals or exceeds 110% of the Conversion Price in effect on each of those five Trading Days.

"Prevailing Rate" means, for each Rate Calculation Date or each relevant Trading Day, a rate determined by the Issuer as follows:

(i) the fixing rate at 11:00 a.m. Taipei Time, expressed as the number of NT Dollars per one U.S. Dollar, quoted by Taipei Forex Inc.;

(ii) if no such rate is available under sub-paragraph (i), the prevailing rate determined by the Issuer on the basis of quotations that are obtained from Reference Dealers of the specified exchange rate for the Rate Calculation Date or the Trading Day, as the case may be, as obtained in accordance with the provisions below; and

(iii) if fewer than two quotations are provided under sub-paragraph (ii), the exchange rate for the Rate Calculation Date or the Trading Day, as the case may be, as shall be determined by an Independent Investment Bank in good faith.

In determining the prevailing rate under sub-paragraph (ii), the Issuer will request the Taipei office of each of the Reference Dealers to provide a quotation of what the specified screen rate would have been had it been published, reported or available for the Rate Calculation Date or the Trading Day, as the case may be, based upon each Reference Dealer's experience in the foreign exchange market for NT Dollar and general activity in such market on the Rate Calculation Date or the Trading Day, as the case may be. The quotations used to determine the Prevailing Rate for a Rate Calculation Date or a Trading Day, as the case may be, will be determined in each case for such Rate Calculation Date or Trading Day, as the case may be, and will be provided at 3:30 p.m. (Taipei time) on such Rate Calculation Date or Trading Day, as the case may be, or as soon as practicable after it is determined that the specified screen rate was not available. The Paying Agent shall not be responsible for requesting or obtaining the quotations.

In the event where a court or agency or supervisory authority in the ROC institutes a court proceeding under any bankruptcy, insolvency or similar law against the Issuer, or for the Issuer's winding up or liquidation and the rates under sub-paragraphs (i) or (ii) are no longer available, the Prevailing Rate shall mean the fixing rate which appears on the Reuters screen TAIFX1 page under the heading "Spot" as of 11:00 a.m. Taipei time, expressed as the number of NT Dollars per one U.S. Dollar, quoted by Taipei Forex Inc., and rounded to three (3) decimal places on the relevant Rate Calculation Date or the relevant Trading Day.

If four quotations are provided, the rate for a Rate Calculation Date or a Trading Day, as the case may be, will be the arithmetic mean of the rates, without regard to the rates having the highest and lowest value. For this purpose, if more than one quotation has the same highest value or lowest value, then the rate of only one of such quotations shall be disregarded. If two or three quotations are provided, the rate for a Rate Calculation Date or a Trading Day, as the case may be, will be the arithmetic mean of the rates provided.

a "person" includes any individual, company, corporation, firm, partnership, limited liability company, joint venture, undertaking, association, organization, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Issuer's board of directors or any other governing board and does not include the Issuer's wholly-owned direct or indirect subsidiaries.

"Rate Calculation Date" means the day which is the fifth Business Day before the due date of the relevant amount under the conditions described herein.

Repurchase Procedures

Not less than 30 nor more than 60 days prior to the Holders' Put Date and promptly after becoming aware of a Delisting or Change of Control, the Issuer will provide sufficient information to the Trustee in sufficient time to permit the Trustee and the Paying Agent, (i) to mail to each Holder and (ii) for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, to publish a notice in English regarding such Holders' Put Right, Delisting Put Right or Change of Control Put Right, as the case may be, which notice shall state, as appropriate:

(a) the Holders' Put Date, the Delisting Put Date or the Change of Control Put Date, as the case may be (each, a "Repurchase Date");

(b) in the case of a Delisting, the date of such Delisting and, briefly, the events causing such Delisting;

(c) in the case of a Change of Control, the date of such Change of Control and, briefly, the events causing such Change of Control;

(d) the date by which the Holder Repurchase Notice (as defined below) must be given;

(e) the Early Redemption Amount to be paid on the Repurchase Date and the method by which the Early Redemption Amount will be paid;

(f) the names and addresses of all Paying Agents;

(g) briefly, the Conversion Right (as defined below) of the Holders of the Bonds and the then current Conversion Price;

(h) the procedures that Holders must follow and the requirements that Holders must satisfy in order to exercise their repurchase rights and/or Conversion Right; and

(i) that a Holder Repurchase Notice, once validly given, may not be withdrawn.

To exercise its right to require the Issuer to purchase its Bonds, the Holder must deliver a written irrevocable notice of the exercise of such right (a "Holder Repurchase Notice") to any Paying Agent on any Business Day prior to the close of business at the location of such Paying Agent on such day and which day is not less than ten Business Days prior to the Repurchase Date.

Payment of the Early Redemption Amount upon exercise of the Holders' Put Right, the Delisting Put Right or the Change of Control Put Right for any Certificated Bond for which a Holder Repurchase Notice has been delivered is conditioned upon delivery of such Certificated Bond (together with any necessary endorsements) to any Paying Agent on any Business Day together with the delivery of such Holder Repurchase Notice and will be made promptly following the later of the Repurchase Date and the time of delivery of such Certificated Bond.

Payment of the Early Redemption Amount will be made (i) by transfer to the registered account of the Holder of the Bonds or (ii) if such Holder does not have the registered account, by check mailed to its registered address. If the Paying Agent holds on the Repurchase Date money sufficient to pay the Early Redemption Amount, as the case may be, of Bonds for which Holder Repurchase Notices have been delivered in accordance with the provisions of the Indenture upon exercise of such right, then, whether or not such Bond is delivered to the Paying Agent, on and after such Repurchase Date, (i) such Bond will cease to be outstanding; (ii) such Bond will be deemed paid; and (iii) all other rights of the Holder with respect to such Bond shall terminate (other than the right to receive the Early Redemption Amount, as the case may be).

Certain Covenants

Negative Pledge

So long as any Bond remains outstanding, the Issuer shall not, and shall procure that none of its Significant Subsidiaries will, create or permit to subsist any Lien on any of its or, as the case may be, such Significant Subsidiary's, property, assets or revenues, present or future, to secure for the benefit of the holders of any International Investment Securities (as defined below) (i) payment of any sum owing in respect of any such International Investment Securities, (ii) any payment under any guarantee of any such International Investment Securities or (iii) any payment under any indemnity or other like obligation relating to any such International Investment Securities, unless contemporaneously therewith effective provision is made to secure the Bonds equally and ratably with such International Investment Securities with a similar Lien on the same property, assets or revenues securing such International Investment Securities for so long as such International Investment Securities are secured by such Lien.

As used herein, "International Investment Securities" means bonds, debentures, notes or other similar investment securities of the Issuer or any other person evidencing indebtedness with a maturity of not less than one year from the issue date thereof, or any guarantees thereof, which (i) either (a) are by their terms payable, or confer a right to receive payment, in any currency other than NT dollars or (b) are denominated in NT dollars and more than 50% of the aggregate principal amount thereof is initially distributed outside the ROC by or with the consent of the Issuer and (ii) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded, in each case primarily, on a stock exchange or over-the-counter or other securities market outside the ROC.

Consolidation, Amalgamation or Merger

The Issuer shall not consolidate with, merge (including by way of transferring all its share capital using share swaps) or amalgamate into or transfer its assets substantially as an entirety to any corporation or convey or transfer its properties and assets substantially as an entirety to any Person (the consummation of any such event, a "Merger") unless:

(i) the corporation formed by such Merger or the Person that acquired such properties and assets shall expressly assume, by an indenture supplemental to the Indenture, all obligations of the Issuer under the Indenture and the performance of every covenant and agreement applicable to it contained therein;

(ii) immediately after giving effect to any such Merger, no Default or Event of Default shall have occurred or be continuing or would result therefrom; and

(iii) the corporation formed by such Merger, or the Person that acquired such properties and assets, shall expressly agree, among other things, to indemnify each Holder of a Bond against any tax, assessment or governmental charge payable by withholding or deduction thereafter imposed on such Holder solely as a consequence of such Merger with respect to the payment of principal of and premium (if any) on the Bonds.

In the event of any such Merger, the provisions described under "— Additional Amounts" and "— Redemption for Taxation Reasons" above will be applicable to the corporation formed by such Merger or the Person acquiring such properties and assets, as appropriate.

Conversion

Conversion Right

Each Holder will have the right (the "Conversion Right") during the Conversion Period to convert its Bonds (being US$10,000 in principal amount or any integral multiples thereof), at the option of such converting Holder, upon delivery of an irrevocable notice (the "Conversion Notice") at the office of any Conversion Agent, on any Business Day prior to the close of business at the location of the Conversion Agent to which such Conversion Notice is delivered, into listed Common Shares; provided, however, that the Conversion Right during any Closed Period shall be suspended and the Conversion Period shall not include any such Closed Period. The Issuer shall procure that Holders (and other applicable parties) are given at least not less than seven nor more than 60 days' prior notice of any Closed Period in accordance with the provisions of the Indenture.

The number of Common Shares to be issued upon conversion will be determined by dividing the aggregate principal amount of all the Bonds to be converted by such Holder (converted into NT dollars using the Fixed Exchange Rate) by the Conversion Price in effect on the Conversion Date. Fractions of Common Shares will not be issued on conversion, and the Issuer will not compensate in any way for any such portion of the principal amount of the Bonds deposited for conversion on account of fractional shares.

The Conversion Price shall at all times be subject to Antidilution Adjustment (as defined below).

Delivery of Listed Common Shares upon Conversion

In the event the converting Holder elects to exercise its Conversion Right, the Issuer shall as promptly as practicable issue listed Common Shares upon conversion of Bonds in accordance with ROC law. A person entitled to receive Common Shares upon conversion of the Bonds must arrange to have such person's name registered in the Issuer's register of shareholders in order to assert rights as a shareholder against the Issuer.

The Issuer's delivery to the Bondholder of the number of listed Common Shares will be deemed to satisfy the Issuer's obligation to pay the principal amount of such Bonds.

Procedures; Conversion Notice; Taxes and Duties

In order to effect a conversion, each Holder must complete, execute and deliver to the office of any Paying Agent on a Business Day between 9am and 3pm (local time) at such Holder's expense during the Conversion Period a Conversion Notice, in the form then obtainable from the office of any Paying Agent, together, in the case of Certificated Bonds, with the certificate representing the Bonds to be converted, and any certificates and other documents as may be required under applicable law and any expenses or other payments required to be paid by the Holder pursuant to the terms of the Indenture. The Conversion Notice must contain, among other things, information relating to the foreign investor investment identification issued pursuant to the ROC Regulations Governing Securities Investment by Overseas Chinese and Foreign Nationals (or QDII identification issued pursuant to ROC Regulations Governing Securities Investment and Futures Trading in Taiwan by Mainland Area Investors) and the agent and custodian appointed in the ROC (in the case of a non-ROC converting Holder) and information relating to the TDCC book-entry account maintained by the converting Holder or its designee.

A Conversion Notice once so delivered may not be withdrawn without the consent in writing of the Issuer. Holders who deposit a Conversion Notice during a Closed Period will not be permitted to convert their Bonds until the first Business Day which is a Trading Day following the last day of that Closed Period which (if all other conditions to conversion have been fulfilled) will be the Conversion Date for such Bonds. Such Holders will not be registered as holders of Common Shares until the Conversion Date. The price at which such Bonds will be converted will be the Conversion Price in effect on the Conversion Date.

As conditions precedent to conversion, the Holder must pay to the applicable Paying Agent all stamp, issue, registration and similar taxes and duties (if any) arising on conversion in the country in which the Bond is deposited for conversion, or payable in any jurisdiction consequent upon the issue and delivery of listed Common Shares or any other property or cash upon conversion to or to the order of a person other than the converting Holder. Except as aforesaid, the Issuer will pay the expenses arising in the ROC on the issue of listed Common Shares on conversion of Bonds and all charges of the Paying Agents in connection therewith as provided in the Indenture. The date on which any Bond and the Conversion Notice (in duplicate) relating thereto, together with any certificates and other documents as may be required under applicable law, are deposited with a Paying Agent and the payments, if any, required to be paid by the Holder are made is hereinafter referred to as the "Deposit Date." The "Conversion Date" applicable to a Bond shall mean the second Business Day following the Deposit Date (or the first Business Day following the last day of a Closed Period if the related Conversion Notice was deposited during such Closed Period), which day must be a Trading Day and must fall within the Conversion Period. The Holder must therefore satisfy all such conditions on or before the Business Day prior to the end of the Conversion Period. With effect from the opening of business in the ROC on the Conversion Date, the Issuer will deem the person designated in the Conversion Notice as the person in whose name the Common Shares to be issued upon conversion are to be registered as the holder of record of the number of Common Shares (disregarding any retroactive adjustment of the Conversion Price referred to below prior to the time such retroactive adjustment shall have become effective), and at such time the rights of such converting Holder as a Holder with respect to the Bonds deposited for conversion shall cease.

On the Conversion Date, the Issuer will register the converting Holder (or its designee) in the Issuer's register of shareholders as the owner of the number of listed Common Shares to be issued upon conversion of such Bonds and, subject to any applicable limitations then imposed by ROC laws and regulations, according to the request made in the relevant Conversion Notice, procure that, as soon as practicable, and in any event within five Trading Days from the Conversion Date (subject to changes to ROC laws and regulations), there be delivered to the local agent appointed by the converting Holder, through book-entry registered in the name specified for that purpose in the relevant Conversion Notice, together with any other property or cash required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the delivery thereof.

Adjustments to the Conversion Price

Antidilution. The Conversion Price will be subject to adjustment ("Antidilution Adjustment") in the circumstances described below:

(i) If the Issuer shall issue Common Shares as a dividend or make a distribution of Common Shares that is treated as a capitalization issue for accounting purposes (including but not limited to capitalization of capital reserves and employee stock bonus), then the Conversion Price in effect on the record date for the determination of shareholders entitled to receive such dividend and/or distribution shall be adjusted in accordance with the following formula:

NCP= OCP × [N/(N+n)]

where:

NCP = the Conversion Price immediately following such adjustment.

OCP the Conversion Price immediately preceding such adjustment.

N = the number of Common Shares outstanding at the time of issuance of such dividend and/or distribution (or at the close of business in Taipei on such record date, as the case may be).

n = the number of Common Shares to be distributed to the shareholders and/or employees as a dividend and/or distribution.

An adjustment made pursuant to this subsection (i) shall become effective on the record date for determination of shareholders or employees entitled to receive such dividend and/or distribution; *provided* that in the case of a dividend in Common Shares of capitalization of capital reserves which must, under applicable law of the ROC, be submitted for approval to a general meeting of shareholders of the Issuer before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such dividend and/or distribution, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

(ii) If the Issuer shall (a) subdivide its outstanding Common Shares, (b) combine its outstanding Common Shares into a smaller number of Common Shares, or (c) re-classify any of its Common Shares into other securities of the Issuer, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, in respect of the Conversion Date which occurs after the coming into effect of the adjustment described in this subsection (ii), shall be entitled to receive the number of Common Shares and/or other securities of the Issuer which it would have held or have been entitled to receive after the happening of any of the events described above had such Bond been converted immediately prior to the happening of such event (or, if the Issuer has fixed a prior record date for the determination of shareholders entitled to receive any such securities issued upon any such subdivision, combination or reclassification, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the happening of such event (or such record date) or any time thereafter.

(iii) If the Issuer shall grant, issue or offer to the holders of Common Shares rights entitling them to subscribe for or purchase Common Shares, which expression shall include those Common Shares that are required to be offered to employees and persons other than shareholders in connection with such grant, issue or offer, at a consideration per Common Share receivable by the Issuer (determined as provided in subsection (e) below) which is fixed:

(a) on or prior to the record date mentioned below and is less than the Market Value per Common Share on such record date; or

(b) after the record date mentioned below and is less than the Market Value per Common Share on the date the Issuer fixes the said consideration, then the Conversion Price in effect (in the case of (1) above) on the record date for the determination of shareholders entitled to receive such rights or (in the case of (2) above) on the date the Issuer fixes the said consideration shall be adjusted In accordance with the following formula:

$$NCP = OCP \times [(N+v)/(N+n)]$$

where:

NCP and OCP have the meanings ascribed thereto in subsection (a) above.

N = the number of Common Shares outstanding at the close of business in the ROC (in the case of (1) above) on such record date or (in the case of (2) above) on the date the Issuer fixes the said consideration.

n = the number of Common Shares to be issued in connection with such rights issue at the said consideration.

v = the number of Common Shares which the aggregate consideration receivable by the Issuer would purchase at such Market Value specified in (1) or, as the case may be, (2) above.

Subject as provided below, such adjustment shall become effective immediately after the latest date for the submission of applications for such Common Shares by shareholders entitled to the same pursuant to such rights or (if later) immediately after the Issuer fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Common Shares of rights entitling them to subscribe for or purchase Common Shares, any Common Shares which are not subscribed for or purchased by the persons entitled thereto are purchased by other persons after the latest date for the submission of applications for such Common Shares, an adjustment shall be made to the Conversion Price in accordance with the above provisions which shall become effective immediately after the date the Issuer receives the consideration in full, from such other persons but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Common Shares of rights entitling them to subscribe for or purchase Common Shares, any such Common Shares which are not subscribed for or purchased by such other persons as referred to above or by the persons entitled thereto (or persons to whom shareholders have transferred such rights) who have submitted applications for such Common Shares as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Conversion Price by reason of such offer and/or subscription.

(iv) If the Issuer shall grant, issue or offer to the holders of Common Shares warrants entitling them to subscribe for or purchase Common Shares at a consideration per Common Share receivable by the Issuer which is fixed:

(a) on or prior to the record date for the determination of shareholders entitled to receive such warrants and is less than the Market Value per Common Share at such record date; or

(b) after the record date mentioned above and is less than the Market Value per Common Share on the date the Issuer fixes the said consideration then the Conversion Price in effect (in a case within (1) above) on the record date for the determination of shareholders entitled to receive such warrants or (in a case within (2) above) on the date the Issuer fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times [(N+v)/(N+n)]$$

where:

NCP and OCP have the meanings ascribed thereto in subsection (a) above,

N = the number of Common Shares outstanding at the close of business in the ROC (in the case of (1) above) on such record date or (in the case of (2) above) on the date the Issuer fixes the said consideration.

n = the number of Common Shares initially to be issued upon exercise of such warrants at the said consideration, subject to the following rules: (i) where no applications by shareholders entitled to such warrants are required, such number will be based on the number of warrants issued and (ii) where applications by shareholders entitled to such warrants are required, such number will equal (A) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the, case may be, (B) the number of warrants for which applications are received from shareholders as referred to below except to the extent already adjusted for under (A).

v = the number of Common Shares which the aggregate consideration receivable by the Issuer (determined as provided in subsection (e) below) would purchase at such Market Value per Common Share specified in (1) or, as the case may be, (2) above.

Subject as provided below, such adjustment shall become effective where applications by shareholders entitled to the same are required as aforesaid, immediately after the latest date for the submission of such applications or (if later) immediately after the Issuer fixes the said consideration but in all cases retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Common Shares of warrants entitling them to subscribe for or purchase Common Shares where applications by shareholders entitled to the same are required, any warrants which are not subscribed for or purchased by the shareholders entitled thereto are agreed to be underwritten by others prior to the latest date for the submission of applications for such warrants, an adjustment shall be made to the Conversion Price in accordance with the above provisions which shall become effective immediately after the Issuer receives the said consideration in full, from such other persons but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Common Shares of warrants entitling them to subscribe for or purchase Common Shares where applications by shareholders entitled to the same are required, any warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred the right to purchase such warrants) who have submitted applications for such warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Conversion Price by reason of such offer and/or subscription.

Save as provided herein, such adjustment shall become effective where no applications for such warrants are required from shareholders entitled to the same, upon the issue of such warrants.

(v) If the Issuer shall grant, issue or offer to the holders of Common Shares rights or warrants entitling them to subscribe for or purchase any securities convertible into or exchangeable for Common Shares at a consideration per Common Share receivable by the Issuer (as determined in the Indenture) which is fixed (a) on or prior to the record date mentioned below and is less than the Market Value per Common Share at such record date or (b) after the record date mentioned below and is less than the Market Value per Common Share on the date the Issuer fixes the said consideration, then the Conversion Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (b) above) on the date the Issuer fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times [(N + v)/(N + n)]$$

where:

NCP and OCP have the meanings ascribed thereto in subsection (i) above.

N = the number of Common Shares outstanding at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date the Issuer fixes the said consideration.

n = the number of Common Shares initially to be issued upon exercise of such rights or warrants and conversion or exchange of such convertible or exchangeable securities at the said consideration which, in the case of rights, equals (aa) the number of Common Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities which the underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Common Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa), and which, in the case of warrants where no applications by shareholders entitled to such warrants are required, equals such number of Common Shares initially to be issued upon such exercise and conversion or exchange. Where applications by shareholders entitled to such warrants are required, n = the number of such Common Shares that equals (x) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (y) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (x).

v = the number of Common Shares which the aggregate consideration receivable by the Issuer (as determined in the Indenture) would purchase at such Market Value per Common Share specified in (a) or, as the case may be, (b) above.

Subject to the provisions of the Indenture, such adjustment shall become effective (a) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (b) where applications by shareholders entitled to the warrants are required as aforesaid and in the case of convertible or exchangeable securities by shareholders entitled to the same pursuant to such rights, immediately after the latest date for the submission of such applications or (if later) immediately after the Issuer fixes the said consideration; but in all cases retroactively to immediately after the record date mentioned above.

(vi) In case the Issuer or any Subsidiary of the Issuer shall distribute to all holders of Common Shares (a) any shares of Capital Stock of the Issuer other than Common Shares, (b) evidences of indebtedness or other assets (other than cash distributions described below) of the Issuer, or (c) rights or warrants to subscribe for or purchase any Capital Stock of the Issuer (other than Common Shares) at less than the Market Value of such indebtedness, assets or Capital Stock, determined as of the date on which the Issuer's board of directors approves such distribution, then in each such case the Conversion Price shall be adjusted in accordance with the following formula:

$$NCP = OCP \times [(M - fmv)/M]$$

where:

NCP and OCP have the meanings ascribed thereto in subsection (i) above.

M = the Market Value per Common Share on the record date for determining holders of Common Shares entitled to such distribution.

fmv = the then fair market value (as determined by the Issuer's board of directors, whose determination shall, if made in good faith, be conclusive evidence of such fair market value) of the portion of Capital Stock, evidences of indebtedness or other assets so distributed or of such subscription rights or warrants applicable to one Common Share.

Such adjustment will become effective on the record date for the determination of shareholders entitled to receive such distribution. If any of such rights or warrants expire prior to exercise, the Conversion Price will be readjusted to reflect the actual rights or warrants exercised.

(vii) In case the Issuer shall, by dividend or otherwise, distribute to all holders of Common Shares cash, then in such case the Conversion Price shall be adjusted (with such adjustment to be effective on the record date for the determination of shareholders entitled to receive such distribution) in accordance with the following formula:

$$NCP = OCP \times [(M - C)/M]$$

where:

NCP and OCP have the meanings ascribed thereto in subsection (i) above.

M = the Market Value per Common Share on such record date.

C = the amount of cash so distributed applicable to one Common Share.

If such dividend or distribution is not so paid or made, the Conversion Price shall again be adjusted to be the Conversion Price which would then be in effect if such dividend or distribution had not been approved. Such adjustment will become effective on the record date for the determination of shareholders entitled to receive such distribution.

(viii) In case a tender or exchange offer made by the Issuer or any Subsidiary of the Issuer for all or any portion of the Common Shares shall expire and such tender or exchange offer shall involve the payment by the Issuer or such Subsidiary of consideration per Common Share having a fair market value (as determined by the board of directors of the Issuer or any Subsidiary of the Issuer, whose determination shall, if made in good faith, be conclusive) at the last time (the "Expiration Date") tenders or exchanges could have been made pursuant to such tender or exchange offer (as it shall have been amended) that exceeds the Market Value per Common Share, as of the Expiration Date, the Conversion Price shall be adjusted in accordance with the following formula:

$$NCP = OCP \times [(N \times M)/(a + [(N - n) \times M])]$$

where:

NCP and OCP have the meanings ascribed thereto in subsection (i) above.

N = the number of Common Shares outstanding (including any tendered or exchanged Common Shares) on the Expiration Date.

M = the Market Value per Common Share as of the Expiration Date.

a = the fair market value of the aggregate consideration payable to the holders of Common Shares based on the acceptance (up to a maximum specified in the terms of the tender or exchange offer) of all Common Shares validly tendered or exchanged and not withdrawn as of the Expiration Date (the Common Shares deemed so accepted up to any such maximum, being referred to as the "Purchased Shares").

n = the number of Purchased Shares.

Such reduction to become retroactively effective immediately prior to the opening of business on the day following the Expiration Date.

If the Issuer is obligated to purchase Common Shares pursuant to any such tender or exchange offer, but the Issuer is permanently prevented by applicable law from effecting any such purchase or all such purchases are rescinded, the Conversion Price shall again be adjusted to be the Conversion Price which would then be in effect as if such tender or exchange offer had not been made.

(ix) In case the Issuer issues Common Shares (other than Common Shares based on any of the circumstances described in subsections (i) and (ii)) or the Issuer or any Subsidiary of the Issuer shall issue any securities initially convertible into or exchangeable for Common Shares at a price per Common Share less than the Market Value per Common Share determined as of the date on which the board of directors of the Issuer or such Subsidiary, if applicable, approves such issuance, the Conversion Price in effect immediately prior to the date of issue of such convertible or exchangeable securities shall be adjusted and become effective in accordance with the following formula:

$$NCP = OCP \times [(N + v)/(N + n)]$$

where:

NCP and OCP have the meanings ascribed thereto in subsection (i) above.

N = the number of Common Shares outstanding on the date of issuance of such Common Shares or initially convertible or exchangeable securities, immediately prior to such issuance.

n = the number of Common Shares issued or issuable upon conversion or exchange of such initially convertible or exchangeable securities.

v = the number of Common Shares which the aggregate consideration issue price of the total amount of Common Shares or initially convertible or exchangeable securities would purchase at Market Value.

If the conversion or exchange right of any such convertible or exchangeable securities expires prior to exercise, the Conversion Price shall be readjusted to reflect the actual securities converted or exchanged.

Such adjustment will become effective on the date immediately following the issuance date of such Common Shares or convertible or exchangeable securities.

(x) If the Issuer shall declare a dividend in, or make a free distribution or bonus issue of, Common Shares, which dividend, distribution or issue is to be paid or made to shareholders as of a record date which is also:

(a) the record date for the issue of any rights or warrants which requires an adjustment of the Conversion Price pursuant to subsection (iii), (iv) or (v) above;

(b) the day immediately before the date of issue of any Common Shares or any securities convertible into or exchangeable for Common Shares which requires an adjustment of the Conversion Price pursuant to subsection (ix) above; or

(c) determined by the Issuer and notified by the Issuer to the Trustee in writing to be the relevant date for an event or circumstance which requires an adjustment to the Conversion Price pursuant to subsection (xiii) below,

then (except where such dividend, free distribution or bonus issue gives rise to a retroactive adjustment of the Conversion Price under subsection (i) above) no adjustment of the Conversion Price in respect of such dividend, free distribution or bonus issue shall be made under subsection (i), but in lieu thereof an adjustment shall be made under subsection (iii), (iv), (v) or (ix) (as the case may require) by including in the denominator of the fraction described therein the aggregate number of Common Shares to be issued pursuant to such dividend, free distribution or bonus issue.

(xi) In any case in which the Indenture shall require that an adjustment be made immediately following a record date, the Issuer may elect to defer the effectiveness of such adjustment (but in no event until a date later than the effective date of the event giving rise to such adjustment), in which case the Issuer shall, with respect to any Bond converted after such record date and before such adjustment shall have become effective, (i) defer issuing to the holder of such Bond the number of listed Common Shares issuable upon such conversion in excess of the number of listed Common Shares issuable thereupon only on the basis of the Conversion Price prior to adjustment, and (ii) not later than 20 days after such adjustment shall have become effective, issue to such holder the additional listed Common Shares issuable on such conversion.

(xii) In case of a Merger of the Issuer, each Bond then Outstanding shall, without the consent of any Bondholders, become convertible only into the kind and amount of securities, cash and other property receivable upon such Merger by a holder of the number of Common Shares into which such Bonds could have been converted immediately prior to such Merger. The corporation formed by such Merger or the Person that acquired such properties and assets shall enter into a supplemental indenture with the Trustee to provide for the continuation of the Conversion Rights to continue after such Merger and such supplemental indenture shall provide for adjustments to the Conversion Price which shall be as nearly equivalent as practicable to the adjustments provided in the Indenture; *provided* that where there has been a Change of Control pursuant to such a Merger, a Holder may exercise its Change of Control Put Right as set forth in "— Repurchase of Bonds in the Event of Change of Control."

(xiii) If any event or circumstance analogous to the events and circumstances described in subsections (i) through (xiii) occurs, the Conversion Price shall be adjusted as set forth in the analogous subsection in the Indenture.

(xiv) If the Issuer determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in the above subsections, the Issuer shall, at its own expense, consult an investment bank of international repute selected by the Issuer to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination by the investment bank of international repute selected by the Issuer such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that where the events or circumstances giving rise to any adjustment pursuant to the above subsections have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of events or

circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the

provisions of the above subsections as may be advised by the investment bank of

international repute selected by the Issuer to be in its opinion appropriate to give the intended result.

(xv) For the purposes of any calculation of the consideration receivable by us pursuant to the above subsections, the following provisions shall apply:

(a) in the case of the issue of Common Shares for cash, the consideration shall be the amount of such cash, provided that in no such case shall any deduction be made for any commissions or any expenses paid or incurred by us for any underwriting of the issue or otherwise in connection therewith;

(b) in the case of the issue of Common Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by us (and in making such determination we shall consult a leading independent securities company or bank in Taipei, Taiwan selected by us and approved by the Trustee and shall take fully into account the advice received from such company or bank) or, if pursuant to applicable law of the ROC such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof;

(c) in the case of the issue (whether initially or upon the exercise of rights or warrants) of securities convertible into or exchangeable for Common Shares, the aggregate consideration receivable by us shall be deemed to be the consideration received by us for such securities and (if applicable) rights or warrants plus the additional consideration (if any) to be received by us upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in paragraphs (a) and (b) above) and the consideration per Common Share receivable by us shall be such aggregate consideration divided by the number of listed Common Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price;

(d) in the case of the issue of rights or warrants to subscribe for or purchase Common Shares the aggregate consideration receivable by us shall be deemed to be the consideration received by us for any such rights or warrants plus the additional consideration to be received by us upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in paragraphs (a) and (b) above) and the consideration per Common Share receivable by us shall be such aggregate consideration divided by the number of listed Common Shares to be issued upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price; and

(e) if any of the consideration referred to in any of the preceding paragraphs of this subsection (xvi) is receivable in a currency other than NT dollars, such consideration shall, in any case where there is a fixed rate of exchange between the NT dollar and the relevant currency for the purposes of the issue of the Common Shares, the conversion or exchange of such securities or the exercise of such rights or warrants, be translated into NT dollars for the purposes of this subsection (xvi) at such fixed rate of exchange and shall, in all other cases, be translated into NT dollars at the mean of the exchange rate quotations (being quotations for the cross rate through U.S. dollars if no direct rate is quoted) by a leading bank in the ROC for buying and selling spot units of the relevant currency by telegraphic transfer against NT dollars on the date as of which the said consideration is required to be calculated as aforesaid.

Provisions Applicable to All Conversions and Adjustments of Conversion Price

No adjustment of the Conversion Price will be required to be made until cumulative adjustments, required to be made in the circumstances set forth above, amount to 1.0% or more of the Conversion Price as last adjusted. However, any adjustment that is required to be made in the circumstances set forth above but is not made because of failure to meet the 1.0% threshold will be carried forward. Except as otherwise described below, the Conversion Price may at any time be reduced by the Issuer.

The Issuer will not take any action that would reduce the Conversion Price per Common Share below the par value of the Common Shares (currently NT$10 per share), unless, under applicable law then in effect, Bonds could be converted at such reduced Conversion Price into legally issued, fully-paid and non-assessable Common Shares.

All calculations relating to conversion, including adjustments of the Conversion Price, will be made to the nearest 0.001 share of securities or other property or nearest NT$0.01, as the case may be.

Whenever the Conversion Price is adjusted, the Issuer will promptly file with the Trustee, Conversion Agent and Paying Agent an officer's certificate setting forth the Conversion Price after such adjustment and a brief statement of the facts requiring such adjustment and will prepare a notice of such adjustment of the Conversion Price setting forth the adjusted Conversion Price and the date on which such adjustment became effective and, upon approval by the Trustee of such notice, the Issuer shall instruct the Trustee to give such notice of such adjustment of the Conversion Price to each Holder of a Bond in accordance with the notice provisions of the Indenture as described below under "— Notice."

None of the Trustee, Conversion Agent or Paying Agent shall be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price or any calculation (or verification thereof) in connection with the Conversion Price and will not be responsible to Holders for any loss arising from any failure by them to do so. All adjustments to the Conversion Price shall be determined by the Issuer, and none of the Trustee, Conversion Agent or Paying Agent shall be responsible for verifying such determinations.

Events of Default; Notice and Waiver

The Indenture provides that, if an Event of Default as defined therein shall have occurred and be continuing, the Holders of not less than 25% in aggregate principal amount of the Bonds then outstanding may instruct the Trustee to declare the principal amount to be immediately due and payable at the Early Redemption Amount. In the case of certain events of bankruptcy or insolvency, the principal amount shall automatically become and be immediately due and payable at the Early Redemption Amount. Under certain circumstances, the Holders of a majority in aggregate principal amount of the outstanding Bonds may rescind any such acceleration with respect to the Bonds and its consequences. Under the Indenture, Events of Default include:

(i) default in payment of the principal amount of any Bond, as and when the same becomes due and payable, and continuance of such default for three Business Days;

(ii) default in payment of premium (if any) or Additional Amounts upon any Bond as and when the same becomes due and payable, and continuance of such default for five Business Days;

(iii) failure by the Issuer to deliver the Common Shares as and when such Common Shares are required to be delivered following conversion of a Bond, and continuance of such default for five Trading Days;

(iv) failure on the part of the Issuer duly to observe or perform any of the covenants or agreements provided in the Bonds or the Indenture (other than those referred to in clause (i), (ii) or (iii) above) which failure cannot be remedied or, if such failure can be remedied, is not remedied within 30 days after the date on which written notice thereof requiring the Issuer to remedy the same shall have been given to the Issuer by the Trustee at the direction of the Holders of at least 25% in aggregate principal amount of the Bonds then outstanding;

(v) there shall have been entered against the Issuer or any of its Significant Subsidiaries (or any successor thereof) a final judgment, decree or order by a court of competent jurisdiction for the payment of money in excess of US$10 million with respect to the Issuer or any of its Significant Subsidiaries (or its equivalent in any other currency or currencies) and 30 days shall have passed since the entry of the order without it being bonded, satisfied, discharged or stayed;

(vi) (a) the Issuer or any of its Significant Subsidiaries shall fail to make any payment with respect to present or future Debt (other than the Bonds) in an aggregate principal amount in excess of US$10 million with respect to the Issuer or any of its Significant Subsidiaries (or its equivalent in any other currency or currencies) when and as the

same shall become due and payable, if such failure shall continue for more than the grace period, if any, originally applicable thereto or (b) the Issuer or any of its

Significant Subsidiaries shall fail to perform or observe any covenant or agreement to be performed or observed by the Issuer or any of its Significant Subsidiaries contained in any agreement or instrument evidencing Debt (other than the Bonds) in an aggregate principal amount in excess of US$10 million with respect to the Issuer or any of its

Significant Subsidiaries (or its equivalent in any other currency or currencies) and such failure results in the acceleration of the maturity of any amount owing thereunder;

(vii) a decree or order by a court having jurisdiction shall have been entered under any applicable bankruptcy, insolvency, reorganization or other similar law (a) adjudging the Issuer or any of its Significant Subsidiaries (or any successor thereof) as bankrupt or

insolvent, or approving as properly filed a petition seeking reorganization of the Issuer or any of its Significant Subsidiaries (or any successor thereof); (b) appointing a

receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Issuer or any of its Significant Subsidiaries (or any successor thereof) or of its property; or (c)

ordering the winding up or liquidation of the affairs of the Issuer or any of its

Significant Subsidiaries (or any successor thereof) and in any such case such decree or order shall have continued undischarged and unstayed for a period of 60 days; or

(viii) the Issuer or any of its Significant Subsidiaries (or any successor thereof) shall (a) voluntarily commence proceedings to be adjudicated a bankrupt or insolvent; (b) consent to the filing of a bankruptcy or insolvency proceeding against it; (c) file a

petition or answer or consent seeking reorganization under any applicable bankruptcy, insolvency, reorganization or other similar law or consent to the filing of any such

petition; or (d) consent to the appointment of a receiver or liquidator or trustee or

assignee in bankruptcy or insolvency of it or its property or make an assignment for the benefit of creditors.

then in each and every such case, Holders of not less than 25% in aggregate principal amount of the Bonds at the time outstanding may instruct the Trustee, subject to it being indemnified and/or provided security to its satisfaction, to declare by notice to the Issuer that the sum of the outstanding principal amount of the Bonds to be immediately due and payable at the Settlement Equivalent of the then outstanding principal amount. Upon such a declaration, such sum of the outstanding principal amount of the Bonds shall become immediately due and payable. If an Event of Default specified in (g) or (h) above shall occur and be continuing, the sum of the outstanding principal amount of the Bonds shall become and be immediately due and payable at the Settlement Equivalent of 100% of the outstanding principal amount thereof without any declaration or other act on the part of the Trustee or any Bondholder.

The Trustee shall, within 30 days after being notified in writing of the occurrence of any Default (as defined below), mail to Holders of the Bonds notice of the Default of which the Trustee shall have received written notice, unless such Defaults shall have been cured or waived and the Trustee shall have been notified so in writing before the giving of such notice.

The Holders of a majority in aggregate principal amount of the outstanding Bonds may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee; *provided* that such direction shall not be in conflict with any law or the Indenture and subject to certain other limitations and *provided* that the Trustee shall have no obligation to act if conflicting, unclear or equivocal directions are received. The Trustee may refuse to perform any duty, exercise any right or power, extend or risk its own funds or otherwise incur any financial liability, unless it receives indemnity or have been provided security satisfactory to it against any loss, liability or expense. No Holder of a Bond will have the right to pursue any remedy with respect to the Indenture or the Bonds, unless:

(i) such Holder shall have previously given the Trustee written notice of a continuing Event of Default;

(ii) the Holders of at least 25% in aggregate principal amount of the outstanding Bonds shall have made a written request to the Trustee to pursue such remedy;

(iii) such Holder or Holders shall have offered to the Trustee security or indemnity against any loss, liability or expense satisfactory to it;

(iv) the Trustee shall have failed to comply with the request within 60 days after receipt of such notice, request and offer of security or indemnity; and

(v) the Holders of a majority in aggregate principal amount of the outstanding Bonds shall not have given the Trustee a direction inconsistent with the request described in subsection (ii) above within 60 days after receipt of such request.

The right of any Holder (i) to receive payment of the principal amount, premium (if any), Additional Amounts, the Early Redemption Amount upon exercise of the Holders' Put Right, the Delisting Put Right or the Change of Control Put Right, or to receive listed Common Shares on or after any Redemption Date, Repurchase Date or Conversion Date, as the case may be, (ii) to convert its Bonds or (iii) to bring suit for the enforcement of any such right, shall not be materially impaired or materially and adversely affected without such Holder's consent.

The Holders of a majority in aggregate principal amount of Bonds at the time outstanding may waive any existing Default and its consequences, except (i) any Default in any payment on the Bonds, (ii) any Default with respect to the Conversion Rights of Holders of the Bonds or (iii) any Default with respect to certain covenants or provisions in the Indenture which may not be modified without the consent of the Holder of each Bond as described in "— Meeting of Bondholders; Modification and Waiver" below. When a Default is waived, it is deemed cured and shall cease to exist, but no such waiver shall extend to any subsequent or other Default or impair any consequent right.

The Issuer will be required to furnish to the Trustee annually, and at any time at the request of the Trustee, a statement concerning the performance and observance of its obligations under the Bonds or the Indenture. In addition, the Issuer is required to file promptly with the Trustee written notice of the occurrence of any Default or Event of Default.

Prescription

Claims in respect of payment of principal of or other amounts on the Bonds will be prescribed unless made within a period of six years from the relevant date of payment in respect thereof.

Under ROC laws, claims in respect of the payment of principal and premium (if any) would become unenforceable after 15 years from the relevant date of payment in respect thereof.

Default Interest

If the Issuer fails to pay any sum in respect of the Bonds when due, default interest will accrue on the overdue principal amount at the rate of 1% per annum from the due date and ending on the date on which the overdue payment is made to the Bondholders as stated in a notice given to the Bondholders in accordance with "— Notices" below. The default interest will accrue on the basis of the actual number of days elapsed calculated on the basis of a year of 360 days consisting of 12 months of 30 days each.

Meeting of Bondholders; Modification and Waiver

The Indenture contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the approval of certain amendments or modifications of the Bonds or the provisions of the Indenture upon either the written consent of the Holders of a majority in aggregate principal amount of the outstanding Bonds or the approval at a meeting of the Holders duly called by persons entitled to vote a majority in aggregate principal amount of the outstanding Bonds. The quorum at any such meeting shall be two or more persons entitled to vote a majority in aggregate principal amount of the outstanding Bonds.

Modifications and amendments of the Indenture or the Bonds may be made by the Issuer and the Trustee with the written consent of the Holders of a majority in aggregate principal amount of the outstanding Bonds; provided that, without the consent of each Holder of the Bonds affected thereby, no such modification or amendment may:

(i) change the Maturity Date of the principal of any Bond;

(ii) reduce the principal amount of or premium (if any) on any Bond or increase the then current Conversion Price (except as required by the antidilution provisions of the Indenture);

(iii) change the place or currency of payment of principal of and premium (if any) on any Bond or the method of calculating any such payment;

(iv) impair the right to institute suit for the enforcement of any payment on or after the Maturity Date (or, in the case of a redemption, on or after the Redemption Date) of any Bond;

(v) alter the obligations of the Issuer under "— Certain Covenants — Negative Pledge," "— Certain Covenants — Consolidation, Amalgamation or Merger" or "— Additional

Amounts" above; *provided* that such modification or amendment may be made with the written consent of the Holders of a majority in aggregate principal amount of the outstanding Bonds to permit such Lien to secure for the benefit of the holders of any International Investment Securities contemporaneously with which effective provision is made to secure the Bonds with any such security (other than that which is otherwise permitted under "— Certain Covenants — Negative Pledge") as shall be so approved;

(vi) materially and adversely affect the Conversion Right, the Holders' Put Right, the Delisting Put Right or the Change of Control Put Right;

(vii) reduce the above-stated percentage of outstanding Bonds the consent of whose Holders is necessary to modify or amend the Indenture;

(viii) reduce the percentage or aggregate principal amount of outstanding Bonds the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain Defaults;

(ix) modify any of the percentage voting and quorum provisions described under "— Meeting of Bondholders; Modification and Waiver"; or

(x) release the Issuer from any obligation under the Indenture other than in accordance with the provisions of the Indenture, or amend or modify any provision relating to such release in a manner that materially and adversely affects the rights of the Holders.

Neither the Issuer nor any of its Subsidiaries will, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise to any Holder of any Bonds for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Bonds, unless such consideration is offered to be paid or agreed to be paid to all Holders of the Bonds that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or amendment.

Without the consent of any Holder of Bonds, the Issuer together with the Trustee may amend the Indenture to:

(i) cure any ambiguity, defect or inconsistency in the Indenture or the Bonds *provided* that such amendment does not materially and adversely affect the rights of any Holder;

(ii) provide for the assumption of the Issuer's obligations under the Bonds and the Indenture by the surviving Person in a Merger effected in accordance with the provisions of the Indenture described under "— Certain Covenants — Consolidation, Amalgamation or Merger" above;

(iii) make any other change that does not materially and adversely affect the rights of any Holder of Bonds;

(iv) make any change necessary to comply with applicable ROC laws and regulations;

(v) add to the covenants or obligations of the Issuer under the Indenture or decrease the Conversion Price at the discretion of the Issuer or surrender any right, power or option conferred by the Indenture on the Issuer; or

(vi) to make arrangement for Common Shares delivered on conversion of the Bonds to be deposited into a depositary receipt program or similar scheme.

The Trustee will be entitled to request and conclusively rely on any legal opinions and officer certificates for purposes of such amendments.

Book Entry; Delivery and Form

Except in the limited circumstances set forth under "The Global Bond — Certificated Bonds," Bonds will only be issued in book-entry form. The Bonds will be represented by a permanent global certificate in fully registered book-entry form without interest coupons (the "Global Bond") and will be deposited with, and registered in the name of a nominee of a common depositary for Euroclear and Clearstream, Luxembourg, which common depositary will initially be Citibank Europe plc. The Bonds will have minimum denominations of US$10,000 or any integral multiples thereof.

The Bonds are not issuable in bearer form.

Notices

Whenever the Indenture provides for notice to be given to Holders, such notice will be validly given (except as otherwise expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder entitled thereto, at such Holder's address as it appears on the Bond register. Notwithstanding the foregoing, so long as the Bonds are represented by the Global Bond and the Global Bond is held on behalf of Euroclear, Clearstream, Luxembourg or an alternative clearing system, notice to Holders may be given by delivery of the relevant notice to such clearing system, for communication by it to entitled accountholders in substitution for notification as required by the foregoing sentence. In addition, notices shall be published in English so long as the Bonds are listed on the SGX-ST and the rules of SGX-ST so require. Notices shall be deemed to have been given on the later of (i) the date of publication, or if published on different dates, on the date of the last such publication and (ii) the seventh day after the date such notice was mailed as aforesaid.

Concerning the Trustee

The Indenture provides that, except during the continuance of an Event of Default, the Trustee, the Conversion Agent, the Paying Agent and Transfer Agent will not be liable except in the event of its own gross negligence or willful misconduct in the performance of such duties as are specifically set forth in such Indenture. If an Event of Default has occurred and is continuing, the Trustee will be obligated to use the same degree of care and skill as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become our creditor, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions with us and our affiliates; *provided, however*, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

The Trustee will be under no obligation to exercise any rights or powers conferred under the Indenture for the benefit of the Holders unless such Holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. In the exercise of its duties, the Trustee shall not be responsible for the verification of the accuracy or completeness of any certification submitted to it by us and is entitled to rely exclusively on the certification contained therein. Notwithstanding anything described herein, the Trustee has no duty to monitor the performance or compliance of us in the fulfillment of our obligations under the Indenture.

Governing Law and Jurisdiction

The Indenture and the Bonds are governed by, and shall be construed in accordance with, the laws of the State of New York. In relation to any legal action or proceedings arising out of or in connection with the Indenture and the Bonds, the Company has in the Indenture irrevocably submitted to the jurisdiction of the New York State and United States Federal courts sitting in the Borough of Manhattan, The City of New York. The Company has appointed National Corporate Research, Ltd. as its agent for service of process.

Certain ROC Legal Requirements Relating to the Bonds

Payments

Unless otherwise limited by the Central Bank of the Republic of China (Taiwan) (the "CBC"), we may, without obtaining further approvals from the CBC or any other government authority of the ROC, convert NT dollars to other non-ROC currencies, including U.S. dollars, for making payments in respect of redemption of the Bonds or repayment of principal of and interest (if any) on the Bonds.

Conversion

Under current ROC law, regulation and policy, PRC persons (other than QDIIs) are not permitted to convert the Bonds or to register as our shareholders without obtaining prior approval from the Investment Commission of the Ministry of Economic Affairs (the "MOEAIC").

Delivery of the listed Common Shares into which the Bonds may be converted will only be made through the book- entry system maintained by TDCC. No physical share certificates will be delivered to the converting Holder (or its designee) upon conversion.

Under current ROC law, a non-ROC converting Holder (or its designee) when exercising its Conversion Right to convert its Bonds into listed Common Shares is required to obtain a foreign investor investment identification issued pursuant to the ROC Regulations Governing Securities Investment by Overseas Chinese and Foreign Nationals. A non-ROC converting Holder is also required to appoint an agent and a custodian in the ROC, whose qualifications are set by the ROC FSC. Such agent and custodian will open a securities trading account with a local brokerage firm, an account with TDCC, handle the conversion application, act as custodian for the securities, make confirmation and settlement, remit funds, exercise shareholders' rights and perform such other with TDCC, a non-ROC converting Holder would not be able to receive and hold listed Common Shares or sell or otherwise transfer the listed Common Shares into which the Bonds may have been converted on the Taiwan Stock Exchange or otherwise. Also, if our listed Common Shares to be received by any non-ROC person other than a PRC person upon single conversion will be 10% or more of our total issued and outstanding shares, such non-ROC person must obtain the prior approval from the MOEAIC.

Pursuant to the Regulations Governing Securities Investment and Futures Trading in Taiwan by Mainland Area Investors, only QDIIs are permitted to convert the Bonds and hold our listed Common Shares and, in order to hold our listed Common Shares, such QDIIs are required to appoint the agent and custodian as required by the Mainland Investors Regulations. If the aggregate amount of our listed Common Shares to be held by any QDII or our listed Common Shares to be received by any QDII upon single conversion or withdrawal will be 10% or more of our total issued and outstanding shares, such QDII must obtain the prior approval from the MOEAIC. There are restrictions on the amount remitted to Taiwan for investments by QDIIs, separately and jointly. Accordingly, the qualification criteria for a PRC person to make investment and the investment threshold imposed by the ROC FSC and the Taiwan Stock Exchange might cause a Holder who is a PRC person to be unable to convert and hold the Common Shares issuable upon conversion of the Bonds. Under current ROC laws, "PRC person" means an individual holding a passport issued by the PRC, a resident of any area of China under the effective control or jurisdiction of the PRC (but not including a special administrative region of the PRC such as Hong Kong and Macau, if so excluded by applicable laws of the ROC), any agency or instrumentality of the PRC and any corporation, partnership or other entity organized under the laws of any such area or controlled by, or directly or indirectly having more than 30% of its capital owned by, or beneficially owned by any such person, resident, agency or instrumentality.

Repatriation of Profits

Under current ROC law, a non-ROC converting Holder will be required to appoint an agent in the ROC for filing tax returns and making tax payments (a "Tax Guarantor"), whose qualifications are set by the ROC MOF. The Tax Guarantor will act as the guarantor of the converting Holder's tax payment obligations.

Under current ROC law, subject to certain limited exceptions, repatriation of profits by a non-ROC converting Holder is subject to the submission of evidence of the appointment of a Tax Guarantor to, and approval thereof by, the ROC tax authorities. There can be no assurance that a non-ROC converting Holder would be able to appoint a Tax Guarantor and obtain approval by the tax authorities in a timely manner.

A non-ROC converting Holder, after obtaining a foreign investor investment identification, may, through its agent and without obtaining prior approval from the CBC, convert into foreign currencies net proceeds realized from the sale of converted listed Common Shares or any stock dividends relating to such Common Shares, or any cash dividend or other cash distribution in respect of such Common Shares, as well as inward remittance of subscription payments in respect of rights offerings.

Securities Transaction Tax

The ROC government imposes a securities transaction tax that will apply to transfers of the Common Shares. The securities transaction tax, which is payable by the seller, is generally levied on a transfer of the Common Shares at the rate of 0.3% of the sales proceeds. According to a letter issued by the ROC MOF on March 23, 2010, transfers of the Bonds are not subject to the ROC securities transaction tax.

Disclosure Obligations

We may have certain disclosure obligations and reporting obligations under ROC laws and regulations if:

- the person to become a shareholder is a "related party" of our company as defined under Statements of Financial Accounting Standard No. 6 of the ROC and such person beneficially owns the listed Common Shares issued upon the conversion of Bonds; or

- the person to become a shareholder owns the listed Common Shares issued upon the conversion of the Bonds and such Common Shares exceed 10% of the total number of listed Common Shares expected to be issued upon conversion of all the Bonds at the Conversion Price.

As a result of such disclosure obligations, the converting Holders will be required to provide information to enable our compliance with our obligation under the ROC regulations including the following:

- name of the converting Holder;

- name and nationality (and the identity number, if such person is an ROC citizen) of the person ("Registered Holder") who will become the shareholder upon such conversion;

- the number of listed Common Shares the Registered Holder will acquire upon such conversion and the aggregate number of listed Common Shares the Registered Holder has acquired upon all conversion of the Bonds; and

- any other information that we or the Conversion Agent may deem necessary or desirable to comply with any ROC disclosure or reporting requirements.

The conversion of the Bonds may be delayed until the requested information has been provided by Holder in the Conversion Notice.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for the full definition of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"Affiliate" means, with respect to any Person (the "Specified Person"), (i) any Person other than the Specified Person directly or indirectly controlling, controlled by or under direct or indirect common control with, the Specified Person or (ii) any Person who is a Director or executive officer (A) of the Specified Person, (B) of any Subsidiary of such Specified Person or (C) of any Person described in clause (i) above. For purposes of this definition, the term "control" when used with respect to any Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in Taipei, The City of New York, London and Hong Kong (or, if applicable, in the city where the relevant Paying Agent is located) are authorized by law to close or are otherwise not open for business.

"Capital Stock" means, with respect to any Person, any and all shares, ownership interests, participation or other equivalents (however designated), including all common stock and all preferred stock, of such Person.

"Certificated Bonds" means the individual definitive Bonds in certificated form executed and delivered by the Issuer and authenticated by the Trustee, which may be delivered in exchange for the Global Bond in the circumstances described in "The Global Bond — Certificated Bonds."

"Closed Period" means (i) the period during which under the laws of the ROC the Issuer has to close its shareholders' register, which period currently includes the 60-day period immediately prior to the date of any annual general shareholders' meeting or 30-day period immediately prior to the date of any extraordinary shareholders' meeting of the Issuer or any other period prescribed by law; (ii) in the event of a free distribution of shares, distribution of cash dividend or rights issue by the Issuer, the period commencing at least 15 Trading Days prior to the record date for determination of shareholders entitled to receive dividends, subscription of new shares or other benefits and ending on the record date for the distribution or allocation of the relevant dividends, rights and benefits; (iii) in the event of a capital reduction of the Issuer, the period commencing on the record date for such capital reduction and ending one day prior to the first Trading Day immediately prior to the date on which the Common Shares resume trading after such capital reduction; and (iv) such other periods during which the Issuer may be required to close its stock transfer books under ROC laws and regulations and Taiwan Stock Exchange regulations applicable from time to time.

"Closing Price" means for any Trading Day (a) with respect to the Common Shares, the closing sales price of the Common Shares on the Taiwan Stock Exchange on such day or, if no reported sales take place on such day, the average of the reported closing bid and offered prices, in either case as reported by the Taiwan Stock Exchange for such day as furnished by a leading independent securities firm in Taiwan selected from time to time by the Issuer and approved by the Trustee for this purpose, or (b) with respect to Capital Stock of the Issuer (other than Common Shares), the closing bid price for such Capital Stock (other than Common Shares) on the Selected Exchange (as defined under "Trading Day" below).

"Common Shares" means shares of the common stock of the Issuer, par value NT$10 per share.

"Conversion Price" means the initial conversion price set forth on the cover of this offering memorandum, subject to adjustment in the manner provided in "— Conversion — Adjustments."

"Conversion Ratio" means the number of Common Shares to be issued upon conversion of US$10,000 principal amount of the Bonds based on the Conversion Price then in effect (translated into U.S. dollars at the Fixed Exchange Rate).

"Debt" means, with respect to any Person at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee which are capitalized in accordance with the generally accepted accounting principles applicable to such Person, (v) all Debt secured by a Lien on any asset of such Person, whether or not such Debt is otherwise an obligation of such Person, (vi) all obligations of such Person to purchase securities or other property that arise out of or in connection with the sale of the same or substantially similar securities or property, (vii) all non-contingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument and (viii) all Debt of others guaranteed by such Person.

"Default" means any condition or event which, with the giving of notice or lapse of time or both, would become an Event of Default (as defined in the Indenture).

"Delisting Put Date" means the 90th Business Day after the effective date of the Delisting.

"Early Redemption Amount" means, for each US$10,000 principal amount of Bonds, the amount calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards; *provided* that (i) the Early Redemption Amount pursuant to the exercise of the Holders' Put Right shall be 101.0% of the principal amount of the Bonds on the Holders' Put Date and (ii) the Early Redemption Amount shall be 100.0% of the principal amount of the Bonds on the Maturity Date:

Early Redemption Amount = $I \times (1 + r/2)^{d/180}$ where:

I = Issue price (100% of principal amount) of the Bonds.

r = 0.05% expressed as a decimal.

d = number of days from, and including, July 29, 2016 to, but excluding, the date for redemption, calculated on the basis of a 360-day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the actual number of days elapsed.

"Holder," "holder" and "Bondholder" in relation to a Bond means the person in whose name a Bond is registered in the Bond register.

"Lien" means, with respect to any property or asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such property or asset, including, without limitation, the right of a vendor, lessor or similar party under any conditional sales agreement, capital lease or other title retention agreement relating to such property or asset, and any other right of or arrangement with any creditor to have its claims satisfied out of any property or assets, or the proceeds therefrom prior to any general creditor of the owner thereof.

"Market Value" means (i) in the case of Common Shares, the average of the Closing Prices of the Common Shares for the most recent 30 Trading Days, (ii) in the case of Capital Stock (other than Common Shares) which is listed on the Selected Exchange, the average of the Closing Prices of such Capital Stock (other than Common Shares) for the most recent 30 Trading Days and (iii) in the case the market value cannot be determined pursuant to the procedures above, the market value determined by an opinion of an independent, internationally recognized investment banking firm selected by the Issuer.

"Person" means any individual, company, corporation, firm, partnership, limited liability company, joint venture, undertaking, association, organization, trust, state or agency of a state (in each case whether or not being a separate legal entity), government or political subdivision or agency or instrumentality thereof, or any other entity or organization.

"Redemption Date" means, with respect to any Bond, (i) the date fixed for redemption of such Bond pursuant to a notice of redemption given by the Issuer in accordance with the provisions of the Indenture or (ii) the Maturity Date of such Bond if such Bond has not been redeemed, repurchased and canceled or converted in accordance with its terms prior to the Maturity Date.

"Significant Subsidiary" means, with respect to any Person, any Subsidiary (1) whose net sales, as shown by the latest audited financial statements (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary, constitute at least 10% of the consolidated net sales of such Person and its consolidated Subsidiaries as shown by the latest audited consolidated financial statements of such Person or (2) whose gross assets, as shown by the latest audited financial statements (consolidated in case of a Subsidiary which itself has Subsidiaries) of such Subsidiary, constitute at least 10% of the gross assets of such Person and its consolidated Subsidiaries as shown by the latest audited consolidated financial statements of such Person.

"Subsidiary" means, with respect to any Person, any entity of which more than 50% of its Capital Stock is owned directly or indirectly by such Person.

"Taxing Authority" means any government or political subdivision or any authority or agency thereof, having the legal power and authority to levy a mandatorily payable charge, assessment or tax.

"Trading Day" means (a) with respect to the Common Shares, a day when the Taiwan Stock Exchange is open for business; *provided, however*, if no transaction price or closing bid and offered prices are reported by the Taiwan Stock Exchange in respect of the Common Shares for one or more Trading Days, such day or days will be disregarded in any relevant calculation and will be deemed not to have existed when ascertaining any period of consecutive Trading Days, and (a) with respect to Capital Stock of the Issuer (other than Common Shares), a day on which any securities exchange or quotation system selected by the Issuer (the "Selected Exchange") on which shares of such Capital Stock (other than Common Shares) are quoted or traded is open for trading or quotation; *provided, however*, if no bid price is reported by the Selected Exchange in respect of such Capital Stock (other than Common Shares) for one or more Trading Days, such day or days will be disregarded in any relevant calculation and will be deemed not to have existed when ascertaining any period of consecutive Trading Days.

THE GLOBAL BOND

Capitalized terms used in this section and not otherwise defined shall have the meanings given to them in “Description of the Bonds” and the Indenture.

The Global Bond

The Global Bond will be deposited with and registered in the name of the Common Depositary and Euroclear and Clearstream, Luxembourg will credit their respective accountholders with the respective principal amounts of the individual interests represented by such Global Bond. Such accounts will be designated initially by or on behalf of the Managers. Ownership of beneficial interests in the Global Bond will be limited to persons who have accounts with Euroclear and Clearstream, Luxembourg or persons who hold interests through such account holders. Ownership of beneficial interests in the Global Bond will be shown on, and the transfer of that ownership will be effected only through, the records maintained by Euroclear and Clearstream, Luxembourg (with respect to interests of their respective accountholders) and the records of such accountholders (with respect to interests of persons other than such accountholders).

Payments of the principal of the Global Bond will be made to the Common Depositary or its respective nominees as the registered owners thereof. Payments of principal, interest and premium in respect of Bonds represented by the Global Bond will be made without presentation or if no further payment falls to be made in respect of the Bonds, against presentation and surrender of the Global Bond to or to the order of the Principal Paying, Transfer and Conversion Agent or such other Paying Agent as shall have been notified to the holders of the Bonds for such purpose.

Neither we, the Trustee, the Common Depositary, the Registrar, the Principal Paying Agent, the Paying Agents, any custodian, any conversion agent, any transfer agent nor any other agent of us will have any responsibility or liability for the accuracy of any of the records relating to, or payments made on account of, ownership interests in the Global Bond or for any notice permitted or required to be given to holders of the Bonds or any consent given or actions taken by such registered holders of the Bonds. We expect that upon receipt of any payment of principal in respect of a Global Bond representing any Bonds held by it or its nominee or the Common Depositary, as the case may be, will promptly credit Euroclear and Clearstream, Luxembourg, in the case of the Common Depositary, with payments in amounts proportionate to their respective interests in the principal amount of the Global Bond as shown on their respective records.

Transfers of interests in the Bonds will be affected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

The laws of certain jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. Accordingly, the ability of beneficial owners to own, transfer or pledge beneficial interests in the Global Bond may be limited by such laws.

Conversion of the Bonds will be effected through the respective direct and indirect participants in Euroclear and Clearstream, Luxembourg in accordance with their respective rules and operating procedures.

Neither we, the Trustee, the Common Depositary, the Registrar, the Principal Paying, Transfer and Conversion Agent, the Paying Agents, any custodian, any transfer agent, any registrar, any conversion agent, nor any other agent of ours will have any responsibility for the performance of Euroclear and Clearstream, Luxembourg or their respective direct participants, indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

So long as the Bonds are represented by the Global Bond and the Global Bond is held on behalf of Euroclear and Clearstream, Luxembourg, notices required to be given to the holders of the Bonds may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by it to the entitled account holders in substitution for notification as required by the Indenture or as described in the section entitled “Description of the Bonds.”

No selection of the Bonds will be required in the event of redemption in the manner described in “Description of the Bonds” in respect of less than the aggregate principal amount of the Bonds in respect of which the Global Bond is issued. Instead, there will be a pro rata allocation of the Bonds to be redeemed among the accounts in Euroclear and Clearstream, Luxembourg in accordance with the rules and procedures of the clearing systems.

Cancellation of any Bond following its redemption, conversion or purchase by us will be effected by a reduction in the principal amount of the Bonds in the register of holders of Bonds.

In considering the interests of the holders of Bonds while the Global Bond is registered in the name of a nominee for a clearing system, the Trustee may, without being obliged to do so, have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to Bonds and may consider such interests as if such accountholders were the holders of the Bonds.

For so long as the Bonds are evidenced by the Global Bond, beneficial owners of the Bonds shall be recognized as the beneficiaries of the trusts set out in the Indenture, to the extent of the principal amount of their interest in the Bonds set out in a certificate executed and delivered by the registered holder, as if they were themselves the holders of Bonds in such principal amounts.

The registered holder of the Global Bond will be treated as two persons for the purposes of any quorum requirements of a meeting of holders of the Bonds and, at any such meeting, as having one vote in respect of each US$200,000 in principal amount of Bonds for which the Global Bond is issued. For so long as the Bonds are evidenced by the Global Bond, notices required to be delivered by holders of the Bonds may be given by facsimile rather than by depositing such notices at the specified office of the Principal Paying, Transfer and Conversion Agent as required by the Indenture.

Certificated Bonds

If (a) at any time the Common Depositary notifies us in writing that it is unwilling or unable to discharge properly its responsibilities, or at any time it is no longer eligible to act as the depositary for the Global Bond, and a successor common depositary for the Global Bond is not appointed within 90 days after we receive such notice or become aware of such ineligibility, (b) either Euroclear and Clearstream, Luxembourg or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, or (c) any of the Bonds has become immediately due and payable in accordance with the terms of the Indenture, or the Trustee institutes or is directed to institute any judicial proceeding to enforce the holders’ rights and it determines in accordance with the terms of the Indenture that the Bonds shall no longer be represented by the Global Bond, we will issue Certificated Bonds in registered form in exchange for the Global Bond. We will use our best efforts to make arrangements for the exchange of interests in the Global Bond for Certificated Bonds and cause the requested Certificated Bonds to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Registrar for delivery to holders. Persons exchanging interests in the Global Bond for Certificated Bonds will be required to provide to the Registrar, through the relevant clearing system, written instructions and other information required by us and the Registrar to complete, execute, authenticate and deliver such Certificated

Bonds. Certificated Bonds delivered in exchange for the Global Bond or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

In the case of Certificated Bonds issued in exchange for the Global Bond, such Certificated Bonds will bear, and be subject to, such legends as we require in order to assure compliance with any applicable law. The holder of a restricted Certificated Bond may transfer the Bonds represented by such certificate, subject to compliance with the provisions of such legend. Upon the transfer, exchange or replacement of Certificated Bonds bearing the legend, or upon specific request for removal of the legend on a Certificated Bond, we will deliver only Certificated Bonds that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to us such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by us that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

DESCRIPTION OF THE SHARES

The following is a summary of information relation to our share capital, including certain provisions of our articles of incorporation, the ROC Securities and Exchange Law (the "Securities and Exchange Law") and regulations promulgated thereunder and the ROC Company Law, all as currently in effect.

General

As of 31 March 2016, the authorized share capital of our Company was NT$15 billion divided into 1,500,000,000 common shares with a par value of NT$10 per share, of which 100,000,000 Shares have been reserved for conversion of convertible bonds. As of 31 March 2016, the paid-in capital was NT$11,622,944,000, representing 1,162,294,400 common Shares, all of which were fully paid up, issued and outstanding and in registered form.

Under the ROC Company Law, and change in our authorized share capital requires an amendment to the articles of incorporation, which in turn requires approval at the shareholders' meeting. Authorized but unissued Shares may be issued subject to ROC Company Law, upon terms that our board of directors may determine.

Other than the Bonds offered hereby, we do not have any outstanding warrant, convertible debt securities, exchangeable securities or debt securities with warrants attached.

Dividends and Distribution

Under the ROC Company Law, except under certain limited circumstances, a ROC company is not permitted to distribute dividends or make any other distributions to shareholders in any year in which it has no earnings.

The ROC Company Law also requires that 10% of our annual earnings, less prior years' losses, if any and outstanding tax, be set aside as a legal reserve until the accumulated legal reserve equals the paid-in capital. We may also set aside a special reserve in accordance with applicable laws and regulations. In addition, our articles of incorporation provide that, after we pay the taxes, deduct losses incurred in previous years and deduct 10% as legal reserves and any special reserve in accordance with Company operational needs and applicable laws and regulations, the remaining profits with any previously undistributed profits may be distributed according to a distribution plan proposed by the directors and approved by the shareholders. In addition, the Company shall in accordance with the profit circumstances of a given year, distribute 8-10% of such profits as bonuses for employees, and 1% or less as remuneration for directors.

At each annual ordinary shareholders' meeting, our board of directors submits to our shareholders for their approval any proposal for the distribution of a dividend or the making of any other distribution to shareholders from our earnings (subject to compliance with the requirements mentioned above) for the preceding fiscal year. All common shares outstanding and fully paid as of the relevant record date are entitled to share equally in any dividend or other distribution so approved. Dividends may be distributed in cash, in the form of shares or a combination of the two, as determined by the shareholders at the meeting and provided that no less than 20% of the distributable dividends to the shareholders shall be distributed in the form of cash.

If we do not have losses, we are also permitted to make distributions to our shareholders in the form of additional Shares by capitalizing reserves (including the legal reserve and capital surplus of premium from issuing stock and earnings from gifts received). However, this capitalization can only be effected when the accumulated legal reserve exceeds 25% of our paid-in capital.

Preemptive Rights

Under ROC Company Law, when we issue new shares for cash, existing shareholders who are listed on our shareholders' register as of the record date have preemptive rights to subscribe for a portion of the new issue in proportion to their existing shareholdings, while our employees, whether or not they are existing shareholders, have a similar right to subscribe for 10% to 15% of the new issue. Any new shares that remain unsubscribed at the expiration of the subscription period may be offered to the public or specified persons at the discretion of our board of directors.

In addition, in accordance with the Securities and Exchange Law, a public company listed on the TWSE that intends to offer new shares for case must conduct a public offering of at least 10% of the shares to be sold, except under certain circumstances or when exempted by the ROC FSC. This percentage can be increased by a resolution passed at a shareholders' meeting, which would reduce the number of new shares subject to the preemptive rights of existing shareholders. The preemptive right provisions will not apply to offerings of new shares through a private placement approved in a shareholders' meeting.

Meetings of Shareholders

The ordinary meeting of our shareholders is usually held in Miaoli, Taiwan as determined by our board of directors, within six months after the end of each calendar year. Extraordinary meetings of shareholders may be convened by resolution of our board of directors whenever they consider it necessary, and they must do so if requested in writing by shareholders holding not less than 3% of the paid-in capital who have held these shares for more than a year. Notice in writing of ordinary and extraordinary shareholder's meetings stating the place, time and purpose thereof must be dispatched to each shareholder at least 30 days and 15 days, respectively, prior to the date set for the meeting. Also, according to the regulations of the ROC FSC, notice of the shareholders meeting to be given to shareholders who own less than 1,000 shares may be given in the form of a public announcement, which is deemed completed after the Company has transmitted the information to the website designated by ROC FSC.

Voting Rights

Under the ROC Company Law, a shareholder has one vote for each common share. Except as otherwise provided by law, a resolution can be adopted by the holders of at least a majority of the Shares represented at a shareholders' meeting at which the holders of a majority of all issued and outstanding shares are present. The election of directors at a shareholders' meeting is by means of cumulative voting unless the articles of incorporation of a company provide otherwise. Our articles of incorporation also provide that starting from the 12th annual directors meeting an audit committee is implemented and constitute of all our independent directors.

Under the ROC Company Law, the approval by the holders of at least a majority of shares represented at a shareholders' meeting in which a quorum of at least two-thirds of all issued and outstanding shares are represented is required for major corporate actions of a company, including:

Amendment to its articles of incorporation;

Transfer of the whole or a substantial part of the company's business or assets;

Execution, amendment or termination of any contract that leases the whole business of the company, mandates the operation of the company to other person, or contemplates join operation of a business with third parties on a regular basis;

Taking over of the whole of the business or assets of another company which would have a significant impact on the company's operations;

Distribution of any stock dividend;

Dissolution, consolidation, merger or spin-off of the company; and

Removing directors.

Alternatively, the ROC Company Law provides that in the case of a public company, such as us, a resolution may be adopted by the holders of at least two-thirds of the shares represented at a meeting of shareholder at which holders of at least majority of issued and outstanding shares are present. However, if a controlling company holds not less than 90% of its subsidiary's outstanding shares, the controlling company's merger with the subsidiary can be approved by board resolution adopted by majority consent at a meeting with two-thirds of directors present.

A shareholder may be represented at an ordinary or extraordinary meeting by proxy if a valid proxy form is delivered to us five days before the commencement of the ordinary or extraordinary shareholders' meeting. Voting rights attaching to the shares exercised by proxy shall be subject to ROC proxy regulation.

Under ROC Company Law, we may, by giving advancer public notice, set a record date and close the register of shareholders for a specified period in order to determine the shareholders and pledgees that are entitled to rights pertaining to the Shares. The specified period required is as follows:

Ordinary shareholders' meeting – sixty days

Extraordinary shareholders' meeting – thirty dates

Relevant record date for distribution of dividends, bonuses or other interests – five days

Other Rights of Shareholders

Under the ROC Company Law and the Business Mergers and Acquisitions Act, dissenting shareholders of our company are entitled in the event of amalgamation, spin-off and various other corporate actions

The ROC Company also allows shareholders holding 1% or more of the total issued shares of a company, to during the period of 10 days or more prescribed by the company, to submit one proposal in writing containing no more than 3 hundred words (in terms of Chinese characters) for discussion at the ordinary shareholders' meeting.

Annual Financial Statements

Under the ROC Company Law, 10 days before the ordinary shareholders'' meeting, our annual audited financial statements must be available at our principal officer in Hsinchu, for inspection by the shareholders. According to the Securities and Exchange Law, we are required to publish our annual, semi-annual and quarterly financial statements at the website designated by ROC FSC.

Transfers of Common Shares

Under the ROC Company Law and the Securities, the transfer of registered (in registered form and represented by individual certificates) is effected by endorsement and deliver of share certificates and the transfer of Shares (in registered form and represented by master share certificates or in scripless form) is effected by book-entry system. In order to assert shareholders' rights against us, the transferee must have his name and address registered on our register of shareholders. Shareholders are required to register their respective specimen seal with us. The settlement of trading of the common stock is normally carried out on the book-entry system maintained by TDCC.

Acquisition of Our Own Common Shares

Under the ROC Company Law, with minor exceptions, we cannot acquire our own Share, and any Share acquired by us must be sold by us at the current market price within six months after its acquisition.

In addition, under the Securities and Exchange Law, a company whose shares are listed on the TWSE, such as us, pursuant to a board resolution adopted by a majority consent at a meeting attended by more than two-thirds of the directors and pursuant to the procedures prescribed by the ROC FSC, may purchase its shares on the TWSE or by a tender offer for the following purposes:

For transfer of shares to its employees;

For equity conversion in coordination with the issuance of corporate bonds with warrants, preferred shares with warrants, convertible corporate bonds, convertible preferred shares or share subscription warrants; and

For maintaining its credit and its shareholders' equity; provided that the shares so purchased cancelled thereafter.

The total number of Shares purchased by us shall not exceed 10% of our total issued and outstanding Shares. In addition, the total amount for the purchase shall not exceed the aggregate amount of our retained earnings, the premium from our stock issues and the realized portion of our capital reserve. For the period ending March 31 2016, we have not purchased any of our own Shares.

The Shares purchased by us pursuant to the first two items above shall be transferred to the intended transferees within three year after the purchase; otherwise the Shares shall be cancelled. For the Shares to be cancelled pursuant to the third item above, we shall complete amendment registration for such cancellation within six months after the purchase.

The Shares purchased by us shall not be pledged or hypothecated. In addition, we may not exercise any shareholders' rights attaching to such Shares. Our affiliates (as defined in Article 369-1 of the ROC Company Law), directors, supervisors, managers and their respective spouse and minor children and/or nominees are prohibited from selling the Shares held by them during the period in which we purchase our own Shares.

Liquidation Rights

In the event of our liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and distributions to holders of preferred shares, if any, will be distributed pro rata to the shareholders in accordance with ROC Company Law.

Significant Shareholders and Transfer Restrictions

The Securities and Exchange Law currently requires (1) each director, supervisor, manager or significant shareholder (i.e. a shareholder who, together with his or her spouse, minor children or nominees, holder more than 10% of the shares of a public company) to report any change in that person's shareholding to the issuer of the shares, (2) each director, supervisor, manager or significant shareholder to report his or her or its intent to transfer any of our shares on the TWSE to the ROC FSC at least three days before the intended transfer, unless the number of shares to be transferred is less than 10,000 per trading day and (3) subject to limited circumstances, each directors, supervisor, manager or significant shareholder many transfer his or her shares directly to certain qualified third parties and not through the TWSE. In the case of circumstance (2), the ROC FSC also limits the number of shares that can be sold or transferred at the TWSE by each director, supervisor, manager or significant shareholder per trading day.

Limitation on Shareholding and Reporting Obligations

The Securities and Exchange Law require each director, supervisor, manager or significant shareholder to report any change in that person's shareholder to us before the fifth day of each month, and we shall report the same to the ROC FSC before the fifteenth day of each month. Such persons are also required to report to us immediately the pledge of the Shares held by them, and we shall report the same to the ROC FSC within five days from the pledge date. A person or a person who along with other persons (as defined under the ROC FSC regulations) acquires more than 10% of our issued and outstanding Shares all report to the ROC FSC, within ten days from the acquisition date, the acquisition purpose, funding sources and other information required by the ROC FSC.

Other Transfer Restrictions on TWSE Shares

Subject to limited exception, all transactions in listed securities by broker, traders and integrated securities firms (firms which are permitted to combine the activities of brokerage, dealing and underwriting) must be made through the TWSE.

Under certain circumstance, TWSE may place its listed securities under an altered trading method, including, among others, suspension of margin purchase, short sales, and stock lending/borrowing, or suspend trading, which may affect shareholders' rights of transfer or the ability to borrow shares.

Restrictions on Trading by Insiders

The Securities and Exchange Law prohibits market manipulation. It permits an issuer to recover certain short-swing trading profits made through purchases and sales (or sale and purchases) made within six months of each other by directors, managerial officers, supervisors and shareholders holding more than 10% of the issued and outstanding shares of the issuer. The Securities and Exchange Law prohibits trading by "insiders" (as defined therein) based on non-public information which materially affects share price. The Securities and Exchange Law also prohibits trading by "insiders" based on such material information within 18 hours after such information is made public.

TAXATION

The Bonds may be deemed by taxing authorities in various jurisdictions to be issued with original issue discount. Prospective Investors should consult their own advisers concerning the tax consequences of an investment in the Bonds or Shares.

The following is a summary under present law of the principal ROC tax consequences of the ownership and disposition of the Shares or the Bonds to a Non-Resident Individual or a Non-Resident Entity that owns the Shares or the Bonds (each a "Non-ROC Holder"). As used in the preceding sentence, a "Non-Resident Individual" is a foreign national individual who is not physically present in the ROC for 183 days or more during any calendar year, and a "Non-Resident Entity" is a corporation or a non-corporate body that is organized under the laws of a jurisdiction other than the ROC and has no fixed place of business or business agent in the ROC.

Bonds

Interest or Premium

Premium, if deemed interest of the Bonds, and interest (if any) payable on the Bonds to the Non-ROC Holder is currently subject to a withholding tax in the ROC equal to 15% of the gross amount of such premium and interest at the time of payment.

Conversion into Common Shares

In accordance with the Rules on the ROC Sources of Income, any gain or loss incurred from the conversion of the Bonds into Shares will not be subject to ROC income tax.

Stamp Duty

There is no ROC stamp, issue or registration tax imposed on the delivery of Common Shares upon conversion of the Bonds.

Common Shares

Dividends

Dividends declared by us out of retained earnings and paid out to holders of Shares are normally subject to ROC income tax collected by way of withholding at the time of distribution. The current rate of withholding for Non-ROC Holders adopted by the tax authorities is 20% of the amount of the distribution.

Sale

Securities transaction tax will be withheld at the rate of 0.3% of the transaction price upon a sale of Shares. According to the ROC Income Tax Act (as amended), starting from January 1, 2013, capital gain generated from the sale of shares, including the Shares received upon conversion of the Bonds, that are listed on the TWSE, TPEx or Emerging Stock Market by any individual may be subject to income tax. Under the amended ROC Income Tax Act, a Non-Resident Individual will be subject to a 15% taxation on the amount of capital gain generated from the sale of shares; however, if the Non-Resident Individual has held the shares for one year or longer, only 50% of the net capital gains are subject to income tax (after deduction of any losses incurred from trading securities within the year). Individuals who reside in the ROC may be subject to different tax rates and thresholds with regard to the capital gains. Non-Resident Entities will not be subject to the income tax mentioned above. Starting from January 1, 2016, capital gain derived from sale or disposal of the shares by Non-Resident Individual or Non-Resident Entities are exempted from income tax.

Subscription Rights

Distributions of statutory subscription rights for the Shares in compliance with the ROC Company Law are not subject to ROC tax. Proceeds derived from sales of statutory subscription rights evidenced by securities are currently exempt from income tax but are subject to securities transaction tax, currently at the rate of 0.3% of the gross amount received. Effective January 1, 2013, capital gains derived by Non-Resident Individuals from sales of statutory subscription rights evidenced by securities will be subject to ROC income tax. Starting from January 1, 2016, capital gain derived from sale or disposal of the shares (which should include statutory subscription rights evidenced by securities) by Non-ROC Individual or Non-ROC Entity is exempted from income tax. Proceeds derived from sales of statutory subscription rights which are not evidenced by securities are subject to capital gain tax at the rate of 20%. Subject to compliance with ROC law, we have the sole discretion to determine whether statutory subscription rights will be evidenced by the issuance of securities.

Tax Treaties

At present, the ROC does not have a double taxation treaty with the United States, but it does have double taxation treaties with Indonesia, Singapore, Sweden, Senegal, Belgium, Denmark, South Africa, Australia, Vietnam, New Zealand, Malaysia, Swaziland, Macedonia, Gambia, the Netherlands, the United Kingdom, Germany, Thailand, Israel, Paraguay, Hungary, France, India, Slovakia and Switzerland, which generally have reduced the rate of withholding tax on dividends and interest paid by ROC companies to residents of these countries. It is unclear whether a Non-ROC Holder of Bonds will be considered as owning the Bonds for the purposes of these treaties. Accordingly, residents of these countries should consult their tax advisors concerning their eligibility for benefits under the relevant treaty.

Tax Guarantor

Any holder of the Bonds converting the Bonds into Common Shares is required under current ROC law and regulations to appoint an agent in the ROC. The agent must meet certain qualifications set by the Ministry of Finance and, upon appointment, becomes a guarantor of the withdrawing holder's ROC tax obligations. Evidence of the appointment of the agent and the approval for that appointment by the ROC tax authorities may be required as conditions to the converting holder's repatriation of the profit derived from the sale of converted Shares. There can be no assurance that a converting holder of the Bonds will be able to appoint and obtain approval for the required agent in a timely manner.

Under current ROC law, repatriation of profits by any holder of Shares sold within the ROC is subject to the submission of evidence of the appointment of a tax guarantor to, and approval thereof by, the tax authority, or submission of tax clearance certificates or submission of evidencing documents issued by such agent to the tax authority so long as the capital gains from securities transactions are exempt from ROC income tax. Notwithstanding the above requirements for the appointment of a tax guarantor or submission of tax clearance certificates as provided in the ROC regulations, the CBC has not required submission of such evidence or tax clearance certificates as a condition to repatriation of sale proceeds of shares from sales that take place within the ROC. However, there can be no assurance that the CBC will not require submission of such evidence or tax clearance certificates in the future.

SUBSCRIPTION AND SALE

Fubon Securities Co., Ltd. Offshore Securities Unit (the “Manager”) has pursuant to a Subscription Agreement dated 26 July 2016 (the “Subscription), agreed with us to subscribe the Bonds at the issue price of 100% of their principal amount less the combined management and underwriting commission and selling fees.

We have agreed in the Subscription Agreement to indemnify the Manager with certain liabilities, including the liabilities under the Securities Act, in connection with the offering of the Bonds. For a period of 90 days after the date of the Subscription Agreement, we will not (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, rights or warrant to purchase, or otherwise transfer or dispose of directly or indirectly, any of such any Shares or any securities convertible into or exercisable or exchangeable for the Shares, or publicly disclose the intention to make or apply to any ROC authority in connection with any such offer, sale, pledge or disposition or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Shares or any such other securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of the Shares or such other securities, in cash or otherwise, without the prior written consent of the Manager, except that (A) we may issue employee bonus shares and stock dividends consistent with our past practice and we may issue employee stock options for the Shares representing not more than 5% of our total capital as at the Closing Date, (B) we may issue the Bonds and Shares issuable upon the conversion of the Bonds, (C) we may buy back our own Shares from the market as allowed by laws, (D) we may transfer treasury Shares to our employees and (E) we may cancel treasury Share (and as a result, decrease our share capital).

The Bondholders who purchase the Bonds from the Manager may be required to pay stamp duty and other charges in accordance with the laws and practice of the country of purchase in addition to the issue price of the Bonds.

Selling Restrictions

No action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds or the Shares issuable upon conversion of the Bonds. Accordingly, neither the Bonds nor any Shares issuable upon conversion of the Bonds may be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds or the Shares issuable upon conversion of the Bonds may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. Prospective investors should consult their own advisers concerning the restrictions applied to their investment in the Bonds or Shares in different jurisdictions.

United States

The Bonds and the Shares issuable upon conversion of the Bonds have not been and will not be registered under the Securities Act and may not be offered or sold in the United States except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the Bonds are being offered and sold by the Manager only outside the United States in reliance upon Regulation S.

The Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver any Bonds as part of its distribution at any time or otherwise until 60 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S under the Securities Act, within the United States or to, or for the account or benefit of, any U.S. persons.

Accordingly, neither the Manager, their affiliates nor any persons acting on their behalf have engaged or will engage in any directed selling efforts (within the meaning of Regulations S) with respect to the Bonds, and the Manager, their affiliates and any such persons have complied and will comply with the offering restrictions requirement of Regulations S. The Manager has agreed that, at or prior to confirmation of a sale of Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Bonds from or through it during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, any U.S. persons.

As used in the immediately preceding paragraph, the term "United States" has the meaning given to it by Regulation S under the Securities Act.

United Kingdom

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The Bonds are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquired such Bonds will be engages in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a "Relevant Member State") an offer to the public of any securities which are subject of the Offering may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any securities may be made at any time under the following exemptions under the Prospectus Directive, if they have implemented in that Relevant Member State:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than € 43,000,000, and (3) an annual net turnover of more than € 50,000,000, as shown in its last annual or consolidated accounts;

- to fewer than 100 natural or legal persons (other than qualified investors as defined below) subject to obtaining the prior consent of the representatives for any such offer; or

- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of securities shall result in a requirement for the publication of a prospectus pursuant to Article 3.

Each purchaser of securities described in the Offering Memorandum located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression an "offer to the public" in relation to any securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State, and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

The sellers of the securities have not authorized and do not authorize the making of any offer of securities through any financial intermediary on their behalf, other than offers made by the Initial Purchaser with a view to the final placement of the securities as contemplated in the Offering Memorandum. Accordingly, no purchasers of the securities, other than the Initial Purchaser, are authorized to make any further offer of the securities on behalf of the sellers or the Initial Purchaser.

PRC

The Offering Circular does not constitute a public offer of the Bonds, whether by sale or by subscription, in the PRC. The Bonds are not being offered or sold, and will not be offered or sold, directly or indirectly, to any person for re-offering or resale to any resident of the PRC.

Hong Kong

The Bonds may not be offered or sold in by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong), and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the Bonds may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

The Manager has represented, warranted and agreed that they have not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase nor will they offer or sell the Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, nor have they circulated or distributed nor will they circulate or distribute this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Bonds may not be circulated or distributed, nor may Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of Bonds or the Shares issuable upon conversion of the Bonds.

The Bonds may not be offered or sold directly in the ROC. The Bonds and the Shares issuable upon conversion of the Bonds have not been registered under the Securities Act and the Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Therefore, the Bonds are being offered and sold outside the United States in accordance with Regulation S under the Securities Act.

Except in certain limited circumstances, interests in the Bonds may only be held through interests in the Global Certificate. Such interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxemburg, and their respective direct and indirect participants.

Transfer Restrictions on the Bonds

Each purchaser of the Bonds, by accepting delivery of such Bonds, will be deemed to have acknowledged and represented to and agreed as follows (terms used herein that are defined in Regulation S are used as defined therein):

1. The Bonds and the Shares issuable upon conversion of the Bonds have not been and are not expected to be registered under the Securities Act or any other applicable securities laws or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer:

2. The Bonds and the Shares issuable upon conversion of the Bonds are being offered for resale in transactions that do not require registration; and

3. Unless so registered, the Bonds and the Shares issuable upon conversion of the Bonds may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities law.

Each purchaser of the Bonds acknowledges that neither we nor the Manager nor any person representing us or the Manager has made any representation to you with respect to us or the offering of the Bonds, other than the information contained in this offering circular. Each purchaser of the Bonds represents that he or she is relying only on this offering circular memorandum in making your investment decision with respect to the Bonds. Each purchaser of the Bonds agrees that he or she has had access to such financial and other information concerning us and the Bonds as he or she has deemed necessary in connection with his or her decision to purchase the Bonds including an opportunity to ask questions of and request information from us.

Each purchaser of the Bonds represents that he or she is purchasing the Bonds for his or her own account, or for one or more investor accounts for which he or she is acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Bonds in violation of the Securities Act.

The bonds will bear legends to the following effect, unless we determine otherwise in compliance with applicable law, and that it will observe the restrictions contained therein:

THE BONDS ("BONDS") EVIDENCED HEREBY AND THE COMMON SHARES OF KING YUAN ELECTRONICS CO. LTD. TO BE DELIVERED UPON CONVERSION OF THE BONDS (THE "COMMON SHARES") HAVE NOT BEEN AND ARE NOT EXPECTED TO BE REGISTERED UNDER THE UNITED

STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THE BONDS NOR THE COMMON SHARES MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

Except in certain limited circumstances, interests in the Bonds may only be held through interests in the Global Certificate. Such interests in the Bonds will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxemburg, and their respective direct and indirect participants. See "Global Bond."

Each purchaser of the Bonds acknowledges that we, the Manager and other others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements. Each purchaser of the Bonds agrees that if any of the acknowledgements, representations or agreements he or she is deemed to have made by his or her purchase of the Bonds is no longer accurate, he or she will promptly notify us and the Manager. If you are purchasing any Bonds as a fiduciary or agent for one or more investor accounts, he or she represents that he or she has the sole investment discretion with respect to each of those accounts and that he or she has full power to make the above acknowledgements, representations and agreements on behalf of each account.

Any resale or other transfer, or attempted resale or other transfer, of the Bonds represented thereby made other than in compliance with the above-stated restrictions shall not be recognized by us.

Other Provisions Regarding Transfer of Bonds

The provisions of the Indenture, including those set forth in the above legend, prohibit or restrict certain transfers of the Bonds. Interests in the Bonds evidence by the Global Certificate will be freely transferable within Euroclear and Clearstream, Luxemburg, subject to the regulations thereof.

Except in the limited circumstances described in the Indenture, no person will be entitled to receive physical delivery of definitive Bonds. The Bonds are not issuable in bearer form.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognized by us.

LEGAL MATTERS

Certain legal matters with respect to the Bonds will be passed upon for us by Chien Yeh Law Offices as to ROC law, and by Norton Rose Fulbright as to New York State Law. Norton Fulbright will rely upon Chien Yeh Law Officers with respect to certain matters of ROC law. Chien Yeh Law Officers will rely upon Norton Rose Fulbright Hong Kong with respect to certain matters of New York State law.

AUDITORS

The financial statements of King Yuan Electronics Co., Ltd. as of and for the years ended 31 December 2014, and 2015 included in this Offering Circular have been audited by Ernst & Young, and the financial statements as of and for the three months ended 31 March 2015 and 2016 have been reviewed by Ernst & Young, independent auditors, as set forth in their report thereon appearing elsewhere herein.

Ernst & Young is located at 9th Floor, International Trade Building, Taipei World Trade Center, 333 Keelung Road, Section 1, Taipei 110, Taiwan, Republic of China. They are a member of the Taiwan CPA Association.

GENERAL INFORMATION

Register of Bondholders Office and Principal Place of Business

Our Company was incorporated on 28 May 1987 and we obtained our initial business certificate on 23 July 1987. We are registered with the Ministry of Economic Affairs of the ROC (the "ROC MOEA") under a uniform registration number of 22507241. Our registered office is located at No. 81, Section 2, Gongdaowu Road, Hsinchu 300, Taiwan, Republic of China, and our telephone number is 886-3-5751888.

Company Confirmation

We, having made all reasonable inquiries, confirm that this Offering Circular contains all information with respect to our Company and our subsidiaries, the Bonds, and the Shares which is material in the contact of the issue and offering of the Bonds (including all information required by applicable laws of the ROC), that the information contained herein (save as set out below) is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the Bonds, make this Offering Circular as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respects, that all reasonable inquiries have been made by use to verify the accuracy of such information, and that this Offering Circular does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary in order to make the statements herein, in the light of the circumstances under which they are made, misleading. We accept responsibility accordingly. Information provided herein with respect to the ROC, its political status and economy, had been derived from government and other public sources, and we accept responsibility only for accurately extracting information from such sources.

Our Business Scope

According to Article 2 of our articles of incorporation, we can engage in any business that is not prohibited or restricted under ROC law.

Authorizations

The offering of the Bonds was authorized and approved by our Board of Directors on 9 May 2016 and by the Central Bank of China and ROC FSC on 2 June 2016, respectively.

Listing on the SGX-ST

Application has been made to the SGX-ST for the listing and quotation of the Bonds on the SGX-ST. However, there can be no assurance that we will be able to obtain such a listing. We undertake to use our best efforts to obtain and maintain a listing of the Bonds on the SGX-ST. If we are unable to maintain the listing of the Bonds, we will forthwith give notice to the Bondholders as soon as we become aware of the failure to maintain listing.

The Bonds will be traded on the SGX-ST in a minimum lot size of US$200,000 (or its equivalent in foreign currencies) on the SGX-ST for as long as the Bonds are listed on SGX-ST and the rules of the SGX-ST so require. So long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a Paying Agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for Definitive Certificates. In addition, in the event that the Global Certificate is exchanged for Definitive Certificates, announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Bonds, including details of the Paying Agent in Singapore.

Information Available

For so long as the Bonds are listed on the SGX-ST, and the rules of that exchange so requires, copies of the following documents may be inspected and freely obtainable during normal business hours at the specified offices of the Trustee.

- Our Company's articles of incorporation;
- The Subscription Agreement;
- The Paying and Conversion Agency agreement;
- The Indenture;
- The audited consolidated financial statements of our company as of and for the years ended 31 December 2014 and 2015 and as of and for the three months ended 31 March 2015 and 2016; and
- After the issue of the Bonds, the latest financial statements of our Company that are required to be published in the ROC.

Paying and Conversion Agent

We will at all times maintain paying and conversion agents with specified offices in London. The names of the initial agents and their specified offices are set out at the end of this Offering Circular.

No Material Adverse change

Except as disclosed herein, there has been no material adverse change in our financial position and out subsidiaries since 31 March 2016, the date of the latest audited financial statements contained herein.

Governing Law

The subscription Agreement, the Agency Agreement and the Indenture in connection with the offering are governed by the laws of New York, United States of America.

Clearance

The Bonds have been accepted for clearance by Euroclear and Clearstream, Luxemburg. Relevant clearance and settlement information for the Bonds is set forth below:

Common Code: 145395666

ISIN:XS1453956663

Litigation

Except as disclosed in this Offering Circular, we are not involved in any legal or arbitration proceedings which may have, or have had in the past twelve months, a significant adverse effect on our consolidated financial position, nor are we aware that any such proceedings are pending or threated.

Depositary Receipt Facility

We have not at the date of this Offering Circular established or authorized the establishment of any depositary receipt facility. Accordingly, conversion into depositary receipts is not currently available.

APPENDIX A – FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

The information presented in this appendix has been extracted from various government and other publicly available documents that have not been prepared or independently verified by us, the Manager or any of our or its respective affiliates or advisers in connection with the offer of the Bonds.

Reference to the ROC FSC in this section includes the ROC Securities and Futures Bureau and its two predecessors, the ROC Securities and Exchange Commission and ROC Securities and Futures Commission.

Foreign Investment

Besides the general restriction against direct investment by non-ROC persons (excluding a PRC person who is subject to separate investment restrictions as mentioned below) in ROC companies, non-ROC persons (except in certain limited cases) are currently prohibited from investing in certain industries in the ROC pursuant to a Negative List, as amended by the Executive Yuan of the ROC from time to time (the “Executive Yuan”). The prohibition on foreign investment in the prohibited industries specified in the Negative List is absolute in the absence of specific exemption from the application of the Negative List. Pursuant to the Negative List, certain other industries are restricted so that non-ROC persons (except in certain limited cases) may invest in companies in such industries only up to a specified level and with the specific approval of the relevant competent authority that is responsible for enforcing the relevant legislation which the Native List is intended to implement.

Foreign Investment in ROC Securities Market

Historically, foreign investment in the ROC securities markets has been restricted. Since 1982, the ROC Government has periodically enacted legislations and adopted regulations to permit foreign investment in the ROC securities market.

Regulations Governing Investment in Securities By Overseas Chinese and Foreign Nationals (the “Securities Investment Regulations”, which was approved by the Executive Yuan on 26 May 1983 and has been amended from time to time, is one of the major regulations governing foreign investment in ROC’s securities market.

Under the Securities Investment Regulations, foreign investors are classified as either “onshore foreign investors” or “offshore foreign investors”, according to their respective geographical location. Both onshore and offshore foreign investors are allowed to invest in ROC securities after they register with the TWSE. The Securities Investment Regulations further classify foreign investors into foreign institutional investors and foreign individual investors.

“Foreign institutional investors” refer to those investor incorporated and registered in accordance with foreign laws outside of the ROC (i.e., offshore foreign institutional investors) or their branches are set up and recognized within the ROC (i.e., onshore foreign institutional investors). Offshore foreign institutional investors were previously required to apply for an approval from the Central Bank of China, in addition to registering with the TWSE. However, the amendment to the Securities Investment Regulations, which took effect on 15 June 2004, abolished such requirement. Offshore overseas Chinese and foreign individual investors are subject to a maximum investment ceiling that will be separately determined by the ROC FSC after consultation with the Central Bank of China. On the other hand, foreign institutional investors are not subject to any ceiling for investment in the ROC securities market.

On 30 April 2009, the ROC FSC promulgated regulations allowing PRC institutional investors that meet the qualifications imposed by PRC financial regulators for Qualified Domestic Institutional Investors (“QDII”) and certain other PRC persons (together with the QDII, “Qualified PRC Person”) to invest in securities of ROC companies. However, Qualified PRC Persons are currently prohibited from investing in certain industries in the ROC pursuant to the PRC Investors Negative List promulgated by the ROC FSC.

Pursuant to the PRC Investors Negative List, certain other industries are restricted to that Qualified PRC Persons may investor in companies in such industries only up to a specified level and/or with the specific approval of the relevant competent authority which is responsible for enforcing the relevant legislation which the PRC Investors Negative List is intended to implement. In addition, if the aggregated amount or any single investment of a Qualified PRC Person in a listed company is 10% or more of the issued and outstanding shares of such listed company, prior approval from the Investment Commission of the ROC MOEA is required.

Overseas Corporate Bonds

Since 1989, the ROC FSC has approved a series of overseas bonds issued by ROC companies listed on the TWSE in offerings outside the ROC. Under current ROC law and subject to the FSC approval, overseas corporate bonds can be (i) exchanged or converted by bondholders, other than persons of the PRC except for QDIIs, into shares of ROC companies; or (ii) converted into or exchanged for depositary receipts issued by the same ROC company or by the issuing company of the exchange shares, in the case of exchangeable bonds. The relevant regulations also permit ROC companies attaining public company status to issue corporate bonds in offerings outside the ROC.

Under current ROC law, a non-resident foreign converting bondholder, when exercising the conversion right to convert bonds into shares of a ROC company, will be required to register with the TWSE, and to appoint a local agent (with such qualifications provided by the FSC) to open a securities trading account with a local brokerage firm, pay ROC taxes, remit funds, exercise stockholders' rights and perform such other matters as may be designated by such converting bondholder on behalf of and as agent for such converting bondholder. The converting holder is also required to appoint a custodian bank to hold the securities and any cash proceeds in safekeeping, to make confirmation to settle trades, and to report all relevant information. Additionally, such converting holder is required to appoint a tax guarantor for filing tax returns and making tax payments.

Pursuant to the Securities Investment Regulations for PRC Nationals, a PRC holder of overseas convertible bonds issued aby a ROC company may not convert or exchange such convertible bonds into shares unless (i) it is a qualified QDII, (ii) the businesses of the issuer are in the Positive List promulgated by the MOEA, (iii) the shares converted from overseas convertible bonds, in general, would not, jointly with the other PRC stockholders of the issuer, account for 10% or more of the issuer's shares.

Unless otherwise limited by the CBC, a ROC company may, without obtaining further approval from the CBC or any other government authority of the ROC, convert NT Dollars to other non-ROC currencies, including US Dollars, for making payments in respect of proceeds of the redemption of the bonds or repayment of principal of and interest on the bonds. A non-ROC converting bondholder may, through its local agent and without obtaining prior approval from the CBC, convert into foreign currencies net proceeds realized from the sale of certificates of bond conversion entitlement, shares or any stock dividends relating to such shares, or any cash dividend or other cash distribution in respect of such shares, as well as inward remittance of subscription payments in respect of rights offerings. However, a converting bondholder must obtain prior approval from the CBC on a payment-by-payment basis for conversion from NT Dollars into other currencies in respect of the proceeds from the sale of subscription rights for newly issued Shares.

Other Foreign Investment

In addition to investments permitted under the Regulations, foreign investors (other than foreign investors who have registered with the TWSE for making investments in the ROC securities market) who wish to make direct investments in the shares of ROC companies are required to submit a Foreign Investment Approval application to the Investment Commission of the ROC Ministry of Economic Affairs or other government authority. The Investment Commission or such other government authority reviews each Foreign Investment Approval application and approves or disapproves each application after consultation with other governmental agencies (such as the CBC and the FSC).

Under current law, any non-ROC person possessing a Foreign Investment Approval may remit capital for the approved investment and is entitled to repatriate annual net profits, interest and cash dividends attributable to such investment. Dividends attributable to such investment, investment capital and capital gains attributable to such investment may be repatriated after approvals of the Investment Commission or other authorities have been obtained.

In addition to the general restriction against investment by non-ROC persons in ROC securities markets, non-ROC persons (except in certain limited cases) are currently prohibited from investing in certain industries in the ROC pursuant to a Negative List, as amended by the Executive Yuan. The prohibition on foreign investment in the prohibited industries specified in the Negative List is absolute in the absence of specific exemption from the application of the Negative List. Pursuant to the Negative List, certain other industries are restricted so that non-ROC persons (except in certain limited cases) may invest in such industries only up to a specified level and with the specific approval of the relevant competent authority which is responsible for enforcing the relevant legislation which the Negative List is intended to implement.

Exchange Control

The Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated to handle such business by the FSC and by the CBC. Current regulations favor trade-related foreign exchange transactions and Foreign Investment Approval investments. Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters, and all foreign currency needed for the importation of merchandise and services may be purchased freely from the designed foreign exchange banks.

Trade aside, ROC companies and resident individuals may, without foreign exchange approval, remit outside the ROC foreign currency of up to US$50,000,000 (or its equivalent) and US$5,000,000 (or its equivalent) respectively in each calendar year. In addition, ROC companies and resident individuals may, without foreign exchange approval, remit into the ROC foreign currency of up to US$50,000,000 (or its equivalent) and US$5,000,000 (or its equivalent) respectively in each calendar year. Furthermore, any remittance of foreign currency into the ROC by an ROC company or resident individual in a year will be offset by the amount remitted out of the ROC by the company or individual (as applicable) within its annual quota and will not use up its annual inward remittance quota to the extent of such offset. The above limits apply to remittances involving a conversion of NT Dollars to a foreign currency and vice versa. A requirement is also imposed on all enterprises to register medium-and long-term foreign debt with the CBC.

In addition, foreign persons may, subject to certain requirements, but without foreign exchange approval of the CBC, remit outside and into the ROC foreign currencies of up to US$100,000 (or its equivalent) for each remittance. The above limit applies to remittances involving a conversion of NT Dollars to a foreign currency and vice versa.

FINANCIAL STATEMENTS

KING YUAN ELECTRONICS CO., LTD.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2016 AND 2015

WITH
INDEPENDENT AUDITOR’S REPORT

English Translation of a Report Originally Issued in Chinese

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
King Yuan Electronics Co., Ltd.

We have reviewed the accompanying consolidated balance sheets of King Yuan Electronics Co., Ltd. and its subsidiaries as of March 31, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue the review report based on our reviews.

Except as stated in the following paragraph, we conducted our reviews in accordance with the Statements of Auditing Standards No. 36, "Review of Financial Statements" of the Republic of China. A review is limited primarily to applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

As stated in Note 4(3) of the consolidated financial statement, certain subsidiaries listed in the first paragraph of the consolidated financial statements were not reviewed, which statements reflect total assets of NT$77,606 thousand and NT$60,518 thousand, representing 0.19% and 0.15% of consolidated total assets, respectively; total liabilities of NT$6,000 thousand and NT$5,690 thousand, representing 0.03% and 0.04% of consolidated total liabilities, respectively, as of March 31, 2016 and 2015; and total comprehensive income of NT$4,618 thousand and NT$11 thousand, representing 0.86% and 0.00% of consolidated total comprehensive income for the three months ended March 31, 2016 and 2015, respectively. Further, as stated in Note 6(7) of the consolidated financial statement, investments accounted for under the equity method amounted to NT$1,233,668 thousand and NT$1,162,962 thousand as of March 31, 2016 and 2015, respectively, and the share of profit of associate and joint venture accounted for using equity method amounted to NT$11,176 thousand and NT$25,084 thousand for the three months ended March 31, 2016 and 2015, respectivley, were not reviewed. In addition, information disclosed in Note 13 regarding the aforementioned subsidiaries and investments was also not based on our review.

Based on our review, except for the effect of such adjustments, if any, as might have been determined to be necessary had the financial statements of the aforementioned subsidiaries and investments been reviewed by independent accountants, we are not aware of any material modifications or adjustments that should be made to the consolidated financial statements referred to above in order for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards No. 34, "Interim Financial Reporting" which is endorsed by Financial Supervisory Commission of the Republic of China.

Ernst & Young

Taipei, Taiwan
Republic of China

May 9, 2016

Notice to Readers

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the R.O.C. and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated financial statements are those generally accepted and applied in the R.O.C.

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of March 31, 2016, December 31, 2015 and March 31, 2015
(March 31, 2016 and 2015 are unaudited)
(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	March 31, 2016	%	December 31, 2015	%	March 31, 2015	%
Current assets							
Cash and cash equivalents	4, 6(1)	$ 5,359,397	13	$ 6,234,138	15	$ 6,550,485	17
Available-for-sale financial assets-current	4, 6(2)	116,718	-	115,787	-	73,865	-
Notes receivable, net	4, 6(3)	8,190	-	8,463	-	10,156	-
Trade receivables, net	4, 6(4)	3,130,943	7	3,008,420	7	3,115,621	8
Trade receivables, net from related parties	4, 6(4), 7	648,582	2	685,757	2	564,756	1
Other receivables		211,232	-	95,897	-	178,526	1
Other receivables from related parties	7	116,707	-	100,614	-	117,938	-
Inventories, net	4, 6(5)	391,024	1	414,229	1	312,458	1
Prepayments		238,312	1	211,606	1	488,957	1
Other current assets		233,863	1	217,217	1	235,490	1
Other financial assets-current	8	303	-	3,037	-	5,545	-
Total current assets		10,455,271	25	11,095,165	27	11,653,797	30
Noncurrent assets							
Available-for-sale financial assets-noncurrent	4, 6(2)	14,182	-	9,638	-	14,777	-
Financial assets measured at cost-noncurrent	4, 6(6)	1,621,461	4	1,621,461	4	632,579	2
Investments accounted for using the equity method	4, 6(7)	1,233,668	3	1,222,692	3	1,162,962	3
Property, plant and equipment	4, 6(8), 8	27,767,365	67	25,689,164	64	24,953,081	63
Intangible assets	4, 6(9), 6(11)	104,698	-	104,529	-	107,790	-
Deferred tax assets	4, 6(22)	410,990	1	449,824	1	618,964	2
Other financial assets-noncurrent	8	93,170	-	93,170	-	94,476	-
Other noncurrent assets	6(10)	144,642	-	146,493	1	149,465	-
Total non-current assets		31,390,176	75	29,336,971	73	27,734,094	70
TOTAL ASSETS		$ 41,845,447	100	$ 40,432,136	100	$ 39,387,891	100

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

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of March 31, 2016, December 31, 2015 and March 31, 2015
(March 31, 2016 and 2015 are unaudited)
(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	March 31, 2016	%	December 31, 2015	%	March 31, 2015	%
Current liabilities							
Notes payable		$ 5,797	-	$ 7,118	-	$ 16,910	-
Trade payables		536,660	1	528,431	1	581,288	1
Other payables		1,750,312	4	1,725,293	4	1,613,235	4
Other payables to related parties	7	56,327	-	72,950	-	31,040	-
Payables on equipment		710,406	2	746,758	2	1,294,700	3
Current tax liabilities	4, 6(22)	427,124	1	342,912	1	452,652	1
Current portion of long-term loans	4, 6(13), 8	2,601,870	6	2,475,478	6	2,162,826	6
Other current liabilities		259,684	1	244,356	1	215,879	1
Total current liabilities		6,348,180	15	6,143,296	15	6,368,530	16
Noncurrent liabilities							
Long-term loans	4, 6(13), 8	12,288,524	29	11,615,080	29	9,266,030	23
Net defined benefit liabilities	4, 6(14)	315,848	1	315,848	1	262,216	1
Guarantee deposits		1,198	-	759	-	631	-
Total noncurrent liabilities		12,605,570	30	11,931,687	30	9,528,877	24
Total liabilities		18,953,750	45	18,074,983	45	15,897,407	40
Equity attributable to owners of the parent company							
Share capital	4, 6(15)						
Common stock		11,622,944	28	11,622,944	29	11,923,034	30
Capital surplus	4, 6(7), 6(15), 6(16)	5,987,334	14	5,987,947	15	6,626,297	17
Retained earnings	4, 6(15)						
Legal reserve		1,430,126	3	1,430,126	4	1,174,220	3
Special reserve		201,416	1	201,416	-	201,416	1
Undistributed earnings		3,519,810	9	2,916,901	7	3,338,802	8
Total retained earnings		5,151,352	13	4,548,443	11	4,714,438	12
Other equity	6(16)	124,778	-	192,939	-	222,734	1
Equity attributable to owners of the parent company		22,886,408	55	22,352,273	55	23,486,503	60
Non-controlling interests	6(15)	5,289	-	4,880	-	3,981	-
Total equity		22,891,697	55	22,357,153	55	23,490,484	60
TOTAL LIABILITIES AND EQUITIES		$ 41,845,447	100	$ 40,432,136	100	$ 39,387,891	100

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

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three months ended March 31, 2016 and 2015
(Amounts in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	For the three months ended March 31, 2016	%	2015	%
Net sales	4, 6(17), 7	$ 4,358,356	100	$ 4,073,532	100
Operating costs	6(5), 6(9), 6(14), 6(18), 6(19), 7	(3,171,070)	(73)	(2,915,957)	(72)
Gross profit		1,187,286	27	1,157,575	28
Operating expenses	6(9), 6(14), 6(18), 6(19)				
Selling expenses		(76,280)	(2)	(64,337)	(2)
Administrative expenses		(288,194)	(6)	(285,409)	(7)
Research and development expenses		(170,510)	(4)	(176,894)	(4)
Total operating expenses		(534,984)	(12)	(526,640)	(13)
Operating income		652,302	15	630,935	15
Non-operating income and expenses					
Other income	4, 6(20)	32,091	1	45,019	1
Other gains and losses	4, 6(20), 7	82,525	2	55,980	2
Finance costs	6(8), 6(20)	(47,814)	(1)	(40,990)	(1)
Share of profit of associates and joint ventures	4, 6(7)	11,176	-	25,084	1
Total non-operating income and expenses		77,978	2	85,093	3
Net income before income tax		730,280	17	716,028	18
Income tax expense	4, 6(22)	(127,207)	(3)	(116,606)	(3)
Net income		603,073	14	599,422	15
Other comprehensive income (loss)	4, 6(21)				
Items that may be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of foreign operations		(73,391)	(2)	(68,508)	(2)
Unrealized losses from available-for-sale financial assets		5,475	-	(3,770)	-
Other comprehensive income, net of tax		(67,916)	(2)	(72,278)	(2)
Total comprehensive income		$ 535,157	12	$ 527,144	13
Net income for the periods attributable to :					
Owners of the parent company		$ 602,909	14	$ 599,371	15
Non-controlling interests		164	-	51	-
		$ 603,073	14	$ 599,422	15
Total comprehensive income for the periods attributable to :					
Owners of the parent company		$ 534,748	12	$ 527,157	13
Non-controlling interests		409	-	(13)	-
		$ 535,157	12	$ 527,144	13
Earning per share (NT$)	4, 6(23)				
Basic Earnings Per Share		$ 0.52		$ 0.50	
Diluted Earnings Per Share		$ 0.51		$ 0.50	

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

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the three months ended March 31, 2016 and 2015
(Amounts in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent company									Non-controlling interests	Total equity
			Retained earnings			Other equity					
	Common stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from available-for-sale financial assets	Others	Equity attributable to owners of the parent		
Balance as of January 1, 2015	$ 11,923,184	$ 6,623,735	$ 1,174,220	$ 201,416	$ 2,739,431	$ 302,784	$ (7,836)	$ (2,072)	$ 22,954,862	$ 3,994	$ 22,958,856
Other changes in capital surplus											
Share of changes in net assets of associates and joint ventures	-	2	-	-	-	-	-	-	2	-	2
Profit for the three months ended March 31, 2015	-	-	-	-	599,371	-	-	-	599,371	51	599,422
Other comprehensive income for the three months ended March 31, 2015	-	-	-	-	-	(68,444)	(3,770)	-	(72,214)	(64)	(72,278)
Total comprehensive income	-	-	-	-	599,371	(68,444)	(3,770)	-	527,157	(13)	527,144
Changes in ownership interests in subsidiaries	-	32	-	-	-	-	-	-	32	-	32
Repurchased restricted shares from resigned employees	(150)	2,528	-	-	-	-	-	2,072	4,450	-	4,450
Balance as of March 31, 2015	$ 11,923,034	$ 6,626,297	$ 1,174,220	$ 201,416	$ 3,338,802	$ 234,340	$ (11,606)	$ -	$ 23,486,503	$ 3,981	$ 23,490,484
Balance as of January 1, 2016	$ 11,622,944	$ 5,987,947	$ 1,430,126	$ 201,416	$ 2,916,901	$ 206,970	$ (14,031)	$ -	$ 22,352,273	$ 4,880	$ 22,357,153
Other changes in capital surplus											
Share of changes in net assets of associates and joint ventures	-	(613)	-	-	-	-	-	-	(613)	-	(613)
Profit for the three months ended March 31, 2016	-	-	-	-	602,909	-	-	-	602,909	164	603,073
Other comprehensive income for the three months ended March 31, 2016	-	-	-	-	-	(73,636)	5,475	-	(68,161)	245	(67,916)
Total comprehensive income	-	-	-	-	602,909	(73,636)	5,475	-	534,748	409	535,157
Balance as of March 31, 2016	$ 11,622,944	$ 5,987,334	$ 1,430,126	$ 201,416	$ 3,519,810	$ 133,334	$ (8,556)	$ -	$ 22,886,408	$ 5,289	$ 22,891,697

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

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2016 and 2015

(Amounts in Thousands of New Taiwan Dollars)

Description	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Cash flows from operating activities :		
Profit before tax from continuing operations	$ 730,280	$ 716,028
Adjustments for:		
Depreciation	1,349,270	1,222,900
Amortization	4,356	2,190
Bad debt expenses	88	-
Interest expenses	47,814	40,990
Interest income	(5,355)	(20,136)
Share-based payment	-	4,540
Share of profit of associates and joint ventures	(11,176)	(25,084)
Gain on disposal and write-off of property, plant and equipment	(33,207)	(36,915)
Gain on disposal of investments	-	(39)
Unrealized foreign exchange gain, net	(102,066)	(106,445)
Changes in operating assets and liabilities：		
Notes receivable	273	1,246
Trade receivables	(122,611)	379,318
Trade receivables from related parties	37,175	152,175
Other receivables	(84,610)	(8,850)
Other receivables from related parties	(16,131)	12,440
Inventories	23,205	(26,174)
Prepayments	(23,829)	(50,189)
Other current assets	(16,646)	(68,459)
Notes payable	(1,321)	12,685
Trade payables	8,229	84,418
Other payables	24,246	(134,751)
Other payables to related parties	(17,554)	(2,490)
Other current liabilities	15,328	(18,555)
Net cash generated from operations	1,805,758	2,130,843
Interest received	6,895	20,713
Income tax paid	(4,161)	(4,827)
Net cash provided by operating activities	1,808,492	2,146,729
Cash flows from investing activities :		
Acquisition of available-for-sale financial assets	-	(38,407)
Proceeds from disposal of available-for-sale financial assets	-	30,038
Acquisition of property, plant and equipment	(3,561,250)	(1,940,778)
Proceeds from disposal of property, plant and equipment	76,851	250,714
Increase in refundable deposits	(1,063)	(2,675)
Acquisition of intangible assets	(5,926)	-
Decrease in other financial assets	2,734	12,236
Decrease in other noncurrent assets	-	38
Decrease in other prepayments	559	604
Net cash used in investing activities	(3,488,095)	(1,688,230)
Cash flows from financing activities :		
Proceeds from long-term loans	2,991,140	936,538
Repayments of long-term loans	(2,091,870)	(2,187,530)
Increase in guarantee deposits	439	-
Interest paid	(44,409)	(41,388)
Net cash provided by (used in) financing activities	855,300	(1,292,380)
Effect of changes in exchange rate on cash and cash equivalents	(50,438)	(33,797)
Net decrease in cash and cash equivalents	(874,741)	(867,678)
Cash and cash equivalents at the beginning of the period	6,234,138	7,418,163
Cash and cash equivalents at the end of the period	$ 5,359,397	$ 6,550,485

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

1. Organization and Operation

King Yuan Electronics Co., Ltd. ("KYEC") was incorporated under the Company Law of the Republic of China ("R.O.C) on May 28, 1987, and commenced operations on July 23, 1987. The Company primarily engages in the business of design, manufacturing, selling, testing and assembly service of integrated circuits, and also engages in manufacturing and selling of IC Monitoring Burn-In machinery and related components. On May 9, 2001, the shares of KYEC were listed on the Taiwan Stock Exchange. The headquarter and primary operating site of KYEC is located near the Gongdaowu Road, in Hsinchu, Taiwan.

2. Date and Procedures of Authorization of Financial Statements for Issue

The accompanying consolidated financial statements of KYEC and its subsidiaries ("the Company") were approved and authorized for issue by the Board of Directors on May 9, 2016.

3. Newly Issued or Revised Standards and Interpretations

Standards or interpretations issued by International Standards Board ("IASB") but not yet endorsed by Financial Supervisory Commission ("FSC") at the date of issuance of the Company's financial statements are listed below:

A. IAS 36 "Impairment of Assets" (Amendment)

This amendment to IAS 36 relates to the amendment issued in May 2011, and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit only when an impairment loss has been recognized or reversed during the period. The amendment also requires more disclosure, including valuation technique used, level of fair value hierarchy and key assumptions used in measurement, when the recoverable amount is determined using fair value less cost to sell. The amendment is effective for annual periods beginning on or after January 1, 2014.

B. IFRIC 21 "Levies"

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

C. Amendments to IAS 39: Novation of Derivatives and Continuance of Hedge Accounting

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

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

The amendment to IAS 19 applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to provide a policy choice to simplify accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated based on a fixed percentage of salary. The amendment is effective for annual periods beginning on or after July 1, 2014.

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

IFRS 2 “Share-based Payment”

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

IFRS 3 “Business Combinations”

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

IFRS 8 “Operating Segments”

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

IFRS 13 “Fair Value Measurement”

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

IAS 16 “Property, Plant and Equipment”

The amendment clarifies that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014.

IAS 24 "Related Party Disclosures"

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

IAS 38 "Intangible Assets"

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

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

IFRS 1 "First-time Adoption of International Financial Reporting Standards"

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

IFRS 3 "Business Combinations"

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

IFRS 13 "Fair Value Measurement"

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

IAS 40 "Investment Property"

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

G. IFRS 14 “Regulatory Deferral Accounts”

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

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

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

I. IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – Clarification of Acceptable Methods of Depreciation and Amortization

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

J. IFRS 15 “Revenue from Contracts with Customers”

The core principle of the new Standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

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

IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2018.

K. IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – Agriculture: Bearer Plants

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

L. IFRS 9 “Financial Instruments”

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

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

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

Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio. The new standard is effective for annual periods beginning on or after January 1, 2018.

M. IAS 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements

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

N. IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

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

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture. The effective date of this amendment has been postponed indefinitely, but early adoption is allowed.

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

IFRS 5 “ Non-current Assets Held for Sale and Discontinued Operations ”
The amendment clarifies that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendment also requires identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendment is effective for annual periods beginning on or after January 1, 2016.

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

IAS 19 “ Employee Benefits ”
The amendment clarifies the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendment is effective for annual periods beginning on or after January 1, 2016.

IAS 34 " Interim Financial Reporting "

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

P. Disclosure Initiative – Amendment to IAS 1 "Presentation of Financial Statements":

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

Q. IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", and IAS 28"Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception

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

R. IFRS 16 “Leases”

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

S. IAS 12 “Income Taxes” – Recognition of Deferred Tax Assets for Unrealized Losses

The amendment clarifies how to account for deferred tax assets for unrealized losses. The amendment is effective for annual periods beginning on or after January 1, 2017.

T. “Disclosure Initiative” – Amendment to IAS 7 “Statement of Cash Flows”

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

U. IFRS 15 “Revenue from Contracts with Customers” – Clarifications to IFRS 15

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

The abovementioned standards and interpretations issued by IASB have not yet been recognized by FSC at the date of issuance of the Company’s financial statements, the local effective dates are to be determined by FSC. As the Company is still evaluating the potential impact of the standards and interpretations listed under J, L, P, R and U, it is not practicable to estimate their impact on the Company at this point in time. All other standards and interpretations do not have significant impact on the Company.

4. Summary of Significant Accounting Policies

Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and IAS 34 “Interim Financial Reporting” endorsed by the FSC.

Basis of Preparation

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

Basis of Consolidation

Principle of consolidation

Control is achieved when KYEC is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, KYEC controls an investee if and only if KYEC has:

a. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
b. exposure, or rights, to variable returns from its involvement with the investee; and
c. the ability to use its power over the investee to affect its returns.

When KYEC has less than a majority of the voting or similar rights of an investee, KYEC considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a. the contractual arrangement with the other vote holders of the investee;
b. rights arising from other contractual arrangements;
c. KYEC's voting rights and potential voting rights.

KYEC re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company obtains control, and continue to be consolidated until the date the Company ceases to control the subsidiary. The financial statements of the subsidiaries are prepared for the same reporting period with the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Company loses control of a subsidiary, it:

a. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
b. derecognizes the carrying amount of any non-controlling interest;
c. recognizes the fair value of the consideration received;
d. recognizes the fair value of any investment retained;
e. recognizes any surplus or deficit in profit or loss; and
f. reclassifies the parent's share of components previously recognized in other comprehensive

income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Percentage of Ownership 2016.03.31	2015.12.31	2015.03.31
KYEC	KYEC USA Corp.	Sales agent and business communication in USA	100.00	100.00	100.00
KYEC	KYEC Investment International Co., Ltd.	General investing	100.00	100.00	100.00
KYEC	KYEC Technology Management Co., Ltd.	General investing	100.00	100.00	100.00
KYEC	KYEC Japan K.K.	Manufacturing and sales of Electronic parts and components, sales agent and business communication in Japan	89.83	89.83	89.83
KYEC	KYEC SINGAPORE PTE. Ltd.	Sales agent and business communication in Southeast Asia and Europe	100.00	100.00	100.00
KYEC Investment International Co., Ltd.	KYEC Microelectronics Co., Ltd.	General investing	93.51	92.89	92.89
KYEC Technology Management Co., Ltd.	KYEC Microelectronics Co., Ltd.	General investing	6.49	7.11	7.11
KYEC Microelectronics Co., Ltd.	King Long Technology (Suzhou) Ltd.	Sales and manufacturing of components of automotive data processing machinery, solid memory parts, monitoring burn-in machinery, and testing and assembly service of integrated circuits	100.00	100.00	100.00
KYEC Investment International Co., Ltd.	Sino-Tech Investment Co., Ltd.	General investing	100.00	100.00	100.00
KYEC Investment International Co., Ltd.	Strong Outlook Investment Ltd.	General investing	100.00	100.00	100.00
Sino-Tech Investment Co., Ltd.	Suzhou Zhengkuan Technology Ltd.	Testing and assembly service of integrated circuits, sales and after service of processing of electronic components and materials, automated data processing, monitoring	61.88	61.88	61.88

Investor	Subsidiary	Business nature	Percentage of Ownership 2016.03.31	2015.12.31	2015.03.31
		burn-in machinery.			
Strong Outlook Investment Ltd.	Suzhou Zhengkuan Technology Ltd.	Testing and assembly service of integrated circuits, sales and after service of processing of electronic components and materials, automated data processing, monitoring burn-in machinery.	38.12	38.12	38.12

The financial statements of certain consolidated subsidiaries listed above were not reviewed by independent accountants as of March 31, 2016 and March 31 2015, which reflect total assets NT$77,606 thousand and NT$60,518 thousand, respectively, and the related liabilities amounted to NT$6,000 thousand and NT$5,690 thousand, respectively. The comprehensive income of these subsidiaries amounted to NT$4,618 thousand and NT$11 thousand for the three-month periods ended March 31, 2016 and 2015, respectively.

Except for the accounting polices listed below, the same accounting policies have been followed in this consolidated financial statements as were applied in the preparation of the Company ' s consolidated financial statements for the year ended December 31, 2015. For the summary of other significant accounting policies, please refer to the consolidated financial statements for year ended December 31, 2015.

A. Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market variations and significant reduction, liquidation or other one-time events.

B. The interim period income tax expense is accrued and disclosed using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

5. Significant Accounting Judgments, Estimates and Assumptions

The same significant accounting judgments, estimates and assumptions have been followed in this consolidated financial statements as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2015. For the summary of significant accounting judgments, estimates and assumptions please refer to the consolidated financial statements for the year ended December 31, 2015.

6. Contents of Significant Accounts

(1) Cash and cash equivalents

	March 31, 2016	December 31, 2015	March 31, 2015
Cash on hand	$762	$768	$795
Checking and savings accounts	3,065,076	2,754,027	2,860,260
Time deposits	2,293,559	3,479,343	3,689,430
Total	$ 5,359,397	$6,234,138	$ 6,550,485

(2) Available-for-sale financial assets

	March 31, 2016	December 31, 2015	March 31, 2015
Current			
Funds	$100,499	$100,409	$50,210
Stocks	16,219	15,378	23,655
Subtotal	116,718	115,787	73,865
Noncurrent			
Stocks	14,182	9,638	14,777
Subtotal	14,182	9,638	14,777
Total	$130,900	$125,425	$88,642

For the three months ended March 31, 2015, the Company partially disposed of its available-for-sale financial assets with a disposal amount of NT$30,038 thousand; and also resulted in the recognition of disposal gains in the amount of NT$39 thousand. There was no such instance during the three months ended March 31, 2016.

No available-for-sale financial assets were pledged.

(3) Notes receivable

	March 31, 2016	December 31, 2015	March 31, 2015
Notes receivables from operating activities	$8,190	$8,463	$10,156
Less: allowance for doubtful debts	-	-	-
Total	$8,190	$8,463	$10,156

No notes receivable was pledged.

(4) Trade receivables and trade receivables from related parties

	March 31, 2016	December 31, 2015	March 31, 2015
Trade receivables	$3,210,252	$3,078,075	$3,207,231
Less: allowance for doubtful debts	(56,538)	(56,450)	(56,450)
Less: allowance for sales returns and discounts	(22,771)	(13,205)	(35,160)
Subtotal	3,130,943	3,008,420	3,115,621
Trade receivables from related parties	648,582	685,757	564,756
Less: allowance for doubtful debts	-	-	-
Subtotal	648,582	685,757	564,756
Total	$3,779,525	$3,694,177	$3,680,377

A provision has been recognized for sales returns and allowances based on past experience and other known factors. The provision is recognized and the corresponding entry is made against trade receivables at the time of amounts can be reasonably estimated.

No trade receivables were pledged.

The payment term granted to customers is generally 30-120 days. The movements of provision for impairment of trade receivables and trade receivables from related parties are as follows (please refer to Note 12 for credit risk disclosure):

	Individually impaired	Collectively impaired	Total
As of January 1, 2016	$ 32,250	$ 24,200	$ 56,450
Charge for the current period	-	88	88
Reversal as revenue recognized	-	-	-
As of March 31, 2016	$ 32,250	$ 24,288	$ $56,538

	Individually impaired	Collectively impaired	Total
As of January 1, 2015	$ 51,021	$ 5,429	$ 56,450
Charge for the current period	-	-	-
Reversal as revenue recognized	-	-	-
As of March 31, 2015	$ 51,021	$ 5,429	$ 56,450

Impairment loss that was individually determined for the three months ended March 31, 2016 and 2015, arose due to the fact that the counterparty deferred payment. The amount of impairment loss recognized was the difference between the carrying amount of the trade receivable and the present value of its expected recoverable amount. The Company does not hold any collateral for such trade receivables.

Aging analysis of trade receivables and trade receivable from related parties were as follows:

		Past due but not impaired				
As of	Neither past due nor impaired	1 to 90 days	91 to 180 days	181 to 365 days	More than 366 days	Total
March 31, 2016	$3,586,853	$156,616	$22,525	$12,501	$1,030	$3,779,525
December 31, 2015	$3,505,607	$157,960	$18,619	$10,079	$1,912	$3,694,177
March 31, 2015	$3,527,100	$141,922	$8,665	$164	$2,526	$3,680,377

(5) Inventories

	March 31, 2016	December 31, 2015	March 31, 2015
Raw materials	$315,836	$344,882	$237,717
Work in progress	40,477	42,690	53,691
Finished goods	34,711	26,657	21,050
Total	$391,024	$414,229	$312,458

The cost of inventories recognized in operating costs for the three months ended March 31, 2016 and 2015 amounted to NT$3,171,070 thousand and NT$2,915,957 thousand, respectively, including the reversal of the write-down of inventories of NT$783 thousand for the three months ended March 31, 2016. The reversal is due to the fact that the inventories that caused the net realizable value to be lower than its cost were sold out. The write-down of inventories amounted to NT$3,398 thousand for the three months ended March 31, 2015.

No inventories were pledged.

(6) Financial assets measured at cost-noncurrent

	March 31, 2016	December 31, 2015	March 31, 2015
Available-for-sale financial assets			
Non-listed stocks	$1,621,461	$1,621,461	$632,579

The fair value of the investments in non-listed stocks may not be reliably measurable as the variability in the range of reasonable fair value measurements is significant for the instrument and the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value. Therefore these investments are measured at cost.

The Company paid NT$1,000,000 thousand to acquire 13.89% ownership in Yann Yuan Investment Co., Ltd. in 2015. Yann Yuan Investment Co., Ltd. was measured at cost as the Company had no significant influence over it.

No financial assets measured at cost were pledged.

(7) Investments accounted for using the equity method

	March 31, 2016		December 31, 2015		March 31, 2015	
Investees	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Dawning Leading Technology Inc.	$1,193,473	27.18%	$1,185,058	27.29%	$1,125,840	35.50%
Fixwell Technology Corp.	42,898	23.33%	40,750	23.33%	41,385	23.33%
Subtotal	1,236,371		1,225,808		1,167,225	
Less：deferred credits	(2,703)		(3,116)		(4,263)	
Total	$1,233,668		$1,222,692		$1,162,962	

Dawning Leading Technology Inc. (“Dawning”) was authorized by its Board of Directors to issue new shares in May 2015. The Company only subscribed NT$2,179 thousand at a percentage different from its existing ownership percentage. Consequently, the ownership interest in Dawning decreased to 27.46%. In addition, Dawning issued new shares for employee bonus in October 2015, and the Company’s ownership interest further decreased to 27.29% and recorded an amount of NT$44,983 thousand in capital surplus under equity. Furthermore, Dawning issued new shares due for employee stock options in January 2016, and the Company’s ownership interest decreased to 27.18% and NT$613 thousand was deducted from paid-in capital.

The Company's investments in Fixwell Technology Corp. and Dawning were not individually material. The following table summarizes financial information of the Company's ownership in the associates:

	For the three months ended March 31,	
	2016	2015
Net income	$ 11,176	$ 25,084
Other comprehensive income, net of tax	-	-
Total comprehensive income	$ 11,176	$ 25,084

The associates had no contingent liabilities or capital commitments and investment in the associates were not pledged as of March 31, 2016, December 31, 2015, and March 31, 2015.

As of March 31, 2016 and 2015, investments under the equity method amounted to NT$1,233,668 thousand and NT$1,162,962 thousand, respectively. Share of profits of associates and joint venture amounted to NT$11,176 thousand and NT$25,084 thousand for the three months ended March 31, 2016 and 2015, respectively. Share of other comprehensive income of associates and joint venture amounted to nil for the three months ended March 31, 2016 and 2015. The financial statements of these invested companies were not reviewed by independent accounts.

(8) Property, plant and equipment

	Land	Buildings and facilities	Plant equipment	Machinery equipment	Office equipment	Transportation equipment	Miscellaneous equipment	Leasehold equipment	Construction in progress and equipment awaiting examination	Total
Cost:										
As of January 1, 2016	$1,143,394	$4,111,048	$6,514,625	$64,130,724	$718,438	$44,176	$4,055,085	$4,425	$1,398,240	$82,120,155
Additions	-	-	39,027	3,192,902	2,915	1,035	49,894	-	240,056	3,525,829
Disposals	-	-	(12,111)	(653,341)	(15,074)	-	(2,415)	-	-	(682,941)
Transfers	-	-	-	-	-	-	-	-	(2,877)	(2,877)
Exchange differences	-	(11,293)	(4,043)	(86,722)	(1,373)	(83)	(14,031)	-	(8,413)	(125,958)
As of March 31, 2016	$1,143,394	$4,099,755	$6,537,498	$66,583,563	$704,906	$45,128	$4,088,533	$4,425	$1,627,006	$84,834,208
Cost:										
As of January 1, 2015	$1,143,394	$4,129,168	$6,265,279	$60,874,513	$707,832	$36,992	$4,103,261	$-	$380,258	$77,640,697
Additions	-	-	99,047	2,110,003	2,760	4,800	50,877	-	142,981	2,410,468
Disposals	-	-	-	(719,687)	(4,192)	(3,640)	(5,463)	-	-	(732,982)
Transfers	-	-	-	-	(357)	-	-	-	(28,785)	(29,142)
Exchange differences	-	(11,839)	(4,382)	(82,183)	(1,464)	(76)	(13,641)	-	(1,138)	(114,723)
As of March 31, 2015	$1,143,394	$4,117,329	$6,359,944	$62,182,646	$704,579	$38,076	$4,135,034	$-	$493,316	$79,174,318

	Land	Buildings and facilities	Plant equipment	Machinery equipment	Office equipment	Transportation equipment	Miscellaneous equipment	Leasehold equipment	Construction in progress and equipment awaiting examination	Total
Accumulated Depreciations and Impairment:										
As of January 1, 2016	$-	$1,289,539	$4,218,300	$47,027,546	$602,412	$23,813	$3,269,086	$295	$-	$56,430,991
Depreciation	-	35,482	110,990	1,143,090	9,201	1,357	49,039	111	-	1,349,270
Disposals	-	-	(12,111)	(577,057)	(15,074)	-	(2,415)	-	-	(606,657)
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange differences	-	(4,730)	(2,597)	(88,508)	(1,124)	(56)	(9,746)	-	-	(106,761)
As of March 31, 2016	$-	$1,320,291	$4,314,582	$47,505,071	$595,415	$25,114	$3,305,964	$406	$-	$57,066,843
As of January 1, 2015	$-	$1,153,603	$3,824,093	$44,761,189	$572,946	$23,185	$3,295,867	$-	$-	$53,630,883
Depreciation	-	35,805	104,912	1,010,260	9,427	895	61,601	-	-	1,222,900
Disposals	-	-	-	(536,067)	(4,192)	(3,133)	(5,464)	-	-	(548,856)
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange differences	-	(4,470)	(3,297)	(64,536)	(1,168)	(46)	(10,173)	-	-	(83,690)
As of March 31, 2015	$-	$1,184,938	$3,925,708	$45,170,846	$577,013	$20,901	$3,341,831	$-	$-	$54,221,237
Net carrying amount as at:										
March 31, 2016	$1,143,394	$2,779,464	$2,222,916	$19,078,492	$109,491	$20,014	$782,569	$4,019	$1,627,006	$27,767,365
December 31, 2015	$1,143,394	$2,821,509	$2,296,325	$17,103,178	$116,026	$20,363	$785,999	$4,130	$1,398,240	$25,689,164
March 31, 2015	$1,143,394	$2,932,391	$2,434,236	$17,011,800	$127,566	$17,175	$793,203	$-	$493,316	$24,953,081

a. Capitalized borrowing costs of property, plant and equipment are as follows:

	For the three months ended March 31,	
	2016	2015
Construction in progress	$ 10,707	$ 8,222
Capitalization rate of borrowing costs	1.797%	1.668%

b. The investing activities partially influenced the cash flow are as follows:

	For the three months ended March 31,	
	2016	2015
Acquisition of property, plant and equipment	$ 3,525,829	$ 2,410,468
Net decrease (increase) in payables to equipment suppliers	35,421	(469,690)
Total	$ 3,561,250	$ 1,940,778

	For the three months ended March 31,	
	2016	2015
Disposal of property, plant and equipment	$ 109,078	$ 220,511
Net (increase) decrease in other receivables	(32,227)	30,203
Total	$ 76,851	$ 250,714

c. Please refer to Note 8 for property, plant and equipment under pledges as collateral.

(9) Intangible Asset

	Software	Goodwill	Total
Cost:			
As of January 1, 2016	$241,712	$94,639	$336,351
Additions-acquired separately	5,926	-	5,926
Exchange differences	(648)	(1,757)	(2,405)
As of March 31, 2016	$246,990	$92,882	$339,872
As of January 1, 2015	$213,449	$91,338	$304,787
Additions-reclassified	2,907	-	2,907
Exchange differences	(806)	(1,010)	(1,816)
As of March 31, 2015	$215,550	$90,328	$305,878

	Software	Goodwill	Total
Amortization and impairment:			
As of January 1, 2016	$206,822	$25,000	$231,822
Amortization	4,356	-	4,356
Exchange differences	(605)	(399)	(1,004)
As of March 31, 2016	$210,573	$24,601	$235,174
As of January 1, 2015	$196,680	$-	$196,680
Amortization	2,190	-	2,190
Exchange differences	(782)	-	(782)
As of March 31, 2015	$198,088	$-	$198,088
Net carrying amount as of:			
March 31, 2016	$36,417	$68,281	$104,698
December 31, 2015	$34,890	$69,639	$104,529
March 31, 2015	$17,462	$90,328	$107,790

Amortization expenses of intangible assets recognized are as follows:

	For the three month ended March 31,	
	March 31, 2016	March 31, 2015
Operating costs	$1,816	$568
Sales and administration costs	1,967	1,197
Research and development costs	573	425
Total	$4,356	$2,190

(10) Other noncurrent assets

	March 31, 2016	December 31, 2015	March 31, 2015
Long-term prepaid rent	$124,733	$127,151	$129,970
Refundable deposits	18,744	17,681	17,233
Others	1,165	1,661	2,262
Total	$144,642	$146,493	$149,465

Long-term prepaid rent includes land use rights.

(11) Impairment testing of goodwill

The Company's goodwill was acquired through business combinations with Suzhou Zhengkuan Technology Ltd. Goodwill has been allocated to specific cash-generating units for impairment testing. As of March 31, 2016, December 31, 2015 and March 31, 2015, the book value of goodwill were NT$68,281 thousand, NT$69,639 thousand and NT$90,328 thousand, respectively.

The recoverable amount of the cash-generating unit has been determined based on a value-in-use calculation using cash flow projections from financial budgets covering a five-year period. The projected cash flows have been updated to reflect the change in demand for products and services. The pre-tax discount rate applied to cash flow projections was 11.8%, and cash flows are extrapolated using 0% growth rate for the year ended December 31, 2015. As a result of this analysis, management has recognized an impairment loss of NT$25,000 thousand against goodwill for the year ended December 31, 2015.

Key assumptions used in value-in-use calculations

The calculation of value-in-use for the cash-generating unit is most sensitive to the following assumptions:

(a) Gross margin
(b) Discount rates
(c) Growth rate used to extrapolate cash flows beyond the budget period

Gross margins - Gross margins are based on the gross margins of the first year of financial budget and expected to be the same in budget covering period.

Discount rates - Discount rates reflect the current market assessment of the risks specific to each cash generating unit (including the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted). The discount rate was estimated based on the weighted average cost of capital (WACC) for the Company, taking into account the particular situations of the Company and its operating segments. The WACC includes both the cost of liabilities and cost of equities. The cost of equities is derived from the expected returns of the Company's investors on capital, where the cost of liabilities is measured by the interest bearing loans that the Company has obligation to settle. Specific risk relating to the operating segments is accounted for by considering the individual beta factor which is evaluated annually and based on publicly available market information.

Growth rates of sales estimates – The growth rate the Company predicted was adjusted by considering the macroeconomic environment.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of subsidiary Suzhou Zhengkuan Technology Ltd., the Management believes there is not any reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

(12) Short-term borrowings

As of March 31, 2016, December 31, 2015 and March 31, 2015, the Company's unused short-term lines of credits amounted to NT$2,279,866 thousand, NT$1,750,763 thousand and NT$2,245,518 thousand, respectively.

(13) Long-term borrowings

As of March 31, 2016,

Lenders	Balance	Maturity Date	Terms of repayment
Taiwan Business Bank Unsecured bank loans	$312,195	2017.10.22	Revolving Credit
E. Sun Bank Unsecured bank loans	96,555	2018.03.03	Revolving Credit
Mega International commercial Bank Unsecured bank loans	160,925	2017.09.18	Revolving Credit
Citi Bank Unsecured bank loans	64,370	2017.11.30	Revolving Credit
HSBC Taiwan Bank Unsecured bank loans	831,284	2017.10.31	Revolving Credit
Land Bank Unsecured bank loans	128,740	2017.12.30	Revolving Credit
SinoPac Bank Unsecured bank loans	547,145	2018.04.30	Revolving Credit
CTBC Bank and other 17 banks Secured bank loans	3,899,994	2018.03.10	Repayable in 4 semi-annual installments from March 10, 2013. The initial repayment would be 66th months since the borrowing day and repayment shall be made semi-annually then. The initial repayment had been extended until March 10, 2015.
Fubon Bank and other 9 banks Secured bank loans	3,200,000	2020.09.10	The Company reached a three-year loan extension agreement as of December 31, 2014. The loan will be repayable in 6 semi-annual installments from March 10, 2018.

Lenders	Balance	Maturity Date	Terms of repayment
Fubon Bank and other 12 banks Secured bank loans	3,900,000	2020.04.17	25% of principal will be repaid on the day of three and half years from April 17, 2015. The remaining part will be repaid on maturity day.
Land Bank and other 13 banks Secured bank loans	974,999	2021.03.10	25% of principal will be repaid on the day of three and half years from March 10, 2016. The remaining part will be repaid on maturity day.
TCB Bank (King Long) Unsecured bank loans	103,012	2018.01.19	Repayable in 6 semi-annual installments from July 20, 2015.
Mega International commercial Bank (King Long) Unsecured bank loans	120,717	2017.05.12	Repayable in 4 semi-annual installments from December 6, 2015.
KGI Bank (King Long) Unsecured bank loans	32,191	2018.12.08	Repayable in 5 semi-annual installments from December 8, 2016.
HSBC Bank (King Long) Unsecured bank loans	193,147	2017.03.11	Repayable in 2 semi-annual installments at first and 1 five monthly installments at last starting from October 15, 2015.
Mega International commercial Bank (Zhengkuan) Unsecured bank loans	120,717	2017.05.12	Repayable in 7 quarter installments from December 16, 2015.
SinoPac Bank (Zhengkuan) Unsecured bank loans	80,478	2016.12.15	Repayable in 6 quarter installments from September 15, 2015.
HSBC Bank (Zhengkuan) Unsecured bank loans	120,717	2017.03.11	Repayable in 2 semi-annual installments at first and 1 five monthly installments at last starting from April 15, 2016.
KGI Bank (Zhengkuan) Unsecured bank loans	32,191	2017.01.18	Principal is due at maturity.
Subtotal	14,919,377		
Less: current portion	(2,601,870)		
Less: Arrangement fee	(28,983)		
Total	$12,288,524		
Interest rate	0.90% to 2.20%		

As of December 31, 2015,

Lenders	Balance	Maturity Date	Terms of repayment
Standard Chartered Bank Unsecured bank loans	$131,300	2017.08.27	Revolving Credit
Shin Kong Commercial Bank Unsecured bank loans	295,425	2018.12.09	Revolving Credit
Mega International commercial Bank Unsecured bank loans	32,825	2017.09.18	Revolving Credit
Citi Bank Unsecured bank loans	229,775	2017.11.30	Revolving Credit
HSBC Taiwan Bank Unsecured bank loans	847,813	2017.10.31	Revolving Credit
Land Bank Unsecured bank loans	196,950	2017.12.30	Revolving Credit
Fubon Bank Unsecured bank loans	164,125	2017.11.30	Revolving Credit
SinoPac Bank Unsecured bank loans	426,725	2017.03.31	Revolving Credit
CTBC Bank and other 17 banks Secured bank loans	4,874,993	2018.03.10	Repayable in 4 semi-annual installments from March 10, 2013. The initial repayment would be 66th months since the borrowing day and repayment shall be made semi-annually then. The initial repayment had been extended until March 10, 2015.
Fubon Bank and other 9 banks Secured bank loans	3,200,000	2020.09.10	The Company reached a three-year loan extension agreement as of December 31, 2014. The loan will be repayable in 6 semi-annual installments from March 10, 2018.
Fubon Bank and other 12 banks Secured bank loans	2,900,000	2020.04.17	25% of principal will be repaid on the day of three and half years from April 17, 2015. The remaining part will be repaid on maturity day.
TCB Bank (King Long) Unsecured bank loans	134,584	2018.11.23	Repayable in 6 semi-annual installments from July 20, 2015.
Mega International commercial Bank (King Long) Unsecured bank loans	123,096	2017.05.12	Repayable in 4 semi-annual installments from December 6, 2015.
Mega International commercial Bank (Zhengkuan) Unsecured bank loans	123,096	2017.05.12	Repayable in 7 quarter installments from December 16, 2015.
SinoPac Bank (Zhengkuan) Unsecured bank loans	109,418	2016.12.15	Repayable in 6 quarter installments from September 15, 2015.
HSBC Bank (Zhengkuan) Unsecured bank loans	123,096	2017.03.11	Repayable in 2 semi-annual installments and 1 five-month installment starting from April 15, 2016.
HSBC Bank (King Long) Unsecured bank loans	196,952	2017.03.10	Repayable in 2 semi-annual installments and 1 five-month installment starting from October 15, 2015.
Subtotal	14,110,173		
Less: current portion	(2,475,478)		
Less: Arrangement fee	(19,615)		
Total	$11,615,080		
Interest rate	0.83% to 2.20%		

As of March 31, 2015,

Lenders	Balance	Maturity Date	Terms of repayment
Taiwan Business Bank Unsecured bank loans	$125,200	2016.09.24	Revolving Credit
Citi Bank Unsecured bank loans	344,300	2016.11.26	Revolving Credit
HSBC Taiwan Bank Unsecured bank loans	401,526	2016.10.31	Revolving Credit
Shin Kong Bank Unsecured bank loans	281,700	2016.12.25	Revolving Credit
Land Bank of Taiwan Unsecured bank loans	375,600	2016.12.10	Revolving Credit
First Commercial Bank Unsecured bank loans	125,200	2016.04.11	Revolving Credit
Mega Commercial Bank Unsecured bank loans	125,200	2016.09.18	Revolving Credit
CTBC Bank and other 17 banks Secured bank loans	5,849,991	2018.03.10	Repayable in 4 semi-annual installments from March 10, 2013. The initial repayment would be 66th months since the borrowing day and repayment shall be made semi-annually then. The initial repayment had been extended until March 10, 2015.
Fubon Bank and other 9 banks Secured bank loans	3,200,000	2020.09.10	The Company reached a three-year loan extension agreement as of December 31, 2014. The loan will be repayable in 6 semi-annual installments from March 10, 2018.
TCB Bank (King Long) Unsecured bank loans	156,492	2018.01.19	Repayable in 6 semi-annual installments from July 20, 2015.
Mega International commercial Bank (King Long) Unsecured bank loans	156,492	2017.05.12	Repayable in 4 semi-annual installments from December 6, 2015.
Mega International commercial Bank (Zhengkuan) Unsecured bank loans	156,492	2017.05.12	Repayable in 7 quarter installments from December 16, 2015.
SinoPac Bank (Zhengkuan) Unsecured bank loans	156,492	2016.12.15	Repayable in 6 quarter installments from September 15, 2015.
Subtotal	11,454,685		
Less: current portion	(2,162,826)		
Less: Arrangement fee	(25,829)		
Total	$9,266,030		
Interest rate	0.9069% to 2.20%		

a. Certain property, plant and equipment were pledged. Please refer to Note 8 for more details.

b. Please refer to Note 9 for the financial covenant during the loan period.

(14) Post-employment benefits

Defined contribution plan

Pension expenses under the defined contribution plan for the three months ended March 31, 2016 and 2015 were NT$57,807 thousand and NT$59,419 thousand, respectively.

Defined benefit plan

Pension costs recognized in profit or loss are as follows:

	For the three months ended March 31,	
	2016	2015
Operating costs	$ 3,789	$ 3,679
Selling expenses	145	132
Administration expenses	377	389
Research and development expenses	241	248
Total	$ 4,552	$ 4,448

(15) Equity

A. Share capital

As of March 31, 2016, December 31, 2015 and March 31, 2015, KYEC's authorized share capital was NT$15,000,000 thousand; issued share capital was NT$11,622,944 thousand, NT$11,622,944 thousand and NT$11,923,034 thousand, respectively; issued shares was 1,162,294 thousand shares, 1,162,294 thousand shares and 1,192,303 thousand shares, respectively, with par value of NT$10 per share. Each share has one voting right and a right to receive dividends.

For the three months ended March 31, 2015, the Company repurchased 15 thousand restricted shares from resigned employees who were granted restricted shares, and those shares were subsequently retired.

On July 28, 2015, the Board of Directors resolved to repurchase 30,000 thousand shares from the stock exchange market for the purpose of maintaining the Company's credit and shareholders' equity. The repurchase period was from July 29, 2015 to September 28, 2015, and the repurchase price ranged from NT$14.39 to NT$38.21 per share. The Company had repurchased 30,000 thousand shares for NT$625,547 thousand. On October 29, 2015, the Company's board of directors resolved to retire the repurchased treasury stocks. The effective capital reduction date was set on October 29, 2015. The registration process had been completed.

B. Capital surplus

	March 31, 2016	December 31, 2015	March 31, 2015
Additional paid-in capital	$ 2,942,291	$ 2,942,291	$ 3,376,719
Arising from conversion of bonds	2,579,784	2,579,784	2,646,371
Treasury share transactions	390,101	390,101	572,324
Arising from employee restricted shares	-	-	9,356
Arising from the exercise of employee restricted shares	30,756	30,756	21,493
Changes in ownership interests in subsidiaries	32	32	32
Share of changes in net assets of associates accounted for using the equity method	44,370	44,983	2
Total	$ 5,987,334	$ 5,987,947	$ 6,626,297

According to the Company Act, the capital surplus shall not be used except for offset the deficit of the Company. When a Company incurs no loss, it may distribute the capital surplus generated from the excess of the issuance price over the par value of share capital and donations. The distribution could be made in cash to its shareholders in proportion to the number of shares being held by each of them.

C. Retained earnings and dividend policy

According to KYEC's Articles of Incorporation, net profits for each fiscal year, if any, shall be distributed in following order:

a. Income tax obligation;
b. Offsetting accumulated deficits, if any;
c. Legal reserve at 10% of profit left over;
d. special reserve in compliance with relevant laws or regulations;
e. The remaining after all above appropriations and distributions, "Distributable Earnings" may be distributed proportionally as follows:
   (a) Dividends to shareholders at 89% of the Distributable Earnings;
   (b) Employee bonuses at 10% of the Distributable Earnings;
   (c) Remuneration for directors' services at 1% of the Distributable Earnings.

Distributable Earnings may be reserved in whole or in partial, and distributed in the subsequent year once resolved by the Company's shareholder's meeting. Dividends to shareholders and employee bonuses will be distributed in the form of shares or cash while remuneration for directors are limited to cash payments only.

However, according to the addition of Article 235-1 of the Company Act announced on May 20, 2015, the Company shall provide a fixed amount or percentage of the profit for the year to be distributed as “employees’ compensation”, after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employees’ compensation may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders’ meeting. Furthermore, the Articles of Incorporation may stipulate that the employees’ compensation could be distributed to employees of affiliated enterprises meeting certain criteria. KYEC expects to amend the Articles of Incorporation in its shareholders’ general meeting in 2016.

The Company’s dividends distribution is proposed each year by the board of directors for shareholders’ approval based on the Company’s dividend policy and various factors, including the current and future economic environment, financing and funding requirements, competitive environment, shareholders’ interests, and the Company’s long term strategy. As the Company currently is still in the growth stage, funding may be required in the near future for expansion. Therefore, the current policy is to distribute cash dividends at no less than 20% of total dividends to be distributed.

The abovementioned employee bonuses also extend to qualifying employees of the KYEC’s subsidiaries as determined by the board.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to offset the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Pursuant to existing regulations, the Company is required to set aside additional special reserve equivalent to the net debit balance of the other components of shareholders’ equity. For any subsequent reversal of other net deductions from shareholders’ equity, the amount reversed may be distributed.

Following the adoption of TIFRS, the FSC on April 6, 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded in shareholders' equity that the Company elects to transfer to retained earnings by application of the exemption under IFRS 1, the Company shall set aside an equal amount of special reserve. Following a Group's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside special reserve based on the difference between the amount already set aside and the total debit balances of other shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

As of March 31, 2016 and 2015, special reserve set aside for the first-time adoption of TIFRS amounted to NT$201,416 thousand.

The appropriations of earnings for 2014 were resolved by the shareholders in its meeting on June 17, 2015; while the proposed appropriations of earnings for 2015 were approved by Board of Directors on March 2, 2016. The appropriations and dividends per share were as follows:

	Appropriation of earnings		Dividend per share (NT$)	
	2015	2014	2015	2014
Legal reserve	$ 228,154	$ 255,906	-	-
Cash dividends-common stock	232,459	1,788,455	$ 0.20	$ 1.500011
Total	$ 460,613	$ 2,044,361		

Based on the resolution of Board of Directors and shareholders' general meeting on March 2, 2016 and June 17, 2015, KYEC would reduce the capital surplus from share premium of NT$1,162,294 thousand and NT$357,691 thousand, respectively, to distribute cash dividends.

Please refer to Note 6 (19) for information regarding to the employees' compensations (bonuses) and remunerations to directors.

D. Non-controlling interests

	For the three months ended March 31,	
	2016	2015
Beginning balance	$ 4,880	$ 3,994
Net income attributable to non-controlling interests	164	51
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	245	(64)
Ending balance	$ 5,289	$ 3,981

(16) Restricted shares plan for employees

Based on the resolution of shareholders' general meeting on June 15, 2012, the Company resolved to issue restricted shares to employees. The total restricted shares to be issued were 5,000 thousand shares. When employees exercise their rights for restricted shares, new shares will be issued for such purpose. For those employees who achieve both service conditions and performance conditions, the restricted shares will be vested at certain percentage and time frame. Relevant government approval has been successfully obtained.

The restricted rights on the restricted shares before achieving the vesting conditions are as follow：

a. Prior to vesting conditions are achieved, the employees shall not sell, mortgage, transfer, donate, pledge or dispose the restricted shares in any other ways.
b. Prior to vesting conditions are achieved, the voting rights in shareholders' meeting shall be executed as the same as the other common shares.
c. Prior to vesting conditions are achieved, the restricted shares are entitled to dividends without limitation.

As of March 31, 2016, all restricted shares have met the vesting conditions. As of March 31, 2015, employee restricted shares outstanding are as follows:

Type	Grant Date	Shares Granted (thousand)	Exercise Price	Price per share at fair value	Shares at end of period (thousand)
Employee restricted shares	March 14, 2013	2,000	$6	$20.53	904

The restricted shares granted to employees were measured at fair value, which resulted in a compensation expense amounted to NT$0 thousand and NT$4,540 thousand for the three-month periods ended March 31, 2016 and 2015, respectively. As of March 31, 2015, related compensation costs under the plan had been recognized completely.

(17) Sales revenue

	For the three months ended March 31,	
	2016	2015
Revenue from rental of machinery	$ 115,068	$ 88,993
Processing revenue	4,205,035	3,921,719
Rental income from property	52,900	85,751
Other operating revenues	15,144	10,626
Total	4,388,147	4,107,089
Less: Sales returns and discounts	(29,791)	(33,557)
Net sales	$ 4,358,356	$ 4,073,532

(18) Operating lease

a. Operating lease commitments-the Company as lessee

The Company leases several parcels of land from the ROC government, and these operating lease contracts would expire in December 2033. The agreements granted the Company the option to renew the leases and reserve the right for the lessor to adjust the lease payments upon an increase in the assessed value of the land and to terminate the lease under certain conditions. Future minimum rentals payable under non-cancellable operating leases are as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
Not later than one year	$ 14,137	$ 14,137	$ 14,137
Later than one year and not later than five years	56,548	56,548	56,548
Later than five years	162,312	165,846	176,449
Total	$ 232,997	$ 236,531	$ 247,134

Operating lease expenses recognized are as follows:

	For the three months ended March 31,	
	2016	2015
Minimum lease payments	$ 3,534	$ 3,534

b. Operating lease commitments - the Company as lessor

The Company has entered into commercial property leases with remaining terms of between one to five years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
Not later than one year	$ 130,169	$ 98,141	$ 216,574
Later than one year and not later than five years	3,920	4,050	23,195
Total	$ 134,089	$ 102,191	$ 239,769

(19) <u>Summary statement of employee benefits, depreciation and amortization expenses by function for the three months ended March 31, 2016 and 2015:</u>

	For the three months ended March 31,					
	2016			2015		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	$784,087	$246,605	$1,030,692	$747,409	$219,504	$966,913
Labor and health insurance	63,467	13,319	76,786	65,010	12,417	77,427
Pension	47,761	14,598	62,359	48,026	15,841	63,867
Other employee benefits expense	36,547	6,468	43,015	30,458	5,588	36,046
Total	$931,862	$280,990	$1,212,852	$890,903	$253,350	$1,144,253
Depreciation	$1,255,455	$93,815	$1,349,270	$1,117,101	$105,799	$1,222,900
Amortization	$1,816	$2,540	$4,356	$568	$1,622	$2,190

The Board of Directors resolved to amend the Articles of Incorporation of KYEC on October 29, 2015. In according with the amended Articles of Incorporation, 8% to 10% of profit of the current year is distributable as employees' compensation and no higher than 1% of profit of the current year is distributable as remuneration to directors. However, KYEC's accumulated losses shall have been covered (if any). The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. The Articles of Incorporation are to be amended in the shareholders' meeting in 2016. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of current period, the Company estimated the amounts of the employees' compensation and remuneration to directors for the three months ended March 31, 2016 to be 8% of profit of current period (or NT$63,674 thousand) and 0.8% of profit of current period (or NT$6,367 thousand), respectively, recognized as employee benefits expense. If the Board of Directors resolved to distribute employees' compensation in the form of stocks, then the number of stocks distributed is calculated based on the closing price one day prior to the date of resolution. If the estimated amounts differ from the actual distribution resolved by the Board of Directors, the difference will be recognized in the profit or loss in the subsequent year.

The estimated employee bonuses and remuneration to directors for the three months ended March 31, 2015 were estimated based on post-tax net income of the period, KYEC's Articles of Incorporation, and considered factors such as appropriation to legal reserve etc. The estimated employee bonuses and remuneration to directors for the three months ended March 31, 2015 are recognized as employee benefits expense for the period. If the Board of Directors resolved to distribute employees' compensation in the form of stocks, then the number of stocks distributed is calculated based on the closing price one day prior to the date of resolution. If the estimated amount differs from the actual distribution resolved by the Board of Directors, the difference will be recognized in the profit or loss in the subsequent year. The Company estimated the amounts of the employee bonuses and remuneration to directors for the three months ended March 31, 2015 to be NT$59,504 thousand and NT$5,950 thousand, respectively.

Based on the profit of 2015, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended December 31, 2015 to be 8% of profit of the year (or NT$248,991 thousand) and 0.8% of profit of the year (or NT$24,899 thousand), respectively, recognized as employee benefits expense. A resolution was passed at a Board of Directors meeting held on March 2, 2016 to distribute NT$248,991 thousand and NT$24,899 thousand in cash as employees' compensation and remuneration to directors, respectively, which were consistent with the estimated amounts recognized for the year ended December 31, 2015.

(20) Non-operating income and expenses

a. Other income

	For the three months ended March 31,	
	2016	2015
Interest income	$ 5,355	$ 20,136
Others	26,736	24,883
Total	$ 32,091	$ 45,019

b. Other gains and losses

	For the three months ended March 31,	
	2016	2015
Gains on disposal of property, plant and equipment	$ 33,207	$ 36,915
Gains on disposal of investments	-	39
Foreign exchange gains, net	52,227	19,339
Others	(2,909)	(313)
Total	$ 82,525	$ 55,980

c. Finance costs

	For the three months ended March 31,	
	2016	2015
Interest expenses on borrowings	$ 47,814	$ 40,990

(21) Components of other comprehensive income

For the three-month period ended March 31, 2016

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax expenses	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of foreign operation	$(73,391)	$-	$(73,391)	$-	$(73,391)
Unrealized gains from available-for-sale financial assets	5,475	-	5,475	-	5,475
Total of other comprehensive income	$(67,916)	$-	$(67,916)	$-	$(67,916)

For the three-month period ended March 31, 2015

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax expenses	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of foreign operation	$(68,508)	$-	$(68,508)	$-	$(68,508)
Unrealized gains (losses) from available-for-sale financial assets	(3,809)	39	(3,770)	-	(3,770)
Total of other comprehensive income	$(72,317)	$39	$(72,278)	$-	$(72,278)

(22) Income tax

The major components of income tax expense are as follows:

	For the three months ended March 31,	
	2016	2015
Current income tax expense:		
Current income tax charge	$ 123,793	$ 120,422
Investment tax credits	(35,420)	(34,942)
Deferred tax expense (income):		
Origination and reversal of temporary differences	38,248	49,551
Origination and reversal of tax loss and tax credit	586	(18,425)
Income tax expense recognized in profit or loss	$ 127,207	$ 116,606

Imputation credit information

	March 31, 2016	December 31, 2015	March 31, 2015
Balance of the imputation credit account	$ 122,897	$ 122,897	$ 42,835

The estimated creditable ratio for 2015 was 15.33% and the actual creditable ratio for 2014 was 15.14%.

The Company's earnings generated prior to December 31, 1997 have been fully appropriated.

The assessment of income tax returns

As of March 31, 2016, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

	The assessment of income tax returns
KYEC	Assessed and approved up to 2013
Subsidiary- King Long Technology (Suzhou) Ltd.	Filed up to 2014
Subsidiary- Suzhou Zhengkuan Technology Ltd.	Filed up to 2014
Subsidiary- KYEC USA Cop.	Filed up to 2015
Subsidiary- KYEC Japan K.K.	Filed up to 2015
Subsidiary- KYEC SINGAPORE PTE. Ltd.	Filed up to 2014

(23) Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary equity owners of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity owners of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	For the three months ended March 31,	
	2016	2015
A. Basic earnings per share		
Profit attributable to ordinary equity owners of the parent	$ 602,909	$ 599,371
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand share)	1,162,294	1,191,399
Basic earnings per share (NT$)	$ 0.52	$ 0.50
B. Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent	$ 602,909	$ 599,371
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand share)	1,162,294	1,191,399
Effect of dilution:		
Restricted shares plan for employees (thousand shares)	-	715
Employee bonuses - stock (thousand share)	8,586	9,439
Weighted average number of ordinary shares outstanding after dilution (thousand share)	1,170,880	1,201,553
Diluted earnings per share (NT$)	$ 0.51	$ 0.50

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issue.

7. Related Party Transactions

(1) Significant transactions with related parties

A. Sales

	For the three months ended March 31,	
	2016	2015
Other related parties	$ 626,029	$ 538,364
Associates	8,442	7,410
Total	$ 634,471	$ 545,774

The sales price to related parties was determined through mutual agreement based on the market demands. The trade credit terms for related parties were 45 to 90 days, while the terms for non-related parties were 30 to 120 days. The outstanding balance due from related parties as of March 31, 2016 was unsecured, non-interest bearing and must be settled in cash. The receivables from the related parties were not guaranteed.

B. The Company appointed an associate to perform repairs on machineries. For the three months ended March 31, 2016 and 2015, the operating cost recognized amounted to NT$49,604 thousand and NT$42,566 thousand, respectively.

C. Significant property transactions with related parties

a. Disposal of property, plant and equipment

	For the three months ended March 31, 2016	
	Sales price	Disposal gain
Associates	$1,444	$943

The Company deferred the disposal gain derived from sales of property, plant and equipment to related parties, and then recognized such gain over the depreciable lives of the disposed assets.

b. Acquisition of property, plant and equipment

	For the three months ended March 31, 2016
	Purchase price
Associates	$5,062

The sales price of property transactions to related parties was determined through mutual agreement based on the market demands.

There were no significant related party transactions for the three months ended March 31, 2015.

D. Trade receivables from related parties

	March 31, 2016	December 31, 2015	March 31, 2015
Other related parties	$ 634,901	$ 670,038	$ 552,363
Associate	13,681	15,719	12,393
Less: allowance for doubtful debts	-	-	-
Total	$ 648,582	$ 685,757	$ 564,756

E. Other receivables from related parties

	March 31, 2016	December 31, 2015	March 31, 2015
Other related parties	$ 1,977	$ 374	$ 4,550
Associate	114,730	100,240	113,388
Total	$ 116,707	$ 100,614	$ 117,938

F. Other payables to related parties

	March 31, 2016	December 31, 2015	March 31, 2015
Other related parties	$ 599	$ 334	$ 64
Associate	55,728	72,616	30,976
Total	$ 56,327	$ 72,950	$ 31,040

G. Key management personnel compensation

	For the three-month periods ended March 31,	
	2016	2015
Short-term employee benefits	$ 24,459	$ 22,719
Post-employment benefits	187	135
Share-based payment	-	1,615
Total	$ 24,646	$ 24,469

8. Assets Pledged as Collateral

The following table lists assets of the Company pledged as security:

	Carrying amount			
Assets pledged for security	March 31, 2016	December 31, 2015	March 31, 2015	Purpose of pledge
Other current financial assets	$ 303	$ 3,037	$ 5,545	L/C guarantee deposits
Other noncurrent financial assets	93,170	93,170	94,476	Customs clearance
Land	1,143,394	1,143,394	1,143,394	Long-term borrowings
Building and facility	2,335,061	1,844,575	1,911,598	Long-term borrowings
Machinery equipment	4,821,186	3,071,948	3,789,398	Long-term borrowings
Total	$ 8,393,114	$ 6,156,124	$ 6,944,411	

9. Significant Contingent Liabilities and Unrecognized Commitments

As of March 31, 2016, the following of contingencies and material commitments were not included in the Company's financial statements:

A. The Company's issued and outstanding letters of credit is approximately NT$1,422,685 thousand.

B. To construct the plant and factory premises, the Company had entered into several construction contracts with an aggregate amount of NT$2,572,972 thousand with unpaid portion amounted to NT$444,366 thousand (including outstanding notes) and NT$2,128,606 thousand already paid.

C. The promissory notes issued for secured bank loans amounted to NT$27,848,768 thousand.

D. The Company provided guarantees to King long Technology (Suzhou) Ltd.'s lines of credit. The lines of credit were provided by Mega International Commercial Taiwan Bank, Taiwan Cooperative Bank, HSBC Taiwan Bank, KGI Bank and Mega International Commercial Suzhou Bank in the amount of US$5,000 thousand, US$5,000 thousand, US$8,000 thousand, US$5,000 thousand and CNY35,000 thousand, respectively.

   The Company also provided guarantees to Suzhou Zhengkuan Technology Ltd.'s lines of credit. The lines of credit were provided by Mega International Commercial Taiwan Bank, SinoPac Bank, HSBC Taiwan Bank, KGI Bank and Mega International Commercial Suzhou Bank in the amount of US$5,000 thousand, US$5,000 thousand, US$5,000 thousand, US$5,000 thousand and CNY35,000 thousand, respectively.

E. The Company entered into a syndicated loan agreement with 17 banks, led by China Trust Commercial Bank, and the Company shall maintain the following financial covenants on semi-annual and annual basis during the period from 2010 to 2018:

   (a) Current ratio not less than 100%;
   (b) Debt ratio not higher than 115%;
   (c) Interest coverage ratio not less than 300%.

   In the case of failure to adhere to the aforementioned financial covenants during the period from 2010 to 2018, China Trust Commercial Bank may assemble a meeting among the banks to govern the matter to decide on a course of action or request for each bank's written approval for such course of action when necessary.

   The Company entered into a syndicated loan agreement with 9 banks, led by Taipei Fubon Commercial Bank, and the Company shall maintain the following financial covenants on semi-annual and annual basis during the period from 2012 to 2020:

   (a) Current ratio not less than 100%;
   (b) Debt ratio not more than 115%;
   (c) Interest coverage ratio at no less than 300%.

In the case of failure to adhere to the aforementioned financial covenants during the period from 2012 to 2020, Taipei Fubon Commercial Bank may assemble a meeting among the banks to govern the matter to decide on a course of action or request for each bank's written approval for such course of action when necessary.

The Company entered into a syndicated loan agreement with 12 banks, led by Taipei Fubon Commercial Bank, and the Company shall maintain the following financial covenants on semi-annual and annual basis during the period from 2015 to 2020:

(a) Current ratio not less than 100%;
(b) Debt ratio not more than 115%;
(c) Interest coverage ratio not less than 300%.

In the case of failure to adhere to the aforementioned financial covenants during the period from 2015 to 2020, Taipei Fubon Commercial Bank may assemble a meeting among the banks to govern the matter to decide on a course of action or request for each bank's written approval for such course of action, when necessary.

The Company entered into a syndicated loan agreement with 13 banks, led by Land Bank of Taiwan, and the Company shall maintain the following financial covenants on semi-annual and annual basis during the period from 2016 to 2021:

(a) Current ratio not less than 100%;
(b) Debt ratio not more than 115%;
(c) Interest coverage ratio not less than 300%.

In the case of failure to adhere to the aforementioned financial covenants during the period from 2016 to 2021, Land Bank of Taiwan may assemble a meeting among the banks to govern the matter to decide on a course of action or request for each bank's written approval for such course of action, when necessary.

As of March 31, 2016, the Company did not violate any financial covenants.

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

None

12. Others

(1) Financial instruments

A. Categories of financial instruments

	March 31, 2016	December 31, 2015	March 31, 2015
Financial assets			
Available-for-sale financial assets (including financial assets measured at cost)	$ 1,752,361	$ 1,746,886	$ 721,221
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand)	5,358,635	6,233,370	6,549,690
Note receivables, net	8,190	8,463	10,156
Trade receivables, net (including related parties)	3,779,525	3,694,177	3,680,377
Other receivables (including related parties)	327,939	196,511	296,464
Other financial assets	93,473	96,207	100,021
Other noncurrent assets	18,744	17,681	17,233
Subtotal	9,586,506	10,246,409	10,653,941
Total	$ 11,338,867	$ 11,993,295	$ 11,375,162
Financial liabilities			
Financial liabilities at amortized cost:			
Trade payables (including related parties)	$ 542,457	$ 535,549	$ 598,198
Other payables (including related parties)	2,517,045	2,545,001	2,938,975
Long-term payables (including current portion)	14,890,394	14,090,558	11,428,856
Guarantee deposits	1,198	759	631
Total	$ 17,951,094	$ 17,171,867	$ 14,966,660

(2) Financial risk management objectives

The objective of the Company’s financial risk management is mainly to manage the market risk, credit risk and liquidity risk derived from its operating activities. The Company identified, measured and managed the aforementioned risks based on the Company’s policy and risk tendency.

The Company has established appropriate policies, procedures and internal controls for financial risk management. The plans for material treasury activities are reviewed by Board of Directors in accordance with relevant regulations and internal controls. The Company complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise foreign currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variables, there are usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

A. Foreign currency risk

The Company’s exposure to the risk of changes in foreign exchange rates relates primarily to the Company’s operating activities (when revenue or expense are denominated in a different currency from the Company’s functional currency) and the Company’s net investments in foreign.

Some receivables and payables are denominated in the same foreign currency, and it will result in economic hedging effect. Further, net investments in foreign operations are primary for strategic purpose, and they are not hedged by the Company.

The Company's sensitivity analysis to foreign currency risk mainly focuses on foreign currency monetary items at the end of the reporting period. The Company’s foreign currency risk is mainly from the volatility in the exchange rates of US$ and CNY. The sensitivity analysis is as follows:

When NT$ appreciates or depreciates against US$ by 1%, the profit for the three months ended March 31, 2016 and 2015 would have decreased/increased by NT$1,581 thousand and increased/decreased by NT$4,261 thousand, respectively.

When NT$ appreciates or depreciates against CNY by 1%, the profit for the three months ended March 31, 2016 and 2015 would have decreased/increased by NT$8,783 thousand and NT$15,910 thousand, respectively.

B. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the interest rate risk arising from investments with floating interest rates, bank borrowings with fixed interest rates and bank borrowings with floating interest rates classified under loans and receivables. The Company manages its risk by having a balanced portfolio of financial instruments with fixed and floating interest rate. The Company did not apply hedging accounting since such hedging activities did not qualify for criteria of hedge accounting.

The Company manages its risk by having a balanced portfolio with fixed and floating interest rate. Hedge accounting does not apply as they do not qualify for it.

The Company's sensitivity analysis to interest rate risk mainly focuses on items exposed to interest rate risk at the end of the reporting period, including investments with floating interest rates and bank borrowings with floating rates. Assuming investments and bank borrowings had been outstanding for the entire period and all other variables were constant, a hypothetical increase/decrease of 10 basis points of interest rate in a reporting period would have resulted in a decrease/increase in profit by NT$3,730 thousand and NT$2,864 thousand for the three months ended March 31, 2016 and 2015, respectively.

C. Equity price risk

The Company's equity investments, including listed and unlisted equity securities, are exposed to market price risk arising from uncertainties of future values of equity securities. The Company's investment in listed and unlisted equity securities are classified under available-for-sale. The Company manages the equity price risk through diversification and placing limits on individual and total equity investments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves certain significant equity investments according to level of authority.

Assuming a decrease of 20% in the equity price of the investments in listed equity securities classified under available-for-sale, net profit would have decreased by NT$6,080 thousand and NT$7,687 thousand for the three months ended March 31, 2016 and 2015, respectively. Assuming an increase of 20% in the equity price of the investment in listed equity securities would have affected only the Company's equity but would not have an impact on profit or loss.

(4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for trade receivables and notes receivable) and from its financing activities (including bank deposits and other financial instruments).

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and controls relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Company's internal rating criteria, etc. Certain customer's credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment.

The Company manages its exposure to credit risk arising from bank deposits, fixed income securities and other financial instruments in accordance with established group policies. Since the counter-parties are selected and reputable financial institutions and companies, the Company believes its exposure to credit risk is not significant.

(5) Liquidity risk management

The Company maintained financial flexibility through the holding of cash and cash equivalents, investment in securities with high liquidity, facilities of bank borrowings and issuance of convertible bonds. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity, and the payment amount also includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Longer than 4 years	Total
As of March 31, 2016						
Payables	$3,059,502	$-	$-	$-	$-	$3,059,502
Borrowings	2,796,343	4,383,766	4,646,384	1,118,058	2,547,739	15,492,290
As of December 31, 2015						
Payables	$3,080,550	$-	$-	$-	$-	$3,080,550
Borrowings	2,639,638	4,392,826	2,456,153	874,492	4,293,221	14,656,330
As of March 31, 2015						
Payables	$3,537,173	$-	$-	$-	$-	$3,537,173
Borrowings	2,312,785	4,144,477	2,685,254	1,107,261	1,632,365	11,882,142

(6) Fair values of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities：

(a) The carrying amount of cash and cash equivalents, receivables, payables and other current liabilities approximate their fair value due to their short maturities.

(b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined with reference to market quotation price at the reporting date.

(c) The fair value of equity instruments without active market is estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information.

(d) The fair value of debt instruments, bank borrowings and other financial liabilities are determined using discounted cash flow analysis; the interest rate and discount rate are determined with reference to similar financial instruments.

B. Fair value of financial instruments measured at amortized cost

The carrying amounts of the financial assets and financial liabilities measured at amortized cost approximate to their fair values.

C. Fair value measurement hierarchy for financial instruments

Please refer to Note 12.(7) for fair value measurement hierarchy for financial instruments of the Company.

(7) Fair value measurement hierarchy

A. Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Input other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Unobservable inputs for the assets or liabilities.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Fair value measurement hierarchy of the Company’s assets and liabilities

The Company does not have assets measured at fair value on a non-recurring basis; the following table presents the fair value measurement hierarchy of the Company’s assets and liabilities on a recurring basis:

As of March 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at fair value:				
Available-for-sale financial assets				
Funds	$ 100,499	$ -	$ -	$ 100,499
Stocks	16,219	14,182	-	30,401

As of December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at fair value:				
Available-for-sale financial assets				
Funds	$ 100,409	$ -	$ -	$ 100,409
Stocks	15,378	9,638	-	25,016

As of March 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at fair value:				
Available-for-sale financial assets				
Funds	$ 50,210	$ -	$ -	$ 50,210
Stocks	23,655	14,777	-	38,432

For the three months ended March 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

(8) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	March 31, 2016		
	Foreign Currency (thousand)	Exchange rate	NT$ (thousand)
Monetary financial assets			
US$	$ 114,816	32.185	$ 3,695,341
CNY	212,630	4.972	1,057,195
JPY	508,200	0.2863	145,498
Monetary financial liabilities			
US$	109,903	32.185	3,537,229
CNY	35,978	4.972	178,881
JPY	242,836	0.2863	69,524

	December 31, 2015		
	Foreign Currency (thousand)	Exchange rate	NT$ (thousand)
Monetary financial assets			
US$	$ 106,438	32.825	$ 3,493,813
CNY	226,570	4.995	1,131,716
JPY	395,162	0.2727	107,761

	December 31, 2015		
	Foreign Currency (thousand)	Exchange rate	NT$ (thousand)
Monetary financial liabilities			
US$	115,712	32.825	3,798,258
CNY	43,025	4.995	214,908
JPY	282,797	0.2727	77,119

	March 31, 2015		
	Foreign Currency (thousand)	Exchange rate	NT$ (thousand)
Monetary financial assets			
US$	$ 98,032	31.3	$ 3,068,405
CNY	340,056	5.044	1,715,243
JPY	750,269	0.2604	195,370
Monetary financial liabilities			
US$	111,647	31.3	3,494,543
CNY	24,635	5.044	124,258
JPY	646,071	0.2604	168,237

The Company's entities functional currency are various, and hence is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant assets and liabilities denominated in foreign currencies. The foreign exchange gain were NT$52,227 thousand and NT$19,339 thousand for the three months ended March 31, 2016 and 2015, respectively.

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

(9) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. Additional Disclosures

(1) The following are additional disclosures for the Company and its affiliates as required by the R.O.C. Securities and Futures Bureau for the three months ended March 31, 2015:

A. Financing provided to others: None.

B. Endorsement/Guarantee provided to others: Please refer to Attachment 1.

C. Securities held as of March31, 2015: Please refer to Attachment 2.

D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20 percent of the capital stock: Please refer to Attachment 3.

E. Acquisition of individual real estate with amount exceeding the lower of NT$300 million or 20 percent of the capital stock: Please refer to Attachment 4.

F. Disposal of individual real estate with amount exceeding the lower of NT$300 million or 20 percent of the capital stock: None.

G. Related party transactions for purchases and sales amounts exceeding the lower of NT$100 million or 20 percent of the capital stock: Please refer to Attachment 5.

H. Receivables from related parties with amounts exceeding the lower of NT$100 million or 20 percent of capital stock as of March 31, 2015: Please refer to Attachment 6.

I. Financial instruments and derivative transactions: None.

(2) Information on investees

KYEC exercises significant influence or control over investees, information regarding investee companies: Please refer to Attachment 7.

(3) Investment in Mainland China: Please refer to Attachment 8.

14. Segment Information

The main revenue stream of the Company comes from testing and assembly services. The chief operating decision maker reviews the overall operating results to make decisions about resources to be allocated to and evaluates the overall performance. Therefore, the Company is aggregated into a single segment.

ENDORSEMENTS/GUARANTEES PROVIDED

For the three-month period March 31, 2016

(Amount in Thousands of New Taiwan Dollars, Unless Specified otherwise)

No.	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/Guarantee Amount Provided to Each Guaranteed Party (Note2)	Maximum Balance for the Period	Ending balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable (Note3)	Guarantee Provided by Parent Company	Guarantee Provided by a Subsidiary	Guarantee Provided to Subsidiaries in Mainland China
		Name	Nature of Relationship										
1	KYEC	King Long Technology Ltd.(Suzhou)	Note 1	$4,577,282	$946,870	$914,275	$448,981	-	3.99%	$9,154,563	Y	N	Y
2	KYEC	Zhen Kun Technology Ltd.(Suzhou)	Note 1		$846,520	$817,720	$354,035	-	3.57%		Y	N	Y

Note 1: A subsidiary in which endorser/guarantor holds directly over 50% of equity interest.

Note 2: The amount of guarantees/endorsements for any single entity shall not exceed 20% of net worth of endorser/guarantor.

Note 3: The maximum endorsement/guarantee amount allowable shall not exceed 40% of the Company's net worth as of March 31, 2016.

Marketable Securities Held
As of March 31, 2016
(Amount in Thousands of New Taiwan Dollars, Unless Specified otherwise)

Held Company Name	Securities Type	Securities Name	Relationship with the Company	Financial Statement Account	Balances as of March 31, 2016				Note
					Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
KYEC	Stock	Parawin Venture Capital Corp.	-	Financial assets measured at cost, noncurrent	1,295,870	$12,959	2.00%	$12,959	Note 4
	Stock	ADL Engineering Inc.	-	Financial assets measured at cost, noncurrent	372,122	-	1.76%	-	Note 1 & Note 4
	Stock	Shieh Yong Investment Co., Ltd.	-	Financial assets measured at cost, noncurrent	57,810,000	500,000	7.58%	500,000	Note 4
	Stock	Yong Li Investment Co., Ltd.	-	Financial assets measured at cost, noncurrent	3,332,258	33,322	8.06%	33,322	Note 4
	Stock	Apm Communication, Inc.	-	Financial assets measured at cost, noncurrent	34,854	-	0.44%	-	Note 2 & Note 4
	Stock	Greenliant Systems, Ltd.	-	Financial assets measured at cost, noncurrent	2,333,333	30,300	2.78%	30,300	Note 4
	Stock	YANN YUAN INVESTMENT CO., LTD.	-	Financial assets measured at cost, noncurrent	20,000,000	1,000,000	13.89%	1,000,000	Note 4
	Stock	Mcube Inc.	-	Financial assets measured at cost, noncurrent	528,745	44,880	1.17%	44,880	Note 4
	Stock	Unimicron Corporation	-	Available-for-sale financial assets, current	717,000	11,185	0.05%	11,185	
	Stock	Faraday Technology Corporation	-	Available-for-sale financial assets, current	120,000	5,034	0.05%	5,034	
	Fund	KGI Victory Money Market Fund	-	Available-for-sale financial assets, current	4,399,937	50,423	-	50,423	
	Fund	TCB Bank Money Market Fund	-	Available-for-sale financial assets, current	4,986,238	50,076	-	50,076	
	Stock	Skymedi Corporation	-	Available-for-sale financial assets, noncurrent	860,561	14,182	2.15%	14,182	Note 3 & Note 5

Note 1: The carrying value included accumulated impairment loss amounted to NT$327,490 thousand.
Note 2: The carrying value included accumulated impairment loss amounted to NT$23,427 thousand.
Note 3: The carrying value excluded accumulated impairment loss amounted to NT$9,681 thousand.
Note 4: Due to no quoted prices in an active market, the amount is expressed in the amount of cost net of accumulated impairment losses.
Note 5: The amount is expressed in the amount after considering transaction price and liquidity.

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

Attachment 3

Marketable Securities Acquired and Disposed of at Costs or Prices of at Least NT$300 Million or 20% of the Paid-in Capital
For the three-month period ended March 31, 2016
(Amount in Thousands of New Taiwan Dollars, US Dollars, Unless Specified otherwise)

Held Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Amount	Carrying Value	Gain/Loss on Disposal	Shares/Units	Amount
KYEC	KYEC Investment International Co., Ltd.	Investments accounted for under the equity method	KYEC Investment International Co., Ltd.	Subsidiary	157,155,000	$ 4,135,791	10,000,000	$338,000	-	-	-	-	167,155,000	$4,399,145
KYEC Investment International Co., Ltd.	KYEC Microelectronics Co., Ltd.	Investments accounted for under the equity method	KYEC Microelectronics Co., Ltd.	Subsidiary	98,000,000	USD 106,026	10,000,000	USD 10,000	-	-	-	-	108,000,000	USD 117,365
KYEC Microelectronics Co., Ltd.	King Long Technology Ltd. (Suzhou)	Investments accounted for under the equity method	King Long Technology Ltd. (Suzhou)	Subsidiary	-	$ 3,747,444	-	$321,850	-	-	-	-	-	$4,040,210

Note: Investments accounted for under the equity method include profit or loss recognized on investment and adjustments for exchange differences.

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

Attachment 4

Total Purchase from or Sales to Related Parties of at least NT$100 Million or 20% of the Paid-in Capital
For the three-month periods ended March 31, 2016
(Amount in Thousands of New Taiwan Dollars, Unless Specified otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable	
			Purchase/ Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
KYEC	MediaTek Inc.	The chairman of the Company and the chairman of MediaTek are close relatives	Sales	$370,580	8.50%	Month-end 75 days	Note	Month-end 30 to 120 days	$391,853	10.35 %
	MediaTek Singapore Pte. Ltd.	Subsidiary of MediaTek Inc.	Sales	$194,364	4.46%	Month-end 60 days		Month-end 30 to 120 days	$198,757	5.25 %

Note: Unit price were not significantly different from those with third parties.

Receivables From Related Parties Amounting to At Least NT$100 Million for 20% of the Paid-in Capital
As of March 31, 2016
(Amount in Thousands of New Taiwan Dollars, Unless Specified otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
KYEC	MediaTek Inc.	The chairman of the Company and the chairman of MediaTek are close relatives	$391,853	3.96	$-	-	$91,881	$-
	MediaTek Singapore Pte. Ltd.	Subsidiary of MediaTek Inc.	$198,757	3.34	$12	-	$50,862	$-
King Long Technology Ltd. (Suzhou)	Zhen Kun Technology Ltd.(Suzhou)	Subsidiary	$107,035	0.86	$86,935	Accelerate acceptance	-	$-

Intercompany Relationship and Significant Intercompany Transactions
For the three-month period ended March 31, 2016
(Amount in Thousands of New Taiwan Dollars, and US Dollars, Unless specified otherwise)

No.	Company Name	Counter Party	Nature of Relationship	Intercompany Transactions			
				Financial Statement Item	Amount (Foreign Currency in Thousands)	Term	% of Consolidated Net Revenue or Total Assets
0	KYEC	KYEC USA Corp.	1	Commission expenses	$12,972	Month-end 30 days	0.30%
				Other payables	8,368		0.02%
		King Long Technology Ltd.(Suzhou)		Guarantee provided	448,981 (USD 13,950)	Month-end 60 days	-
				Machinery Equipment	53,645		0.13%
				Trade Receivables	4,657		0.01%
				Other Receivables	136,148		0.33%
				Sales	400		0.01%
				Deferred credits	52,053		0.12%
		KYEC Japan. K.K.		Other payables	4,797	Month-end 55 days	0.01%
				Commission expenses	7,104		0.16%
		KYEC SINGAPORE PTE. LTD.		Commission expenses	11,933	Month-end 30 days	0.27%
				Other payables	1,431		0.03%
		Zhen Kun Technology Ltd.(Suzhou)		Guarantee provided	354,035 (USD 11,000)	Month-end 60 days	-
				Other Receivables	4,345		0.01%
1	King Long Technology Ltd. (Suzhou)	Zhen Kun Technology Ltd.(Suzhou)	3	Sales	28,383	Month-end 60 days	0.65%
				Trade Receivables	107,035		0.26%
				Other Receivables	66,740		0.16%
		KYEC	2	Sales	782	Month-end 90 days	0.02%
				Trade Receivables	1,734		-
2	Zhen Kun Technology Ltd.(Suzhou)	King Long Technology Ltd.(Suzhou)	3	Sales	133	Month-end 60 days	-
				Trade Receivables	136		-

Note 1: The parent company and its subsidiaries are coded as follows:

1. The parent company is coded "0".
2. The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: Transactions are categorized as follows:

1. The holding company to subsidiary.
2. Subsidiary to holding company.
3. Subsidiary to subsidiary.

Note 3: The percentage with respect to the consolidated asset/liability for transactions of balance sheet items are based on each item's balance at period-end.
For profit or loss items, cumulative balances are used as basis.

Names, Locations, and Related Information of Investees over the Company exercises Significant Influence (Excluding Information on Investment In Mainland China)
For the three-month period ended March 31, 2016
(Amount in Thousands of New Taiwan Dollars and United States Dollar, Unless Specified otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balances as of March 31, 2016			Net Income (loss) of the Investee	Profits/losses of Investee	Note
				March 31, 2016	December 31, 2015	Shares	Percentage of Ownership	Carrying Value			
KYEC	KYEC USA Corp.	Note 1	Business agent of sales and communication in USA	$4,973	$4,973	160,000	100.00%	$14,670	$(731)	$(731)	
	KYEC Investment International Co., Ltd.	Note 2	Investment activities	5,346,021	5,008,021	167,155,000	100.00%	4,399,145	(4,789)	(4,789)	
	KYEC Technology Management Co., Ltd.	Note 3	Investment activities	251,579	251,579	7,500,000	100.00%	262,819	1,422	1,422	
	KYEC Japan K.K.	Note 4	Electronic parts and components manufacturing and sales, business agent of sales and communication in Japan	102,735	102,735	1,899	89.83%	46,718	1,614	1,450	
	KYEC SINGAPORE PTE. Ltd.	Note 5	Business agent of sales and communication in southeast Asia and Europe area	1,830	1,830	78,000	100.00%	4,930	3,735	3,735	
	Dawning Leading Technology Inc.	Note 6	Selling and manufacturing of electronic components	1,021,310	1,021,310	96,511,646	27.18%	1,193,473	25,784	9,029	
	Fixwell Technology Corp.	Note 8	Selling and wholesale of eletronic parts and components and repairing of electronic related products	28,000	28,000	2,800,000	23.33%	42,898	9,205	2,147	
KYEC Investment International Co., Ltd.	KYEC Microelectronics Co., Ltd.	Note 7	Investment activities	USD 106,155	USD 96,155	108,000,000	93.51%	USD 117,365	USD 635	-	
	Sino-Tech Investment Co., Ltd.	Note 3	Investment activities	USD 40,000	USD 40,000	40,000,000	100.00%	USD 10,651	USD (455)	-	
	Strong Outlook Investment Ltd.	Note 2	Investment activities	USD 21,000	USD 21,000	35,000,000	100.00%	USD 8,668	USD (280)	-	
KYEC Technology Management Co., Ltd.	KYEC Microelectronics Co., Ltd.	Note 7	Investment activities	USD 7,500	USD 7,500	7,500,000	6.49%	USD 8,166	USD 635	-	

Note 1：101 Meto Drive., #540 San Jose, CA 95110 USA.
Note 2：P.O. Box 957, Offshore Incorporations Centre Road Town, Tortola, British Virgin Islands.
Note 3：Portcullis TrustNet Chambers, P.O. Box 1225, Apia, Samoa.
Note 4：5F 2-3-8 Momochihama, Sawara-ku, Fukuoka 814-0001 Japan.
Note 5：750A Chai Chee Road Unit 07-22 Chee, Singapore 238884.
Note 6：No.118, Zhonghua Rd., Zhunan Township, Miaoli County 350, Taiwan (R.O.C.)
Note 7：P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.
Note 8：No.380, Huashan Rd., Dadu Dist., Taichung City 432, Taiwan (R.O.C.)

Information on Investment in Mainland China

For the three-month period ended March 31, 2016

(Amount in Thousands of New Taiwan Dollars and US Dollars, Unless Specified otherwise)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated outflow of Investment from Taiwan as of January 1, 2016	Investment Flows		Accumulated outflow of Investment from Taiwan as of March 31, 2016	Net Income (Losses) of the Investee Company	Percentage of Ownership	Share of Profits/Losses (Note 5)	Carrying Amount as of March 31, 2016	Accumulated Inward Remittance of Earnings as of March 31, 2016
					Outflow	Inflow						
King Long Technology Ltd.(Suzhou)	Note 1	$3,717,400 (USD 115,501)	Indirectly investment in Mainland China through companies registered in a third region (Note 2)	$3,336,136 (USD 103,655)	$321,850 (USD 10,000)	$-	$3,657,986 (USD 113,655)	$21,047 (USD 635)	100.00%	$21,047 (USD 635)	$4,040,210 (USD 125,531)	$-
Zhen Kun Technology Ltd. (Suzhou)	Note 3	$2,413,875 (USD 75,000)	Indirectly investment in Mainland China through companies registered in a third region (Note 4)	$1,963,285 (USD 61,000)	$-	$-	$1,963,285 (USD 61,000)	$(24,414) (USD (735))	100.00%	$(24,414) (USD (735))	$621,754 (USD 19,318)	$-

Accumulated Investment in Mainland China as of March 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$5,621,271 (USD 174,655)	$5,943,121 (USD 184,655)	$13,731,845

Note 1: Sales and manufacturing of

Note 2: The Company got approval from the Investment Commission, MOEA, to invest indirectly in King Long Technology Ltd.(Suzhou) via KYEC Microelectronics Co., Ltd. which is registered in BVI.

KYEC Microelectronics Co., Ltd. is invested by KYEC Investment International Co., Ltd. which is registered in BVI.

Note 3: Testing and assembly service of integrated circuits, sales and after service of processing of electronic components and materials, automated data processing, monitoring burn-in machinery. service, manufacturing and selling of IC Monitoring Burn-In machinery

Note 4: The Company got approval from the Investment Commission, MOEA, to invest indirectly in Zhen Kun Technology Ltd.(Suzhou) via Sino-tech Investment Co., Ltd which is registered in Samoa.

Sino-tech Investment Co., Ltd. is invested by KYEC Investment International Co., Ltd. which is registered in BVI.

Note 5: Recognition of investment gains (losses) was calculated based on the investee's reviewed financial statements for the three-month period ended March 31, 2016.

KING YUAN ELECTRONICS CO., LTD.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

WITH
INDEPENDENT AUDITOR'S REPORT

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders
King Yuan Electronics Co., Ltd.

We have audited the accompanying consolidated balance sheets of King Yuan Electronics Co., Ltd. and its subsidiaries as of December 31, 2015 and 2014 and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of King Yuan Electronics Co., Ltd. and its subsidiaries as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years ended December 31, 2015 and 2014, in conformity with requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations committee and Standing Interpretations Committee as endorsed by Financial Supervisory Commission.

We have also audited and expressed an unqualified opinion on the parent company only financial statements of King Yuan Electronics Co., Ltd. as of and for the years ended December 31, 2015 and 2014.

Ernst & Young

Taipei, Taiwan
Republic of China

March 2, 2016

Notice to Readers
The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the R.O.C. and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the R.O.C.

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2015 and 2014
(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	December 31, 2015	%	December 31, 2014	%
Current assets					
Cash and cash equivalents	4, 6(1)	$ 6,234,138	15	$ 7,418,163	19
Available-for-sale financial assets-current	4, 6(2)	115,787	-	67,460	-
Notes receivable, net	4, 6(3)	8,463	-	11,402	-
Trade receivables, net	4, 6(4)	3,008,420	7	3,494,939	10
Trade receivables from related parties	4, 6(4), 7	685,757	2	716,931	2
Other receivables		95,897	-	173,093	-
Other receivables from related parties	7	100,614	-	157,741	-
Inventories, net	4, 6(5)	414,229	1	286,284	1
Prepayments		211,606	1	412,533	1
Other current assets		217,217	1	167,031	-
Other financial assets-current	8	3,037	-	17,781	-
Total current assets		11,095,165	27	12,923,358	33
Noncurrent assets					
Available-for-sale financial assets-non-current	4, 6(2)	9,638	-	16,544	-
Financial assets measured at cost-non-current	4, 6(6)	1,621,461	4	632,579	2
Investments accounted for using the equity method	4, 6(7)	1,222,692	3	1,137,346	3
Property, plant and equipment	4, 6(8), 8	25,689,164	64	24,009,814	60
Intangible assets	4, 6(9), 6(11)	104,529	-	108,107	-
Deferred tax assets	4, 6(22)	449,824	1	650,090	2
Other financial assets-non-current	8	93,170	-	94,476	-
Other non-current assets	6(10)	146,493	1	150,044	-
Total non-current assets		29,336,971	73	26,799,000	67
TOTAL ASSETS		$ 40,432,136	100	$ 39,722,358	100

The accompanying notes are an integral part of the consolidated company only financial statements.

KING YUAN ELECTRONICS AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2015 and 2014
(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	December 31, 2015	%	December 31, 2014	%
Current liabilities					
Notes payable		$ 7,118	-	$ 4,225	-
Trade payables		528,431	1	496,870	1
Other payables		1,725,293	4	1,750,275	4
Other payables to related parties	7	72,950	-	33,530	-
Payables on equipment		746,758	2	825,010	2
Current tax liabilities	4, 6(22)	342,912	1	371,999	1
Current portion of long-term loans	4, 6(13), 8	2,475,478	6	1,895,299	5
Other current liabilities		244,356	1	234,434	1
Total current liabilities		6,143,296	15	5,611,642	14
Noncurrent liabilities					
Long-term loans	4, 6(13), 8	11,615,080	29	10,889,013	27
Net defined benefit liabilities	4, 6(14)	315,848	1	262,216	1
Guarantee deposits		759	-	631	-
Total non-current liabilities		11,931,687	30	11,151,860	28
Total liabilities		18,074,983	45	16,763,502	42
Equity attributable to owners of the parent company					
Share capital	4, 6(15)				
Common stock		11,622,944	29	11,923,184	30
Capital surplus	4, 6(15), 6(16)	5,987,947	15	6,623,735	17
Retained earnings	4, 6(15)				
Legal reserve		1,430,126	4	1,174,220	3
Special reserve		201,416	-	201,416	-
Undistributed earnings		2,916,901	7	2,739,431	7
Total retained earnings		4,548,443	11	4,115,067	10
Other equity	6(16)	192,939	-	292,876	1
Equity attributable to owners of the parent company		22,352,273	55	22,954,862	58
Non-controlling interests	6(15)	4,880	-	3,994	-
Total equity		22,357,153	55	22,958,856	58
TOTAL LIABILITIES AND EQUITIES		$ 40,432,136	100	$ 39,722,358	100

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

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For The Years Ended December 31, 2015 and 2014
(Amounts in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	2015	%	2014	%
Net sales	4, 6(17), 7	$ 17,128,536	100	$ 16,277,769	100
Operating costs	6(5), 6(8), 6(9), 6(14), 6(18), 6(19), 7	(12,334,553)	(72)	(11,396,039)	(70)
Gross profit		4,793,983	28	4,881,730	30
Operating expenses	6(8), 6(9), 6(14), 6(18), 6(19)				
Selling expenses		(269,328)	(2)	(248,398)	(1)
Administrative expenses		(1,141,722)	(7)	(1,095,650)	(7)
Research and development expenses		(679,573)	(4)	(605,451)	(4)
Total operating expenses		(2,090,623)	(13)	(1,949,499)	(12)
Operating income		2,703,360	15	2,932,231	18
Non-operating income and expenses					
Other income	6(20)	139,176	1	188,936	1
Other gains and losses	6(20)	118,212	1	24,492	-
Finance costs	6(8), 6(20)	(171,768)	(1)	(138,847)	(1)
Share of profit of associates and joint venture	6(7)	59,621	-	112,548	1
Total non-operating income and expenses		145,241	1	187,129	1
Net income before income tax		2,848,601	16	3,119,360	19
Income tax expense	4, 6(22)	(566,328)	(3)	(559,629)	(3)
Net income		2,282,273	13	2,559,731	16
Other comprehensive income	4, 6(21)				
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of the defined benefit plan		(59,715)	-	(4,336)	-
Items that will be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of foreign operations		(95,655)	(1)	250,664	1
Unrealized losses from available-for-sale financial assets		(6,195)	-	(269)	-
Other comprehensive income, net of tax		(161,565)	(1)	246,059	1
Total comprehensive income		$ 2,120,708	12	$ 2,805,790	17
Net income for the periods attributable to :					
Owners of the parent company		$ 2,281,546	13	$ 2,559,056	16
Non-controlling interests		727	-	675	-
		$ 2,282,273	13	$ 2,559,731	16
Total comprehensive income for the periods attributable to :					
Owners of the parent company		$ 2,119,822	12	$ 2,805,437	17
Non-controlling interests		886	-	353	-
		$ 2,120,708	12	$ 2,805,790	17
Earning per share (NT$)	4, 6(23)				
Basic Earnings Per Share		$ 1.93		$ 2.15	
Diluted Earnings Per Share		$ 1.91		$ 2.13	

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

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For The Years Ended December 31, 2015 and 2014

(Amounts in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent company										Non-controlling interests	Total equity
			Retained earnings			Other equity						
	Common stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from available-for-sale financial assets	Others	Treasury shares	Equity attributable to owners of the parent		
Balance as of January 1, 2014	$ 11,925,369	$ 6,620,582	$ 992,583	$ 201,416	$ 1,925,430	$ 51,798	$ (7,567)	$ (18,818)	$ (825)	$ 21,689,968	$ 3,641	$ 21,693,609
Appropriation and distribution of 2013 earnings:												
Legal reserve	-	-	181,637	-	(181,637)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,550,175)	-	-	-	-	(1,550,175)	-	(1,550,175)
Other changes in capital surplus												
Share of changes in net assets of associates and joint ventures	-	-	-	-	(8,907)	-	-	-	-	(8,907)	-	(8,907)
Profit for the year ended December 31, 2014	-	-	-	-	2,559,056	-	-	-	-	2,559,056	675	2,559,731
Other comprehensive income for the year ended December 31, 2014	-	-	-	-	(4,336)	250,986	(269)	-	-	246,381	(322)	246,059
Total comprehensive income	-	-	-	-	2,554,720	250,986	(269)	-	-	2,805,437	353	2,805,790
Issuance of restricted shares for employees	(2,185)	3,153	-	-	-	-	-	16,746	825	18,539	-	18,539
Balance as of December 31, 2014	$ 11,923,184	$ 6,623,735	$ 1,174,220	$ 201,416	$ 2,739,431	$ 302,784	$ (7,836)	$ (2,072)	$ -	$ 22,954,862	$ 3,994	$ 22,958,856
Balance as of January 1, 2015	$ 11,923,184	$ 6,623,735	$ 1,174,220	$ 201,416	$ 2,739,431	$ 302,784	$ (7,836)	$ (2,072)	$ -	$ 22,954,862	$ 3,994	$ 22,958,856
Appropriation and distribution of 2014 earnings:												
Legal reserve	-	-	255,906	-	(255,906)	-	-	-	-	-	-	-
Cash dividends	-	(357,691)	-	-	(1,788,455)	-	-	-	-	(2,146,146)	-	(2,146,146)
Other changes in capital surplus												
Share of changes in net assets of associates and joint ventures	-	44,983	-	-	-	-	-	-	-	44,983	-	44,983
Profit for the year ended December 31, 2015	-	-	-	-	2,281,546	-	-	-	-	2,281,546	727	2,282,273
Other comprehensive income for the year ended December 31, 2015	-	-	-	-	(59,715)	(95,814)	(6,195)	-	-	(161,724)	159	(161,565)
Total comprehensive income	-	-	-	-	2,221,831	(95,814)	(6,195)	-	-	2,119,822	886	2,120,708
Changes in ownership interests in subsidiaries	-	32	-	-	-	-	-	-	-	32	-	32
Retirement of treasury stocks	(300,000)	(325,547)	-	-	-	-	-	-	-	(625,547)	-	(625,547)
Issuance of restricted shares for employees	(240)	2,435	-	-	-	-	-	2,072	-	4,267	-	4,267
Balance as of December 31, 2015	$ 11,622,944	$ 5,987,947	$ 1,430,126	$ 201,416	$ 2,916,901	$ 206,970	$ (14,031)	$ -	$ -	$ 22,352,273	$ 4,880	$ 22,357,153

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

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 2015 and 2014

(Amounts in Thousands of New Taiwan Dollars)

Description	2015	2014
Cash flows from operating activities :		
Profit before tax from continuing operations	$ 2,848,601	$ 3,119,360
Adjustments for:		
Depreciation	5,114,437	4,420,138
Amortization	11,236	8,753
Interest expenses	171,768	138,847
Interest income	(71,072)	(88,723)
Dividend income	(362)	(432)
Share-based payment	4,411	19,355
Share of profit of associates and joint ventures	(59,621)	(112,548)
Gain on disposal of property, plant and equipment	(42,260)	(2,482)
Write-off of property, plant and equipment	-	1,099
Gain on disposal of other assets	(35,731)	-
Gain on disposal of investments	(188)	(4,245)
Impairment loss of financial assets	9,681	87,490
Impairment loss of non-financial assets	25,000	-
Unrealized foreign exchange loss, net	(5,861)	145,463
Changes in operating assets and liabilities：		
Note receivable	2,939	2,940
Trade receivables	486,519	(654,560)
Trade receivables from related parties	31,174	(58,606)
Other receivables	80,264	(18,524)
Other receivables from related parties	3,200	1,482,643
Inventories	(127,945)	(36,798)
Prepayments	177,772	(201,092)
Other current assets	(50,186)	(65,794)
Notes payable	2,893	(2,594)
Trade payables	31,561	89,906
Other payables	(25,928)	(1,186,044)
Other payables to related parties	22,338	6,145
Other current liabilities	9,922	32,145
Net defined benefit liabilities	(6,083)	(5,133)
Net cash generated from operations	8,608,479	7,116,709
Interest received	71,182	93,938
Income tax paid	(395,149)	(309,164)
Net cash provided by operating activities	8,284,512	6,901,483
Cash flows from investing activities :		
Acquisition of available-for-sale financial assets	(137,877)	(114,159)
Proceeds from disposal of available-for-sale financial assets	79,968	116,066
Proceeds from capital return of available-for-sale financial assets	800	-
Acquisition of financial assets measured at cost	(1,000,000)	(30,301)
Proceeds from capital return of financial assets measured at cost	11,118	8,600
Acquisition of investments accounted for using the equity method	(2,179)	-
Acquisition of property, plant and equipment	(7,136,718)	(8,427,758)
Proceeds from disposal of property, plant and equipment	358,340	173,367
(Increase)/decrease in refundable deposits	(3,123)	381
Acquisition of intangible assets	-	(238)
Increase in other financial assets	-	(31,794)
Decrease in other financial assets	16,050	-
Decrease in other noncurrent assets	35,769	13,916
Decrease in other prepayments	2,430	3,273
Dividend received	23,476	6,757
Net cash used in investing activities	(7,751,946)	(8,281,890)
Cash flows from financing activities :		
Proceeds from long-term loans	7,510,392	5,003,763
Repayments of long-term loans	(6,206,480)	(3,361,888)
Increase in guarantee deposits	128	90
Cash dividends paid	(2,146,146)	(1,550,175)
Treasury stock acquired	(625,691)	(1,311)
Interest paid	(162,627)	(125,441)
Net cash used in financing activities	(1,630,424)	(34,962)
Effect of changes in exchange rate on cash and cash equivalents	(86,167)	125,100
Net decrease in cash and cash equivalents	(1,184,025)	(1,290,269)
Cash and cash equivalents at the beginning of the year	7,418,163	8,708,432
Cash and cash equivalents at the end of the year	$ 6,234,138	$ 7,418,163

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

1. Organization and Operation

King Yuan Electronics Co., Ltd. ("KYEC") was incorporated under the Company Law of the Republic of China ("R.O.C) on May 28, 1987, and commenced operations on July 23, 1987. The Company primarily engages in the business of design, manufacturing, selling, testing and assembly service of integrated circuits, and also engages in manufacturing and selling of IC Monitoring Burn-In machinery and related components. On May 9, 2001, the shares of KYEC were listed on the Taiwan Stock Exchange. The headquarter and primary operating site of KYEC is located near the Gongdaowu Road, in Hsinchu, Taiwan.

2. Date and Procedures of Authorization of Financial Statements for Issue

The accompanying consolidated financial statements of KYEC and its subsidiaries ("the Company") were approved and authorized for issue by the Board of Directors on March 2, 2016.

3. Newly Issued or Revised Standards and Interpretations

(1) Changes in accounting policies resulting from initial application of certain International Financial Reporting Standards:

The Company adopted the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations developed by the International Financial Reporting Interpretation Committee (IFRIC) and Interpretations of IASs (SIC) (collectively, "TIFRS") which have been endorsed by Financial Supervisory Commission (FSC) and effective for annual periods beginning on or after January 1, 2015. The Company believes that as a result of the adoption of aforementioned TIFRS, the following items have impacted the consolidated financial statements:

A. IAS 19 "Employee Benefits"

Major changes to the accounting of the Company's defined benefit plan resulting from the revisions are summarized as follows:

a. The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net-interest amount under the revised IAS 19, which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period.

b. In the previous version of IAS 19, past service cost is recognized as an expense immediately to the extent that the benefits are already vested, or on a straight-line basis over the average period until the benefits become vested. Under the revised IAS 19, all past service costs are recognized at the earlier of when the amendment/curtailment occurs or when related restructuring costs are recognized. Therefore, unvested past service cost is no longer deferred over future vesting periods.

c. The revised IAS 19 requires more relevant disclosures, please refer to Note 6 for more details.

B. IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 sets out the requirements for the disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. IFRS 12 requires more complete disclosures than previous requirements (For example, it required entities to disclose summary financial information of the associates and subsidiaries with material non-controlling interest.). Please refer to Note 6 for more detail.

C. IFRS 13 "Fair Value Measurements"

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements, and does not change when an entity is required to use fair value but rather provides guidance on how to measure fair value under IFRS. The Company re-assessed its policies for measuring fair values, and application of IFRS 13 has no significant impact on the fair value measurements.

IFRS 13 also requires additional disclosures shall be provided in relevant individual notes relating to fair value measurement of assets and liabilities. Fair value hierarchy information is provided in Note 12. According to the transitional provisions of IFRS 13, IFRS 13 is applied prospectively as of January 1, 2015; the disclosure requirements of IFRS 13 are not necessary to be applied in comparative information before January 1, 2015.

D. IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income

Beginning January 1, 2014, the Company grouped the items of other comprehensive income into two categories: (a) items that may not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. The amendment does not have significant impact on the Company's recognitions and measurements, but changes the presentation of statement of other comprehensive income.

E. IAS 1 Presentation of Financial Statements – Clarification of the requirement for comparative information

Beginning January 1, 2014, according to the amendments to IAS 1, when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, the earliest comparable statement of financial position does not have to be accompanied by comparative information in the related notes. The amendments only affect notes accompanying the consolidated financial statements, and have no significant impact on the Company's recognitions and measurements.

(2) Standards or interpretations issued by International Accounting Standards Board ("IASB") but not yet endorsed by FSC at the date of authorization of issuance of the Company's financial statements are listed below:

A. IAS 36 "Impairment of Assets" (Amendment)

This amendment to IAS 36 relates to the amendment issued in May 2011, and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit only when an impairment loss has been recognized or reversed during the period. The amendment also requires more disclosure, including valuation technique used, level of fair value hierarchy and key assumptions used in measurement, when the recoverable amount is determined using fair value less cost to sell. The amendment is effective for annual periods beginning on or after January 1, 2014.

B. IFRIC 21 "Levies"

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

C. Amendments to IAS 39: Novation of Derivatives and Continuance of Hedge Accounting

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

D. IAS 19 "Employee Benefits" (Defined benefit plans: employee contributions)

The amendment to IAS 19 applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to provide a policy choice to simplify accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated based on a fixed percentage of salary. The amendment is effective for annual periods beginning on or after July 1, 2014.

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

IFRS 2 " Share-based Payment "

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

IFRS 3 " Business Combinations "

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

IFRS 8 " Operating Segments "

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

IFRS 13 " Fair Value Measurement "

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

IAS 16 " Property, Plant and Equipment "

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

IAS 24 " Related Party Disclosures "

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

IAS 38 " Intangible Assets "

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

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

IFRS 1 " First-time Adoption of International Financial Reporting Standards "

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

IFRS 3 " Business Combinations "

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

IFRS 13 " Fair Value Measurement "

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

IAS 40 " Investment Property "

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

G. IFRS 14 "Regulatory Deferral Accounts"

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

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

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

I. IAS 16“Property, Plant and Equipment and IAS 38 “Intangible Assets” – Clarification of Acceptable Methods of Depreciation and Amortization

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

J. IFRS 15 “Revenue from Contracts with Customers”

The core principle of the new Standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

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

IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2018.

K. IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – Agriculture: Bearer Plants

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

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

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

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

Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio. The new standard is effective for annual periods beginning on or after January 1, 2018.

M. IAS 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements

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

N. IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

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

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture. The effective date of this amendment has been postponed indefinitely, but early adoption is allowed.

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

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

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

IFRS 7 “ Financial Instruments: Disclosures ”

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

IAS 19 “ Employee Benefits ”

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

IAS 34 " Interim Financial Reporting "

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

P. Disclosure Initiative – Amendment to IAS 1 "Presentation of Financial Statements":

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

Q. IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", and IAS 28"Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception

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

R. IFRS 16 “Leases”

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

S. IAS 12 “Income Taxes” – Recognition of Deferred Tax Assets for Unrealized Losses

The amendment clarifies how to account for deferred tax assets for unrealized losses. The amendment is effective for annual periods beginning on or after January 1, 2017.

T. “Disclosure Initiative” – Amendment to IAS 7 “Statement of Cash Flows”

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

The abovementioned standards and interpretations issued by IASB have not yet been recognized by FSC at the date of issuance of the Company’s financial statements, the local effective dates are to be determined by FSC. As the Company is still evaluating the potential impact of the standards and interpretations listed under J, L, P and R, it is not practicable to estimate their impact on the Company at this point in time. All other standards and interpretations do not have significant impact on the Company.

4. Summary of Significant Accounting Policies

Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and TIFRS as endorsed by the FSC.

Basis of Preparation

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

Basis of Consolidation

Principle of consolidation

Control is achieved when KYEC is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, KYEC controls an investee if and only if KYEC has:

a. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
b. exposure, or rights, to variable returns from its involvement with the investee; and
c. the ability to use its power over the investee to affect its returns.

When KYEC has less than a majority of the voting or similar rights of an investee, KYEC considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a. the contractual arrangement with the other vote holders of the investee;
b. rights arising from other contractual arrangements;
c. KYEC's voting rights and potential voting rights.

KYEC re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company obtains control, and continue to be consolidated until the date the Company ceases to control the subsidiary. The financial statements of the subsidiaries are prepared for the same reporting period with the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Company loses control of a subsidiary, it:

a. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
b. derecognizes the carrying amount of any non-controlling interest;
c. recognizes the fair value of the consideration received;
d. recognizes the fair value of any investment retained;
e. recognizes any surplus or deficit in profit or loss; and
f. reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Percentage of Ownership 2015.12.31	2014.12.31
KYEC	KYEC USA Corp.	Sales agent and business communication in USA	100.00	100.00
KYEC	KYEC Investment International Co., Ltd.	General investing	100.00	100.00
KYEC	KYEC Technology Management Co., Ltd.	General investing	100.00	100.00
KYEC	KYEC Japan K.K.	Manufacturing and sales of Electronic parts and components, sales agent and business communication in Japan	89.83	89.83
KYEC	KYEC SINGAPORE PTE. Ltd.	Sales agent and business communication in Southeast Asia and Europe	100.00	100.00
KYEC Investment International Co., Ltd.	KYEC Microelectronics Co., Ltd.	General investing	92.89	92.89
KYEC Technology Management Co., Ltd.	KYEC Microelectronics Co., Ltd.	General investing	7.11	7.11
KYEC Microelectronics Co., Ltd.	King Long Technology (Suzhou) Ltd.	Manufacturing and selling of IC Monitoring Burn-In machinery, business of testing and assembly service	100.00	100.00
KYEC Investment International Co., Ltd.	Sino-Tech Investment Co., Ltd.	General investing	100.00	100.00
KYEC Investment International Co., Ltd.	Strong Outlook Investment Ltd.	General investing	100.00	100.00
Sino-Tech Investment Co., Ltd.	Suzhou Zhengkuan Technology Ltd.	IC testing and assembly service, manufacturing and selling of IC Monitoring Burn-In machinery	61.88	61.88
Strong Outlook Investment Ltd.	Suzhou Zhengkuan Technology Ltd	IC testing and assembly service, manufacturing and selling of IC Monitoring Burn-In machinery	38.12	38.12

Foreign currency transactions

The Company's consolidated financial statements are presented in NT$, which is also the functional currency of parent company. Each group entity determines its functional currency upon its primary economic environment, and items included in the financial statements of each entity are measured using that functional currency

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

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

A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
B. Foreign currency items within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are accounted for based on the accounting policy for financial instruments.
C. Exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

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

Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into New Taiwan Dollars at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. On the partial disposal of foreign operations that result in a loss of control, loss of significant influence or joint control but retain partial equity is considering as disposal.

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

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

Current and non-current distinction

An asset is classified as current when:

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

A liability is classified as current when:

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

Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits (including the contract term of term deposits due in twelve months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial instruments

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

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

A. Financial assets

   All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

   Financial assets of the Company are classified as available-for-sale financial assets and loans and receivables. The Company determines the classification of its financial assets at initial recognition.

a. Available-for-sale financial assets

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

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

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

b. Loans and receivables

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

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

c. Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that an individual or a group of financial asset is impaired. An individual or a group of financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset.

The carrying amount of the financial asset is reduced through the use of an allowance account for receivables, or reduced to book value directly besides receivables, and the amount of the loss is recognized in profit or loss.

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

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

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

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

In the case of equity instruments classified as available-for-sale, where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

d. Derecognition of financial assets

A financial asset is derecognized when:

(a) The rights to receive cash flows from the asset have expired;

(b) The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred;

(c) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

B. Financial liabilities and equity

a. Classification between liabilities or equity

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

b. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

c. Compound instruments

The Company evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Company assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the economic characteristics and risk of the host contract before separating the equity element.

For the liability component excluding the derivatives, its fair value is determined based on the rate of interest applied at that time by the market to instruments of comparable credit status. The liability component is classified as a financial liability measured at amortized cost before the instrument is converted or settled.

For the embedded derivative that is not closely related to the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal on each exercise date to the amortized cost of the host debt instrument), it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies for an equity component. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IAS 39 Financial Instruments: Recognition and Measurement.

Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of the liability component being the amortized cost at the date of conversion is transferred to equity.

d. Financial liabilities

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

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains or losses on the subsequent measurement of liabilities held for trading including interest paid are recognized in profit or loss.

A financial liability is classified as held for trading if:

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

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

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

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

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

(b) Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

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

(c) Derecognition of financial liabilities

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

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

C. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

<u>Derivative financial instrument</u>

The Company uses derivative financial instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (held for trading) except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges and hedges of net investments in foreign operations, which is recognized in equity.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

Fair value measurement

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

A. In the principal market for the asset or liability; or
B. In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

Inventories

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

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

Raw materials – Purchase cost on a weighted-average basis;
Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

Investments accounted for using the equity method

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

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

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

When an associate issues new shares and the Company's holding interest in the associate is reduced or increased as the Company fails to acquire shares newly issued in the associate proportionately to its original ownership interest, the resulting increase or decrease in the proportionate interest of the associate's net assets is recognized in capital surplus and investments accounted for using the equity method. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate.

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

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

(1) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or

(2) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

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

Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

Property, plant and equipment

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

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

Buildings and facilities	20~31 years
Plant equipment	5~16 years
Machinery and equipment	2~6 years
Transportation equipment	3~6 years
Office equipment	3~5 years
Miscellaneous equipment	3~11 years
Leasehold improvements	10 years

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

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate, and are treated as changes in accounting estimates.

Leases

A. The Company as a lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

B. The Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Intangible assets

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

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

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

A. Research and development costs

Research costs are expensed as incurred. Development expenditures, on an individual project, are recognized as an intangible asset when the Company can demonstrate:

i) The technical feasibility of completing the intangible asset so that it will be available for use or sale
ii) Its intention to complete and its ability to use or sell the asset
iii) How the asset will generate future economic benefits
iv) The availability of resources to complete the asset
v) The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. During the period of development, the asset is tested for impairment annually. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

B. Computer software
The cost of computer software is amortized on a straight-line basis over the estimated useful life 3 to 5 years.

Impairment of non-financial assets
The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 “Impairment of Assets” may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (“CGU”) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset’s or cash-generating unit’s recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

Treasury shares

Acquisitions of the shares of KYEC (treasury shares) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration, if reissued, is recognized in capital surplus under equity.

When the retirement of treasury shares, capital surplus – share premiums and share capital are debited proportionately. Gains on retirement of treasury shares should be recognized under existing capital surplus arising from similar types of treasury shares; Losses on retirement of treasury shares should be offset against existing capital surplus arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

A. Sale of goods

The Company provides IC testing and assembly service. Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

a. the significant risks and rewards of ownership of the goods have passed to the buyer;
b. neither continuing managerial involvement nor effective control over the goods sold have been retained;
c. the amount of revenue can be measured reliably;
d. it is probable that the economic benefits associated with the transaction will flow to the entity; and
e. the costs incurred in respect of the transaction can be measured reliably.

The amount of revenue is measured at the fair value of mutual-agreed considerations received or receivable taking into account the amount of any trade discounts and volume rebates allowed by entity, and the revenue is recognized upon the completion of agreed manufacturing processes. The Company estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue.

B. Interest income

For financial assets measured at amortized cost (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets, interest income is determined using the effective interest rate method and recognized in profit or loss.

C. Dividends

Dividend revenue is recognized when the Company's right to receive the payment is established, which is generally when shareholders approve the dividend.

Borrowing costs

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

Post-employment benefits

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

For the defined contribution plan, KYEC will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries make contribution to the plan based on the requirements of local regulations.

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

A. The date of the plan amendment or curtailment; and
B. The date that the Company recognizes related restructuring or termination costs.

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

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

Share-based payment transactions

The cost of equity-settled transactions between the Company and its subsidiaries is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it fully vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The cost of restricted stocks issued is recognized as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in other capital reserves in equity, over the vesting period. The Company recognized unearned employee salary which is a transitional contra equity account; the balance in the account will be recognized as salary expense over the passage of vesting period.

Income taxes

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

A. Current income tax

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

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

B. Deferred tax

   Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

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

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at acquisition date fair value. For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under administrative expenses.

When the Company acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" either in profit or loss or as a change to other comprehensive income. However, if the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured as the amount of the excess of the aggregate of the consideration transferred and the non-controlling interest over the net fair value of the identifiable assets acquired and the liabilities assumed. If this aggregate is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation. Goodwill disposed of in this circumstance is measured based on the relative recoverable amounts of the operation disposed of and the portion of the cash-generating unit retained.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Please refer to description below:

<u>Judgement</u>

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(a) Investment properties

Certain properties of the Company comprise a portion that is held to earn rentals or for capital appreciation and another portion that is owner-occupied. If these portions could be sold separately, the Company accounts for the portions separately as investment properties and property, plant and equipment. If the portions could not be sold separately, the property is classified as investment property in its entirety only if the portion that is owner-occupied is under 10% of the total property.

(b) Operating lease commitment－the Company as the lessor

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

A. Fair value of financial instruments

Where the fair value of financial assets and financial liabilities on the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the income approach (for example the discounted cash flows model) or market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

B. Impairment of non-financial assets

An impairment exists when the carrying value of an asset or a cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 6.

C. Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and future salary increases. Please refer to Note 6 for more details.

D. Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 6.

E. Revenue recognition - sales returns and allowance

The Company estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue. Please refer to Note 6 for more details.

F. Income tax

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

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6 for disclosure on unrecognized deferred tax asset of the Company as of December 31, 2015.

6. Contents of Significant Accounts

(1) Cash and cash equivalents

	December 31, 2015	December 31, 2014
Cash on hand	$768	$829
Checking and savings accounts	2,754,027	3,798,810
Time deposits	3,479,343	3,618,524
Total	$6,234,138	$7,418,163

(2) Available-for-sale financial assets

	December 31, 2015	December 31, 2014
Current		
Funds	$100,409	$50,145
Stocks	15,378	17,315
Subtotal	115,787	67,460
Noncurrent		
Stocks	9,638	16,544
Subtotal	9,638	16,544
Total	$125,425	$84,004

For the years ended December 31, 2015 and 2014, the Company partially disposed of its available-for-sale financial assets with a disposal amount of NT$79,968 thousand and NT$116,066 thousand, respectively; and also resulted in the recognition of disposal gains in the amount of NT$188 thousand and NT$4,245 thousand, respectively.

The Company evaluated and concluded its noncurrent available-for-sale financial assets were impaired, and recognized an impairment loss of NT$9,681 thousand for the year ended December 31, 2015. There was no indication of impairment during the year ended December 31, 2014.

The Company received capital return of NT$800 thousand from its investments in available-for-sale financial assets for the year ended December 31, 2015. There was no such instance during the year ended December 31, 2014.

No available-for-sale financial assets was pledged.

(3) Notes receivable

	December 31, 2015	December 31, 2014
Trade receivables	$8,463	$11,402
Less: allowance for doubtful debts	-	-
Total	$8,463	$11,402

No notes receivable was pledged.

(4) Trade receivables and trade receivables from related parties

	December 31, 2015	December 31, 2014
Trade receivables	$3,078,075	$3,585,418
Less: allowance for doubtful debts	(56,450)	(56,450)
Less: allowance for sales returns and discounts	(13,205)	(34,029)
Subtotal	3,008,420	3,494,939
Trade receivables from related parties	685,757	716,931
Less: allowance for doubtful debts	-	-
Subtotal	685,757	716,931
Total	$3,694,177	$4,211,870

A provision has been recognized for sales returns and allowances based on past experience and other known factors. The provision is recognized and the corresponding entry is made against trade receivables at the time of amounts can be reasonably estimated.

No trade receivables was pledged.

The payment term granted to customers is generally 30-120 day. The movements of provision for impairment of trade receivables and trade receivables from related parties are as follows (please refer to Note 12 for credit risk disclosure):

	Individually impaired	Collectively impaired	Total
As of January 1, 2015	$ 51,021	$ 5,429	$ 56,450
Charge for the current period	-	18,771	18,771
Write off	(18,771)	-	(18,771)
As of December 31, 2015	$ 32,250	$ 24,200	$ 56,450

	Individually impaired	Collectively impaired	Total
As of January 1, 2014	$ 51,021	$ 5,429	$ 56,450
Charge for the current period	-	-	-
Write off	-	-	-
As of December 31, 2014	$ 51,021	$ 5,429	$ 56,450

Impairment loss that was individually determined for the years ended December 31, 2015 and 2014, arose due to the fact that the counterparty deferred payment. The amount of impairment loss recognized was the difference between the carrying amount of the trade receivable and the present value of its expected recoverable amount. The Company does not hold any collateral for such trade receivables.

Aging analysis of trade receivables and trade receivable from related parties were as follows:

		Past due but not impaired				
As of	Neither past due nor impaired	1 to 90 days	91 to 180 days	181 to 365 days	More than 366 days	Total
December 31, 2015	$3,505,607	$157,960	$18,619	$10,079	$1,912	$3,694,177
December 31, 2014	$3,917,228	$283,998	$7,610	$187	$2,847	$4,211,870

(5) Inventories

	December 31, 2015	December 31, 2014
Raw materials	$344,882	$228,838
Work in progress	42,690	41,098
Finished goods	26,657	16,348
Total	$414,229	$286,284

The cost of inventories recognized in operating costs for the year ended December 31, 2015 amounted to NT$12,334,553 thousand, including the reversal of write-down of inventories of NT$411 thousand and scrap loss of NT$5,025 thousand. The reversal gain is due to the fact that the previous write-down of inventories was scrapped, and resulted in a reversal of provision previously recognized.

The cost of inventories recognized in operating costs for the year ended December 31, 2014 amounted to NT$11,396,039 thousand, including the write-down of inventories of NT$3,757 thousand and scrap loss of NT$4,682 thousand.

No inventories was pledged.

(6) Financial assets measured at cost-noncurrent

	December 31, 2015	December 31, 2014
Available-for-sale financial assets		
Non-listed stocks	$ 1,621,461	$ 632,579

The fair value of the investments in non-listed stocks may not be reliably measurable as the variability in the range of reasonable fair value measurements is significant for the instrument and the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value. Therefore these investments are measured at cost.

The Company determined some of its financial assets measured at cost were impaired and expected to be unrecoverable, and recognized an impairment loss of NT$87,490 thousand for the year ended December 31, 2014. There was no indication of impairment during the year ended December 31, 2015.

The Company received capital returns of NT$11,118 thousand and NT$8,600 thousand from its financial assets measured at cost for the years ended December 31, 2015 and 2014, respectively.

The Company paid NT$1,000,000 thousand to acquire 13.89% ownership in Yann Yuan Investment Co., Ltd. in 2015. Yann Yuan Investment Co., Ltd. was measured at cost as the Company had no significant influence over it.

The Company paid NT$30,301 thousand to acquire 2.78% ownership in Greenliant Systems, Ltd. for the year ended December 31, 2014. Greenliant Systems, Ltd. was measured at cost as the Company had no significant influence over it.

No financial assets measured at cost was pledged.

(7) Investments accounted for using the equity method

Investees	December 31, 2015 Carrying amount	December 31, 2015 Percentage of ownership (%)	December 31, 2014 Carrying amount	December 31, 2014 Percentage of ownership (%)
Dawning Leading Technology Inc.	$1,185,058	27.29%	$1,102,824	35.50%
Fixwell Technology Corp.	40,750	23.33%	39,315	23.33%
Subtotal	1,225,808		1,142,139	
Less：deferred credits	(3,116)		(4,793)	
Total	$1,222,692		$1,137,346	

Fixwell Technology Corp. (“Fixwell”) was authorized by its Board of Directors to issue new shares in February 2014, however the Company did not subscribe any new shares. Consequently, the Company’s ownership interest in Fixwell decreased to 23.33%, and NT$5,116 thousand was deducted from undistributed earnings.

Dawning Leading Technology Inc. (“Dawning”) was authorized by its Board of Directors to issue new shares in December 2014, however the Company did not subscribe any new shares. Consequently, the Company’s ownership interest in Dawning decreased to 35.5%, and NT$3,791 thousand was deducted from undistributed earnings.

Dawning was authorized by its Board of Directors to issue new shares in May 2015. The Company only subscribed NT$2,179 thousand at a percentage different from its existing ownership percentage. Consequently, the ownership interest in Dawning decreased to 27.46%. In addition, Dawning issued new shares for employee bonus, and the Company’s ownership interest further decreased to 27.29% and recorded an amount of NT$44,983 thousand in capital surplus under equity.

The Company’s investments in Fixwell and Dawning were not individually material. The following table summarizes financial information of the Company’s ownership in the associates:

	December 31, 2015	December 31, 2014
Net income	$ 59,621	$ 112,548
Other comprehensive income, net of tax	-	-
Total comprehensive income	$ 59,621	$ 112,548

No investment in the associates was pledged.

(8) Property, plant and equipment

	Land	Buildings and facilities	Plant equipment	Machinery equipment	Office equipment	Transportation equipment	Miscellaneous equipment	Leasehold equipment	Construction in progress and equipment awaiting examination	Total
Cost:										
As of January 1, 2015	$1,143,394	$4,129,168	$6,265,279	$60,874,513	$707,832	$36,992	$4,103,261	$-	$380,258	$77,640,697
Additions	-	-	296,149	5,480,207	18,540	11,337	204,819	4,425	1,060,071	7,075,548
Disposals	-	-	(40,650)	(2,106,185)	(5,845)	(4,024)	(233,018)	-	(34,607)	(2,424,329)
Transfers	-	-	-	-	-	-	-	-	(6,242)	(6,242)
Exchange differences	-	(18,120)	(6,153)	(117,811)	(2,089)	(129)	(19,977)	-	(1,240)	(165,519)
As of December 31, 2015	$1,143,394	$4,111,048	$6,514,625	$64,130,724	$718,438	$44,176	$4,055,085	$4,425	$1,398,240	$82,120,155
As of January 1, 2014	$1,143,394	$3,532,183	$5,557,955	$58,147,368	$664,517	$31,163	$3,921,170	$-	$905,853	$73,903,603
Additions	-	552,960	719,446	7,448,877	69,308	7,232	418,863	-	(491,547)	8,725,139
Disposals	-	(66)	(26,493)	(5,014,544)	(30,940)	(1,698)	(287,064)	-	-	(5,360,805)
Transfers	-	-	-	(3,113)	-	-	-	-	(35,150)	(38,263)
Exchange differences	-	44,091	14,371	295,925	4,947	295	50,292	-	1,102	411,023
As of December 31, 2014	$1,143,394	$4,129,168	$6,265,279	$60,874,513	$707,832	$36,992	$4,103,261	$-	$380,258	$77,640,697

	Land	Buildings and facilities	Plant equipment	Machinery equipment	Office equipment	Transportation equipment	Miscellaneous equipment	Leasehold equipment	Construction in progress and equipment awaiting examination	Total
Accumulated Depreciations and Impairment:										
As of January 1, 2015	$-	$1,153,603	$3,824,093	$44,761,189	$572,946	$23,185	$3,295,867	$-	$-	$53,630,883
Depreciation	-	143,673	440,078	4,268,184	36,789	4,254	221,164	295	-	5,114,437
Disposals	-	-	(40,650)	(1,876,410)	(5,603)	(3,522)	(231,136)	-	-	(2,157,321)
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange differences	-	(7,737)	(5,221)	(125,417)	(1,720)	(104)	(16,809)	-	-	(157,008)
As of December 31, 2015	$-	$1,289,539	$4,218,300	$47,027,546	$602,412	$23,813	$3,269,086	$295	$-	$56,430,991
As of January 1, 2014	$-	$995,821	$3,443,464	$45,680,159	$568,881	$21,565	$3,359,034	$-	$-	$54,068,924
Depreciation	-	141,581	394,925	3,667,027	29,035	3,003	184,567	-	-	4,420,138
Disposals	-	(52)	(26,493)	(4,815,250)	(29,256)	(1,590)	(284,964)	-	-	(5,157,605)
Transfers	-	-	-	(2,014)	-	-	-	-	-	(2,014)
Exchange differences	-	16,253	12,197	231,267	4,286	207	37,230	-	-	301,440
As of December 31, 2014	$-	$1,153,603	$3,824,093	$44,761,189	$572,946	$23,185	$3,295,867	$-	$-	$53,630,883
Net carrying amount as at:										
December 31, 2015	$1,143,394	$2,821,509	$2,296,325	$17,103,178	$116,026	$20,363	$785,999	$4,130	$1,398,240	$25,689,164
December 31, 2014	$1,143,394	$2,975,565	$2,441,186	$16,113,324	$134,886	$13,807	$807,394	$-	$380,258	$24,009,814

Capitalized borrowing costs of property, plant and equipment are as follows:

	Years Ended December 31	
	2015	2014
Construction in progress	$ 38,845	$ 53,047
Capitalization rate of borrowing costs	1.668%~1.797%	1.67%~2.00%

The investing activities partially influenced the cash flow are as follows:

	Years Ended December 31	
	2015	2014
Acquisition of property, plant and equipment	$ 7,075,548	$ 8,725,139
Net decrease (increase) in payables to equipment suppliers	61,170	(297,381)
Total	$ 7,136,718	$ 8,427,758

	Years Ended December 31	
	2015	2014
Disposal of property, plant and equipment	$ 307,591	$ 208,444
Net decrease (increase) in other receivables	50,749	(35,077)
Total	$ 358,340	$ 173,367

Please refer to Note 8 for property, plant and equipment under pledges as collateral.

(9) Intangible Asset

	Software	Goodwill	Total
Cost:			
As of January 1, 2015	$213,449	$91,338	$304,787
Additions-reclassified	29,397	-	29,397
Exchange differences	(1,134)	3,301	2,167
As of December 31, 2015	$241,712	$94,639	$336,351
As of January 1, 2014	$194,960	$86,014	$280,974
Additions-acquired separately	238	-	238
Additions-reclassified	15,503	-	15,503
Exchange differences	2,748	5,324	8,072
As of December 31, 2014	$213,449	$91,338	$304,787

	Software	Goodwill	Total
Amortization and impairment:			
As of January 1, 2015	$196,680	$-	$196,680
Amortization	11,236	-	11,236
Impairment	-	25,000	25,000
Exchange differences	(1,094)	-	(1,094)
As of December 31, 2015	$206,822	$25,000	$231,822
As of January 1, 2014	$185,256	$-	$185,256
Amortization	8,753	-	8,753
Exchange differences	2,671	-	2,671
As of December 31, 2014	$196,680	$-	$196,680
Net carrying amount as of:			
December 31, 2015	$34,890	$69,639	$104,529
December 31, 2014	$16,769	$91,338	$108,107

Amortization expenses of intangible assets recognized are as follows:

	Years Ended December 31	
	2015	2014
Operating costs	$3,948	$1,957
Sales and administration costs	5,625	5,358
Research and development costs	1,663	1,438
Total	$11,236	$8,753

(10) Other noncurrent assets

	December 31, 2015	December 31, 2014
Long-term prepaid rent	$127,151	$132,555
Refundable deposits	17,681	14,558
Others	1,661	2,931
Total	$146,493	$150,044

Land use rights which were included in long-term prepaid rent amounted to NT$127,151 thousand and NT$132,555 thousand as of December 31, 2015 and 2014, respectively.

(11) Impairment testing of goodwill

The Company's goodwill was acquired through business combinations with Suzhou Zhengkuan Technology Ltd.. Goodwill has been allocated to specific cash-generating units for impairment testing. As of December 31, 2015 and 2014, the book value of goodwill were NT$69,639 thousand and NT$91,338 thousand, respectively.

The recoverable amount of the cash-generating unit has been determined based on a value-in-use calculated using cash flow projections from financial budgets covering a five-year period. The projected cash flows have been updated to reflect the change in demand for products and services. The pre-tax discount rate applied to cash flow projections is 11.8% and 11.7% for 2015 and 2014, respectively and cash flows are extrapolated using the same 0.0% growth rate for the years ended December 31, 2015 and 2014, respectively. As a result of this analysis, management has recognized an impairment loss of NT$25,000 thousand against goodwill for the year ended December 31, 2015 and did not recognize any impairment for the year ended December 31, 2014.

Key assumptions used in value-in-use calculations

The calculation of value-in-use for the cash-generating unit is most sensitive to the following assumptions:

(a) Gross margin
(b) Discount rates
(c) Growth rates of sales of budget period

Gross margins - Gross margins are based on the gross margins of the first year of financial budget and expected to be the same in budget covering period.

Discount rates - Discount rates reflect the current market assessment of the risks specific to each cash generating unit (including the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted). The discount rate was estimated based on the weighted average cost of capital (WACC) for the Company, taking into account the particular situations of the Company and its operating segments. The WACC includes both the cost of liabilities and cost of equity. The cost of equity is derived from the expected returns of the Company's investors on capital, where the cost of liabilities is measured by the interest bearing loans that the Company has obligation to settle. Specific risk relating to the operating segments is accounted for by considering the individual beta factor which is evaluated annually and based on publicly available market information.

Growth rates of sales estimates – The growth rate the Company predicted was adjusted by considering the macroeconomic environment.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of subsidiary Suzhou Zhengkuan Technology Ltd., the Management believes there is not any reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

(12) Short-term borrowings

As of December 31, 2015 and 2014, the Company's unused short-term lines of credits amounted to NT$1,750,763 thousand and NT$2,372,796 thousand, respectively.

(13) Long-term borrowings

As of December 31, 2015,

Lenders	Balance	Maturity Date	Terms of repayment
Standard Chartered Bank Unsecured bank loans	$131,300	2017.08.27	Revolving Credit
Shin Kong Commercial Bank Unsecured bank loans	295,425	2018.12.09	Revolving Credit
Mega International Commercial Bank Unsecured bank loans	32,825	2017.09.18	Revolving Credit
Citi Bank Unsecured bank loans	229,775	2017.11.30	Revolving Credit
HSBC Taiwan Bank Unsecured bank loans	847,813	2017.10.31	Revolving Credit
Land Bank Unsecured bank loans	196,950	2017.12.30	Revolving Credit
Fubon Bank Unsecured bank loans	164,125	2017.11.30	Revolving Credit
SinoPac Bank Unsecured bank loans	426,725	2017.03.31	Revolving Credit
CTBC Bank and other 17 banks Secured bank loans	4,874,993	2018.03.10	Repayable in 4 semi-annual installments from March 10, 2013. The initial repayment would be 66th months since the borrowing day and repayment shall be made semi-annually then. The initial repayment had been extended until March 10, 2015.
Fubon Bank and other 9 banks Secured bank loans	3,200,000	2020.09.10	The Company reached a three-year loan extension agreement as of December 31, 2014. The loan will be repayable in 6 semi-annual installments from March 10, 2018.
Fubon Bank and other 12 banks Secured bank loans	2,900,000	2020.04.17	25% of principal will be repaid on the day of three and half years from April 4, 2015. The remaining part will be repaid on maturity day.
TCB Bank (King Long) Unsecured bank loans	134,584	2018.11.23	Repayable in 6 semi-annual installments from July 20, 2015.
Mega International Commercial Bank (King Long) Unsecured bank loans	123,096	2017.05.12	Repayable in 6 semi-annual installments from December 6, 2015.
Mega International Commercial Bank (Zhengkuan) Unsecured bank loans	123,096	2017.05.12	Repayable in 7 quarter installments from December 16, 2015.
SinPac Bank (Zhengkuan) Unsecured bank loans	109,418	2016.12.15	Repayable in 6 quarter installments from September 15, 2015.
HSBC Bank (Zhengkuan) Unsecured bank loans	123,096	2017.03.11	Repayable in 2 semi-annual installments and five-month installment starting from April 15, 2016.

Lenders	Balance	Maturity Date	Terms of repayment
HSBC Bank (King Long) Unsecured bank loans	196,952	2017.03.10	Repayable in 2 semi-annual installments and five-month installment starting from October 15, 2015.
Subtotal	14,110,173		
Less: current portion	(2,475,478)		
Less: Arrangement fee	(19,615)		
Total	$11,615,080		
Interest rate	0.83% to 2.20%		

As of December 31, 2014,

Lenders	Balance	Maturity Date	Terms of repayment
Taiwan Business Bank Unsecured bank loans	$158,250	2016.09.24	Revolving Credit
Mega International Commercial Bank Unsecured bank loans	189,900	2016.09.18	Revolving Credit
Citi Bank Unsecured bank loans	791,250	2016.11.26	Revolving Credit
HSBC Taiwan Bank Unsecured bank loans	1,076,100	2016.10.31	Revolving Credit
Land Bank of Taiwan Unsecured bank loans	253,200	2016.12.10	Revolving Credit
CTBC Bank and other 17 banks Secured bank loans	6,499,990	2018.03.10	Repayable in 4 semi-annual installments from March 10, 2013. The initial repayment would be 66th months since the borrowing day and repayment shall be made semi-annually then. The initial repayment had been extended until March 10, 2015.
Fubon Bank and other 9 banks Secured bank loans	3,200,000	2017.09.10	The Company reached a three-year loan extension agreement as of December 31, 2014. The loan will be repayable in 6 semi-annual installment from March 10, 2018.
Mega International Commercial Bank (King Long) Unsecured bank loans	158,226	2017.05.12	Repayable in 4 semi-annual installments from December 6, 2015.
Mega International Commercial Bank (Zhengkuan) Unsecured bank loans	158,226	2017.05.12	Repayable in 7 quarter installments from December 16, 2015.
CTBC Bank (Zhengkuan) Unsecured bank loans	158,225	2015.05.16	Lump-sum payment
SinoPac Bank (Zhengkuan) Unsecured bank loans	158,225	2016.12.15	Repayable in 6 quarter installments from September 15, 2015.
Subtotal	12,801,592		
Less: current portion	(1,895,299)		
Less: Arrangement fee	(17,280)		
Total	$10,889,013		
Interest rate	0.88% to 2.20%		

a. Certain property, plant and equipment were pledged. Please refer to Note 8 for more details.

b. Please refer to Note 9 for the financial covenant during the loan period.

(14) Post-employment benefits

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

Pension benefits for employees of overseas subsidiaries and branches are provided in accordance with the local regulations.

Pension expenses under the defined contribution plan for the years ended December 31, 2015 and 2014 were NT$235,161 thousand and NT$212,483 thousand, respectively.

Defined benefit plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company assesses the balance in the designated pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the following year, the Company will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the regulations for revenues, expenditures, safeguard and utilization of the labor retirement fund. The pension fund is invested in-house or under mandation, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with IAS 19. The Company expects to contribute NT$18,006 thousand to its defined benefit plan during the 12 months beginning after December 31, 2015.

As of December 31, 2015 and 2014, the average duration of the defined benefits plan obligation are both 10 years.

Pension costs recognized in profit or loss are as follows:

	Years Ended December 31	
	2015	2014
Current service cost	$ 6,008	$ 8,591
Net interest on the net defined benefit liabilities	5,867	5,233
Total	$ 11,875	$ 13,824

Reconciliations of liabilities (assets) of the defined benefit obligation and plan assets at fair value are as follows:

	Years Ended December 31	
	2015	2014
Defined benefit obligation	$ 579,751	$ 520,825
Plan assets at fair value	(265,410)	(260,068)
Net defined benefit liabilities	$ 314,341	$ 260,757

Reconciliations of liabilities (assets) of the defined benefit plan are as follows:

	Defined benefit obligation	Plan assets at fair value	Net defined benefit liabilities (assets)
As of January 1, 2014	$ 518,543	$ (256,899)	$ 261,644
Current service cost	8,591	-	8,591
Interest expense (income)	10,371	(5,138)	5,233
Subtotal	537,505	(262,037)	275,468
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	(6,989)	-	(6,989)
Actuarial gains and losses arising from changes in financial assumptions	(16,081)	-	(16,081)
Experience adjustments	28,400	-	28,400
Remeasurements of the defined benefit assets	-	(994)	(994)
Subtotal	5,330	(994)	4,336
Payment of benefit obligation	(22,010)	22,010	-
Contributions by employer	-	(19,047)	(19,047)
As of December 31, 2014	$ 520,825	$ (260,068)	$ 260,757

	Defined benefit obligation	Plan assets at fair value	Net defined benefit liabilities (assets)
As of January 1, 2015	$ 520,825	$ (260,068)	$ 260,757
Current service cost	6,008	-	6,008
Interest expense (income)	11,719	(5,852)	5,867
Subtotal	538,552	(265,920)	272,632
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	24,789	-	24,789
Actuarial gains and losses arising from changes in financial assumptions	40,779	-	40,779
Experience adjustments	(4,659)	-	(4,659)
Remeasurements of the defined benefit assets	-	(1,194)	(1,194)
Subtotal	60,909	(1,194)	59,715
Contributions by employer	(19,710)	19,710	-
Acquired through business combinations	-	(18,006)	(18,006)
As of December 31, 2015	$ 579,751	$ (265,410)	$ 314,341

The principal assumptions used in determining the Company's defined benefit plan are shown below:

	December 31, 2015	December 31, 2014
Discount rate	1.50%	2.25%
Expected rate of salary increases	2.00%	2.00%

Sensitivity analyses for significant assumption are shown below:

	Years Ended December 31			
	2015		2014	
	Defined benefit obligation increase	Defined benefit obligation decrease	Defined benefit obligation increase	Defined benefit obligation decrease
Discount rate increase 0.5%	$ -	$ (30,047)	$ -	$ (28,598)
Discount rate decrease 0.5%	34,317	-	32,646	-
Expected rate of salary increase 0.5%	33,959	-	32,561	-
Expected rate of salary decrease 0.5%	-	(30,047)	-	(28,795)

The sensitivity analysis above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant.

The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analysis compared to the previous period.

(15) Equity

A. Share capital

As of December 31, 2015 and 2014, KYEC's authorized share capital was both NT$15,000,000 thousand; issued share capital was NT$11,622,944 thousand and NT$11,923,184 thousand, respectively; issued shares was 1,162,294 thousand shares and 1,192,318 thousand shares, respectively, with par value of NT$10 per share. Each share has one voting right and a right to receive dividends.

The Board of Directors resolved to retire the repurchased treasury shares of 30,000 thousand shares on October 29, 2015, and KYEC had completed the retirement process. Please refer to Note 6.15(C).

For the years ended December 31, 2015 and 2014, the Company repurchased 24 thousand and 219 thousand restricted shares, respectively, from resigned employees who were granted restricted shares, and those shares were subsequently retired.

B. Capital surplus

	December 31, 2015	December 31, 2014
Additional paid-in capital	$ 2,942,291	$ 3,376,719
Arising from conversion of bonds	2,579,784	2,646,371
Treasury share transactions	390,101	572,324
Arising from employee restricted shares	-	6,828
Arising from the exercise of employee restricted shares	30,756	21,493
Changes in ownership interests in subsidiaries	32	-
Share of changes in net assets of associates accounted for using the equity method	44,983	-
Total	$ 5,987,947	$ 6,623,735

According to the Company Act, the capital surplus shall not be used except for offset the deficit of the Company. When a Company incurs no loss, it may distribute the capital surplus generated from the excess of the issuance price over the par value of share capital and donations. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

C. Treasury shares

The Company repurchased the restricted shares which didn't meet the vesting condition as treasury shares according to the restricted stock plan the Company published. As of January 1, 2014, the treasury shares the Company held was 83 thousand shares amounted to NT$825 thousand. The retirement process had been completed, therefore there were no treasury shares due to restricted stock plan for the year ended December 31, 2014.

On July 28, 2015, the Board of Directors resolved to repurchase 30,000 thousand shares from the stock exchange market for the purpose of maintaining the Company's credit and shareholders' equity. The repurchase period was from July 29, 2015 to September 28, 2015, and the repurchase price ranged from NT$14.39 to NT$38.21 per share. The Company had repurchased 30,000 thousand shares for NT$625,547 thousand. On October 29, 2015, the Company's board of directors resolved to retire the repurchased treasury stocks. The effective capital reduction date was set on October 29, 2015. The registration process had been completed.

D. Retained earnings and dividend policy

According to the KYEC's Articles of Incorporation, net profits for each fiscal year, if any, shall be distributed in following order:

a. Income tax obligation;
b. Offsetting accumulated deficits, if any;
c. Legal reserve at 10% of profit left over;
d. special reserve in compliance with relevant laws or regulations;
e. The remaining after all above appropriations and distributions, "Distributable Earnings" may be distributed proportionally as follows:
   (a) Dividends to shareholders at 89% of the Distributable Earnings;
   (b) Employee bonuses at 10% of the Distributable Earnings;
   (c) Remuneration for directors' services at 1% of the Distributable Earnings.

Distributable Earnings may be reserved in whole or in partial, and distributed in the subsequent year once resolved by the Company's shareholder's meeting.

Dividends to shareholders and employee bonuses will be distributed in the form of shares or cash while remuneration for directors are limited to cash payments only.

However, according to the addition of Article 235-1 of the Company Act announced on May 20, 2015, the Company shall provide a fixed amount or percentage of the profit for the year to be distributed as "employees' compensation", after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employees' compensation may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting.

Furthermore, the Articles of Incorporation may stipulate that the employees' compensation could be distributed to employees of affiliated enterprises meeting certain criteria. KYEC expects to amend the Articles of Incorporation in its shareholders' general meeting in 2016.

The Company's dividends distribution is proposed each year by the board of directors for shareholders' approval based on the Company's dividend policy and various factors, including the current and future economic environment, financing and funding requirements, competitive environment, shareholders' interests, and the Company's long term strategy. As the Company currently is still in the growth stage, funding may be required in the near future for expansion. Therefore, the current policy is to distribute cash dividends at no less than 20% of total dividends to be distributed.

The abovementioned employee bonuses also extend to qualifying employees of the KYEC's subsidiaries as determined by the board.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to offset the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Pursuant to existing regulations, the Company is required to set aside additional special reserve equivalent to the net debit balance of the other components of shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

Following the adoption of TIFRS, the FSC on April 6, 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded in shareholders' equity that the Company elects to transfer to retained earnings by application of the exemption under IFRS 1, the Company shall set aside an equal amount of special reserve. Following a Group's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside special reserve based on the difference between the amount already set aside and the total debit balances of other shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

As of December 31, 2015 and 2014, special reserve set aside for the first-time adoption of TIFRS amounted to NT$201,416 thousand.

The appropriations of earnings for 2014 were resolved by the shareholders in its meeting on June 17, 2015; while the proposed appropriations of earnings for 2015 were approved by Board of Directors on March 2, 2016. The appropriations and dividends per share were as follows:

	Appropriation of earnings		Dividend per share (NT$)	
	2015	2014	2015	2014
Legal reserve	$ 228,154	$ 255,906	-	-
Cash dividends-common stock	232,459	1,788,455	$ 0.2	$ 1.500011
Total	$ 460,613	$ 2,044,361		

Based on the resolution of Board of Directors and shareholders' general meeting on March 2, 2016 and June 17, 2015, KYEC would reduce the capital surplus from share premium of NT$1,162,294 thousand and NT$357,691 thousand, respectively, to distribute cash dividends.

Please refer to Note 6. (19) for information regarding to the employees' compensations (bonuses) and remunerations to directors.

E. Non-controlling interests

	Years Ended December 31	
	2015	2014
Beginning balance	$ 3,994	$ 3,641
Net income attributable to non-controlling interests	727	675
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	159	(322)
Ending balance	$ 4,880	$ 3,994

(16) Restricted shares plan for employees

Based on the resolution of shareholders' general meeting on June 15, 2012, the Company resolved to issue restricted shares to employees. The total restricted shares to be issued were 5,000 thousand shares. When employees exercise their rights for restricted shares, new shares will be issued for such purpose. For those employees who achieve both service conditions and performance conditions, the restricted shares will be vested at certain percentage and time frame. Relevant government approval has been successfully obtained.

The restricted rights on the restricted shares before achieving the vesting conditions are as follow：

a. Prior to vesting conditions are achieved, the employees shall not sell, mortgage, transfer, donate, pledge or dispose the restricted shares in any other ways.

b. The voting rights in shareholders' meeting shall be executed as the same as the other common shares.
c. Prior to vesting conditions are achieved, the restricted shares are entitled to dividends without limitation.

As of December 31, 2015, there were no outstanding restricted shares.

The restricted shares granted to employees were measured at fair value, which resulted in a compensation expense amounted to NT$4,411 thousand and NT$19,355 thousand for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015, related compensation costs under the plan had been recognized completely.

(17) Sales revenue

	Years Ended December 31	
	2015	2014
Revenue from rental of machinery	$ 428,082	$ 319,588
Processing revenue	16,461,778	15,780,875
Rental income from property	272,806	262,448
Other operating revenues	73,680	49,410
Total	17,236,346	16,412,321
Less: Sales returns and discounts	(107,810)	(134,552)
Net sales	$ 17,128,536	$ 16,277,769

(18) Operating lease

a. Operating lease commitments-the Company as lessee

The Company leases several parcels of land from the ROC government, and these operating lease contracts would expire in December 2033. The agreements granted the Company the option to renew the leases and reserve the right for the lessor to adjust the lease payments upon an increase in the assessed value of the land and to terminate the lease under certain conditions. Future minimum rentals payable under non-cancellable operating leases are as follows:

	December 31, 2015	December 31, 2014
Not later than one year	$ 14,137	$ 14,137
Later than one year and not later than five years	56,548	56,548
Later than five years	165,846	179,983
Total	$ 236,531	$ 250,668

Operating lease expenses are as follows:

	Years Ended December 31	
	2015	2014
Minimum lease payments	$ 14,137	$ 14,137

b. Operating lease commitments - the Company as lessor

The Company had entered into commercial property leases with remaining terms of between one to five years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	December 31, 2015	December 31, 2014
Not later than one year	$ 98,141	$ 120,614
Later than one year and not later than five years	4,050	29,922
Total	$ 102,191	$ 150,536

(19) <u>Summary statement of employee benefits, depreciation and amortization expenses by function for the years ended December 31, 2015 and 2014:</u>

	Years Ended December 31					
	2015			2014		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	$3,012,004	$889,365	$3,901,369	$2,979,810	$859,796	$3,839,606
Labor and health insurance	256,012	50,857	306,869	236,329	46,215	$282,544
Pension	186,415	60,621	247,036	172,487	53,820	$226,307
Other employee benefits expense	139,077	25,209	164,286	116,895	20,932	$137,827
Depreciation	$4,704,382	$410,055	$5,114,437	$4,038,597	$381,541	$4,420,138
Amortization	$3,948	$7,288	$11,236	$1,957	$6,796	$8,753

The Board of Directors resolved to amend the Articles of Incorporation of KYEC on October 29, 2015. In according with the amended Articles of Incorporation, 8% to 10% of profit of the current year is distributable as employees' compensation and no higher than 1% of profit of the current year is distributable as remuneration to directors. However, KYEC's accumulated losses shall have been covered (if any). The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. The Articles of Incorporation are to be amended in the shareholders' meeting in 2016. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended December 31, 2015 to be 8% of profit of current year (or NT$248,991 thousand) and 0.8% of profit of current year (or NT$24,899 thousand), respectively, recognized as employee benefits expense. A resolution was passed at a Board of Directors meeting held on March 2, 2016 to distribute NT$248,991 thousand and NT$24,899 thousand in cash as employees' compensation and remuneration to directors, respectively.

The estimated employee bonuses and remuneration to directors for the year ended December 31, 2014 were estimated based on post-tax net income of the period, the Company's Articles of Incorporation, and considered factors such as appropriation to legal reserve etc. The estimated employee bonuses and remuneration to directors for the year ended December 31, 2014 are recognized as employee benefits expense for the period. If the Board modified the estimates significantly in the subsequent periods, the Company will recognize the change as an adjustment to current income. The difference between the estimation and the resolution of shareholders' meeting will be recognized in profit or loss of the subsequent year. The number of stocks distributed as employee bonuses was calculated based on the closing price one day earlier than the date of shareholders' meeting and considered the impacts of ex-right/ex-dividend. The Company estimated the amounts of the employee bonuses and remuneration to directors for the years ended December 31, 2014 to be NT$209,013 thousand and NT$20,901 thousand, respectively. No material differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors for the year ended December 31, 2014.

(20) Non-operating income and expenses

a. Other income

	Years Ended December 31	
	2015	2014
Interest income	$ 71,072	$ 88,723
Dividend income	362	432
Others	67,742	99,781
Total	$ 139,176	$ 188,936

b. Other gains and losses

	Years Ended December 31	
	2015	2014
Gains on disposal of property, plant and equipment	$42,260	$2,482
Gains on disposal of other assets	35,731	-
Gains on disposal of investments	188	4,245
Foreign exchange gains, net	80,551	110,082
Impairment losses		
Available-for-sale financial assets	(9,681)	(87,490)
Goodwill	(25,000)	-
Others	(5,837)	(4,827)
Total	$118,212	$24,492

c. Finance costs

	Years Ended December 31	
	2015	2014
Interest expenses on borrowings	$ 171,768	$ 138,847

(21) Components of other comprehensive income

For the year ended December 31, 2015

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax expenses	Other comprehensive income, net of tax
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit plans	$(59,715)	$-	$(59,715)	$-	$(59,715)
Items that will be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of foreign operation	(95,655)	-	(95,655)	-	(95,655)
Unrealized gains (losses) from available-for-sale financial assets	(15,688)	9,493	(6,195)	-	(6,195)
Total of other comprehensive income	$(171,058)	$9,493	$(161,565)	$-	$(161,565)

For the year ended December 31, 2014

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax expenses	Other comprehensive income, net of tax
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit plans	$(4,336)	$-	$(4,336)	$-	$(4,336)
Items that will be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of foreign operation	250,664	-	250,664	-	250,664
Unrealized gains (losses) from available-for-sale financial assets	(4,514)	4,245	(269)	-	(269)
Total of other comprehensive income	$241,814	$4,245	$246,059	$-	$246,059

(22) Income tax

The major components of income tax expense are as follows:

	Years ended December 31	
	2015	2014
Current income tax expense:		
Current income tax charge	$ 557,515	$ 551,182
Investment tax credits	(198,538)	(165,343)
Adjustments in respect of current income tax of prior periods	7,085	5,661
Deferred tax expense (income):		
Origination and reversal of temporary differences	304,245	245,771
Origination and reversal of tax loss and tax credit	(103,979)	(77,642)
Income tax expense recognized in profit or loss	$ 566,328	$ 559,629

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

	Years ended December 31	
	2015	2014
Accounting profit before tax from continuing operations	$ 2,848,601	$ 3,119,360
Tax at the domestic rates applicable to profits in the country concerned	$ 484,262	$ 530,291
Investment tax credits	(198,538)	(165,343)
10% surtax on undistributed retained earnings	51,470	8,456
Tax effect of expenses not deductible for tax purposes	10,665	7,222
Tax effect of deferred tax assets/liabilities	213,495	172,658
Tax effect of different tax rate between parent company and its subsidiaries	4,974	6,345
Total income tax expense recognized in profit or loss	$ 566,328	$ 559,629

For the year ended December 31, 2015

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance
Temporary differences						
Unrealized exchange gains	$ 6,540	$ 6,144	$ -	$ -	$ -	$ 12,684
Impairment on financial assets	69,224	-	-	-	-	69,224
Depreciation for tax purpose	12,992	(2,763)	-			10,229
Unrealized sales allowance	5,785	(3,540)	-	-	-	2,245
Investment in subsidiaries	160,421	22,205	-	-	-	182,626
Others	12,717	687	-	-	-	13,404
Unused tax losses	40,892	-	-	-	-	40,892
Unused tax credits	341,519	(222,999)	-	-	-	118,520
Deferred tax expense/(income)		$ (200,266)	$ -	$ -	$ -	
Net deferred tax assets	$ 650,090					$ 449,824
Reflected in balance sheet as follows:						
Deferred tax assets	$ 650,090					$ 449,824
Deferred tax liabilities	$ -					$ -

For the year ended December 31, 2014

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance
Temporary differences						
Unrealized exchange gains	$ (819)	$ 7,359	$ -	$ -	$ -	$ 6,540
Impairment on financial assets	54,647	14,577	-	-	-	69,224
Depreciation for tax purpose	8,801	4,191	-			12,992
Unrealized sales allowance	5,229	556	-	-	-	5,785
Investment in subsidiaries	166,154	(5,733)	-	-	-	160,421
Others	16,545	(3,828)	-	-	-	12,717
Unused tax losses	49,485	(8,593)	-	-	-	40,892
Unused tax credits	518,177	(176,658)	-	-	-	341,519
Deferred tax expense/(income)		$ (168,129)	$ -	$ -	$ -	
Net deferred tax assets	$ 818,219					$ 650,090
Reflected in balance sheet as follows:						
Deferred tax assets	$ 818,219					$ 650,090
Deferred tax liabilities	$ -					$ -

The following table contains information of the unused tax losses of the Company:

Entities	Year	Tax losses for the period	Unused tax losses as of December 31, 2015	Unused tax losses as of December 31, 2014	Expiration year
KYEC	2009	$291,090	$240,542	$240,542	2019
Foreign Subsidiaries	2010	180,715	-	180,715	2015
	2011	237,340	231,990	237,340	2016
	2012	302,494	295,676	302,494	2017
	2013	191,220	190,333	191,220	2018
	2014	136,684	138,140	136,684	2019
			$1,096,681	$1,288,995	

The Company is qualified for tax credits in accordance with "Regulations for Encouraging Manufacturing Enterprises and Technical Service Enterprises in the Newly Emerging, Important and Strategic Industries" and the following subitems under the "Statute for Upgrading Industries"：

a. Regulations Governing Application of Tax Credit Incentive to Investments in Purchasing Equipment or Technology by Internet Enterprises, Manufacturing Enterprises and Technical Service Enterprises

b. Research and Development Expenditures

c. Investment in Areas with Limited Resource or Areas with Low Development

The Company's unused investment tax credits were as follows:

December 31, 2015	December 31, 2014	Expiration year
$-	$309,373	2015
421,955	439,560	2016
$421,955	$748,933	

Unrecognized deferred tax assets

As of December 31, 2015 and 2014, deferred tax assets that have not been recognized amount to NT$517,470 thousand and NT$669,527 thousand respectively.

Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Company did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Company's overseas subsidiaries, as the Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of December 31, 2015 and 2014, the taxable temporary differences associated with investment in subsidiaries, for which deferred tax liabilities have not been recognized, aggregate to NT$1,987 thousand and NT$1,911 thousand, respectively.

Integrated income tax information

	December 31, 2015	December 31, 2014
Balance of the imputation credit account	$ 122,897	$ 42,835

The estimated and actual creditable ratios for 2015 and 2014 were 15.33% and 15.14%, respectively.

The Company's earnings generated prior to December 31, 1997 have been fully appropriated.

The assessment of income tax returns

As of December 31, 2015, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

	The assessment of income tax returns	Notes
KYEC	Assessed and approved up to 2013	-
Subsidiaries- King Long Technology (Suzhou) Ltd.	Filed up to 2014	-
Subsidiaries- Suzhou Zhengkuan Technology Ltd.	Filed up to 2014	-
Subsidiaries- KYEC USA Cop.	Filed up to 2014	-
Subsidiaries- KYEC Japan K.K.	Filed up to 2014	-
Subsidiaries- KYEC SINGAPORE PTE. Ltd.	Filed up to 2014	-

(23) Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary equity owners of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity owners of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	Years ended December 31	
	2015	2014
A. Basic earnings per share		
Profit attributable to ordinary equity owners of the parent	$ 2,281,546	$ 2,559,056
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand share)	1,181,967	1,190,209
Basic earnings per share (NT$)	$ 1.93	$ 2.15
B. Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent	$ 2,281,546	$ 2,559,056
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand share)	1,187,967	1,190,209
Effect of dilution:		
Restricted shares plan for employees (thousand shares)	198	1,422
Employee bonuses - stock (thousand share)	15,217	11,180
Weighted average number of ordinary shares outstanding after dilution (thousand share)	1,197,382	1,202,811
Diluted earnings per share (NT$)	$ 1.91	$ 2.13

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issue.

7. Related Party Transactions

(1) Significant transactions with related parties

A. Sales

	Years ended December 31	
	2015	2014
Other related parties	$ 2,678,869	$ 2,571,139
Associates	31,440	70,111
Total	$ 2,710,309	$ 2,641,250

The sales price to related parties was determined through mutual agreement based on the market demands. The trade credit terms for related parties were 45 to 90 days, while the terms for non-related parties were 30 to 120 days. The outstanding balance due from related parties as of December 31, 2015 was unsecured, non-interest bearing and must be settled in cash. The receivables from the related parties were not guaranteed.

B. The Group appointed an associate to perform repairs machineries. For the years ended December 31, 2015 and 2014, the operating cost recognized amounted to NT$200,057 thousand and NT$159,357 thousand, respectively.

C. Significant property transactions with related parties

a. Disposal of property, plant and equipment

	Years Ended December 31			
	2015		2014	
	Sales price	Disposal gain	Sales price	Disposal gain
Associate	$11,088	$8,499	$70,175	$19,735

The Company deferred the disposal gain derived from sales of property, plant and equipment to related parties, and then recognized such gain over the depreciable lives of the disposed assets.

b. Acquisition of property, plant and equipment

	Years Ended December 31	
	2015	2014
	Purchase price	Purchase price
Associates	$ 38,390	$ 88,341

The sales price of property transactions to related parties was determined through mutual agreement based on the market demands.

D. Trade receivables from related parties

	December 31, 2015	December 31, 2014
Other related parties	$ 670,038	$ 705,402
Associate	15,719	11,529
Less: allowance for doubtful debts	-	-
Total	$ 685,757	$ 716,931

E. Other receivables from related parties

	December 31, 2015	December 31, 2014
Other related parties	$ 374	$ 6,712
Associates	100,240	151,029
Total	$ 100,614	$ 157,741

F. Other payables to related parties

	December 31, 2015	December 31, 2014
Other related parties	$ 334	$ -
Associates	72,616	33,530
Total	$ 72,950	$ 33,530

G. Key management personnel compensation

	Years Ended December 31	
	2015	2014
Short-term employee benefits	$ 93,860	$ 87,157
Post-employment benefits	682	572
Share-based payment	1,569	6,795
Total	$ 96,111	$ 94,524

8. Assets Pledged as Collateral

The following table lists assets of the Company pledged as security:

	Carrying amount		
Assets pledged for security	December 31, 2015	December 31, 2014	Purpose of pledge
Other current financial assets	$ 3,037	$ 17,781	L/C guarantee deposits
Other noncurrent financial assets	93,170	94,476	Customs clearance
Land	1,143,394	1,143,394	Long-term borrowings
Building and facility	1,844,575	1,933,939	Long-term borrowings
Machinery equipment	3,071,948	701,537	Long-term borrowings
Total	$ 6,156,124	$ 3,891,127	

9. Significant Contingent Liabilities and Unrecognized Commitments

As of December 31, 2015, the following of contingencies and material commitments were not included in the Company's financial statements:

A. The Company's issued and outstanding letters of credit is approximately NT$1,838,220 thousand.

B. To construct the plant and factory premises, the Company had entered into several construction contracts with an aggregate amount of NT$2,698,326 thousand with unpaid portion amounted to NT$565,119 thousand (including outstanding notes).

C. The promissory notes issued for secured bank loans amounted to NT$24,434,125 thousand.

D. The Company provided guarantees to King long Technology (Suzhou) Ltd.'s lines of credit. The lines of credit were provided by Mega International Commercial Bank(Taiwan), Cooperative Bank, HSBC Taiwan Bank, KGI Bank and Mega International Commercial Bank (Suzhou) in the amount of US$5,000 thousand, US$5,000 thousand, US$8,000 thousand, US$5,000 thousand and CNY35,000 thousand, respectively.

   The Company also provided guarantees to Suzhou Zhengkuan Technology Ltd.'s lines of credit. The lines of credit were provided by Mega International Commercial Taiwan Bank, SinoPac Bank, HSBC Bank (Taiwan), KGI Bank and Mega International Commercial Bank (Suzhou) in the amount of US$5,000 thousand, US$5,000 thousand, US$5,000 thousand, US$5,000 thousand and CNY35,000 thousand, respectively.

E. The Company entered into a syndicated loan agreement with 17 banks, led by China Trust Commercial Bank, and the Company shall maintain the following financial covenants on semi-annual and annual basis during the period from 2010 to 2018:

(a) Current ratio not less than 100%;
(b) Debt ratio not higher than 115%;
(c) Interest coverage ratio not less than 300%.

In the case of failure to adhere to the aforementioned financial covenants during the period from 2010 to 2018, China Trust Commercial Bank may assemble a meeting among the banks to govern the matter to decide on a course of action or request for each bank's written approval for such course of action when necessary.

The Company entered into a syndicated loan agreement with 9 banks, led by Taipei Fubon Commercial Bank, and the Company shall maintain the following financial covenants on semi-annual and annual basis during the period from 2012 to 2020:

(a) Current ratio not less than 100%;
(b) Debt ratio not more than 115%;
(c) Interest coverage ratio at no less than 300%.

In the case of failure to adhere to the aforementioned financial covenants during the period from 2012 to 2020, Taipei Fubon Commercial Bank may assemble a meeting among the banks to govern the matter to decide on a course of action or request for each bank's written approval for such course of action when necessary.

The Company entered into a syndicated loan agreement with 12 banks, led by Taipei Fubon Commercial Bank, and the Company shall maintain the following financial covenants on semi-annual and annual basis during the period from 2015 to 2020:

(a) Current ratio not less than 100%;
(b) Debt ratio not more than 115%;
(c) Interest coverage ratio not less than 300%.

In the case of failure to adhere to the aforementioned financial covenants during the period from 2015 to 2020, Taipei Fubon Commercial Bank may assemble a meeting among the banks to govern the matter to decide on a course of action or request for each bank's written approval for such course of action, when necessary.

As of December 31, 2015, the Company did not violate any financial covenants.

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

None

12. Others

(1) Financial instruments

A. Categories of financial instruments

	December 31, 2015	December 31, 2014
Financial assets		
Available-for-sale financial assets (including financial assets measured at cost)	$ 1,746,886	$ 716,583
Loans and receivables:		
Cash and cash equivalents (excluding cash on hand)	6,233,370	7,417,334
Note receivables, net	8,463	11,402
Trade receivables, net (including related parties)	3,694,177	4,211,870
Other receivables (including related parties)	196,511	330,834
Other financial assets	96,207	112,257
Other noncurrent assets	17,681	14,558
Subtotal	10,246,409	12,098,255
Total	$ 11,993,295	$ 12,814,838
Financial liabilities		
Financial liabilities at amortized cost:		
Trade payables (including related parties)	$ 535,549	$ 501,095
Other payables (including related parties)	2,545,001	2,608,815
Long-term payables (including current portion)	14,090,558	12,784,312
Deposits received	759	631
Total	$ 17,171,867	$ 15,894,853

(2) Financial risk management objectives

The objective of the Company's financial risk management is mainly to manage the market risk, credit risk and liquidity risk derived from its operating activities. The Company identified, measured and managed the aforementioned risks based on the Company's policy and risk tendency.

The Company has established appropriate policies, procedures and internal controls for financial risk management. The plans for material treasury activities are reviewed by Board of Directors in accordance with relevant regulations and internal controls. The Company complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise foreign currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variables, there are usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

A. Foreign currency risk

The Company’s exposure to the risk of changes in foreign exchange rates relates primarily to the Company’s operating activities (when revenue or expense are denominated in a different currency from the Company’s functional currency) and the Company’s net investments in foreign.

Some receivables and payables are denominated in the same foreign currency, and it will result in economic hedging effect. Further, net investments in foreign operations are primary for strategic purpose, and they are not hedged by the Company.

The Company's sensitivity analysis to foreign currency risk mainly focuses on foreign currency monetary items at the end of the reporting period. The Company’s foreign currency risk is mainly from the volatility in the exchange rates of US$ and CNY. The sensitivity analysis is as follows:

When NT$ appreciates or depreciates against US$ by 1%, the profit for the years ended December 31, 2015 and 2014 would have increased/decreased by NT$3,044 thousand and NT$1,630 thousand, respectively.

When NT$ appreciates or depreciates against CNY by 1%, the profit for the years ended December 31, 2015 and 2014 would have decreased/increased by NT$9,168 thousand and NT$18,201 thousand, respectively.

B. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument would fluctuate because of changes in market interest rates. The Company is exposed to the interest rate risk arising from investments with floating interest rates, bank borrowings with fixed interest rates and bank borrowings with floating interest rates classified under loans and receivables. The Company manages its risk by having a balanced portfolio of financial instruments with fixed and floating interest rate. The Company did not apply hedging accounting since such hedging activities did not qualify for criteria of hedge accounting.

The Company manages its risk by having a balanced portfolio with fixed and floating interest rate. Hedge accounting does not apply as they do not qualify for it.

The Company’s sensitivity analysis to interest rate risk mainly focuses on items exposed to interest rate risk at the end of the reporting period, including investments with floating interest rates and bank borrowings with floating rates. Assuming investments and bank borrowings had been outstanding for the entire period and all other variables were constant, a hypothetical increase/decrease of 10 basis points of interest rate in a reporting period would have resulted in a decrease/increase in profit by NT$14,110 thousand and NT$12,802 thousand for the years ended December 31, 2015 and 2014, respectively.

C. Equity price risk

The Company's equity investments, including listed and unlisted equity securities, are exposed to market price risk arising from uncertainties of future values of equity securities. The Company's investment in listed and unlisted equity securities are classified under available-for-sale. The Company manages the equity price risk through diversification and placing limits on individual and total equity investments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves certain significant equity investments according to level of authority.

Assuming a decrease of 20% in the equity price of the investments in listed equity securities classified under available-for-sale, net profit would have decreased by NT$5,003 thousand and NT$6,772 thousand for the years ended December 31, 2015 and 2014, respectively. Assuming an increase of 20% in the equity price of the investment in listed equity securities would have affected only the Company's equity but would not have an impact on profit or loss.

(4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for trade receivables and notes receivable) and from its financing activities (including bank deposits and other financial instruments).

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and controls relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Company's internal rating criteria, etc. Certain customer's credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment.

The Company manages its exposure to credit risk arising from bank deposits, fixed income securities and other financial instruments in accordance with established group policies. Since the counter-parties are selected and reputable financial institutions and companies, the Company believes its exposure to credit risk is not significant.

(5) Liquidity risk management

The Company maintained financial flexibility through the holding of cash and cash equivalents, investment in securities with high liquidity, facilities of bank borrowings and issuance of convertible bonds. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity, and the payment amount also includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Longer than 4 years	Total
As of December 31, 2015						
Payables	$3,080,550	$-	$-	$-	$-	$3,080,550
Borrowings	2,639,638	4,392,826	2,456,153	874,492	4,293,221	14,656,330
As of December 31, 2014						
Payables	$3,109,910	$-	$-	$-	$-	$3,109,910
Borrowings	2,050,728	4,821 ,908	5,337,370	988,058	-	13,198,064

(6) Fair values of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities：

(a) The carrying amount of cash and cash equivalents, receivables, payables and other current liabilities approximate their fair value due to their short maturities.

(b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined with reference to market quotation price at the reporting date.

(c) The fair value of equity instruments without active market cannot be measured reliably, and consequently such investments are measured at cost less impairment.

(d) The fair value of debt instruments, bank borrowings and other financial liabilities are determined using discounted cash flow analysis; the interest rate and discount rate are determined with reference to similar financial instruments.

B. Fair value of financial instruments measured at amortized cost

The carrying amounts of the financial assets and financial liabilities measured at amortized cost approximate to their fair values.

C. Fair value measurement hierarchy for financial instruments

Please refer to Note 12.(7) for fair value measurement hierarchy for financial instruments of the Company.

(7) Fair value measurement hierarchy

A. Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Input other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Unobservable inputs for the assets or liabilities.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Fair value measurement hierarchy of the Company's assets and liabilities

The Company does not have assets measured at fair value on a non-recurring basis; the following table presents the fair value measurement hierarchy of the Company's assets and liabilities on a recurring basis:

As of December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at fair value:				
Available-for-sale financial assets				
Funds	$ 100,409	$ -	$ -	$ 100,409
Stocks	15,378	9,638	-	25,016

As of December 31, 2014

	Level 1	Level 2	Level 3	Total
Financial assets at fair value:				
Available-for-sale financial assets				
Funds	$ 50,145	$ -	$ -	$ 50,145
Stocks	17,315	16,544	-	33,859

For the years ended December 31, 2015 and 2014, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

(8) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	December 31, 2015		
	Foreign Currency (thousand)	Exchange rate	NT$ (thousand)
Monetary financial assets			
US$	$ 106,438	32.825	$ 3,493,813
CNY	226,570	4.995	1,131,716
JPY	395,162	0.2727	107,761

	December 31, 2015			
	Foreign Currency (thousand)		Exchange rate	NT$ (thousand)
Monetary financial liabilities				
US$	$	115,712	32.825	3,798,258
CNY		43,025	4.995	214,908
JPY		282,797	0.2727	77,119

	December 31, 2014				
	Foreign Currency (thousand)		Exchange rate	NT$ (thousand)	
Monetary financial assets					
US$	$	116,981	31.65	$	3,702,460
CNY		391,931	5.092		1,995,711
JPY		366,707	0.2646		97,031
Monetary financial liabilities					
US$		122,130	31.65		3,865,399
CNY		34,493	5.092		175,638
JPY		305,076	0.2646		80,723

(9) Capital management

The primary objective of the Company’s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. Additional Disclosures

(1) The following are additional disclosures for the Company and its affiliates as required by the R.O.C. Securities and Futures Bureau for the year ended Decemder 31, 2015:

A. Financing provided to others: None.

B. Endorsement/Guarantee provided to others: Please refer to Attachment 1.

C. Securities held as of Decemder 31, 2015: Please refer to Attachment 2.

D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20 percent of the capital stock: Please refer to Attachment 3.

E. Acquisition of individual real estate with amount exceeding the lower of NT$300 million or 20 percent of the capital stock: Please refer to Attachment 4.

F. Disposal of individual real estate with amount exceeding the lower of NT$300 million or 20 percent of the capital stock: None.

G. Related party transactions for purchases and sales amounts exceeding the lower of NT$100 million or 20 percent of the capital stock: Please refer to Attachment 5.

H. Receivables from related parties with amounts exceeding the lower of NT$100 million or

20 percent of capital stock as of Decemder 31, 2015: Please refer to Attachment 6.

I. Financial instruments and derivative transactions: None.

(2) Information on investees

KYEC exercises significant influence or control over investees, information regarding investee companies: Please refer to Attachment 8.

(3) Investment in Mainland China: Please refer to Attachment 9.

14. Segment Information

(2) General information

The main revenue stream of the Company comes from testing and assembly services. The chief operating decision maker reviews the overall operating results to make decisions about resources to be allocated to and evaluates the overall performance. Therefore, the Company is aggregated into a single segment.

(3) Geographical information

A. Net revenue from external customers

	Years Ended December 31	
	2015	2014
Taiwan	$5,624,315	$6,953,864
Asia	7,884,073	6,002,962
North America	2,777,693	2,444,221
Others	842,455	876,722
Total	$17,128,536	$16,277,769

B. Non-current assets

	December 31, 2015	December 31, 2014
Taiwan	$ 22,565,657	$21,480,226
Asia	3,356,569	2,772,686
Others	279	495
Total	$ 25,922,505	$24,253,407

(4) Major customers

Sales to customers representing over 10% of the Company's consolidated net sales are as follows:

	Years Ended December 31	
	2015	2014
Customer A (Note)	$1,248,007	$1,752,346

Note: There are no customers representing over 10% of consolidated net sales of the Company for the year ended December 31, 2015, and the sales amount shown above is for comparison.

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

Attachment 1

ENDORSEMENTS/GUARANTEES PROVIDED

For the year ended December 31, 2015

(Amount in Thousands of New Taiwan Dollars, Unless Specified otherwise)

No.	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/Guarantee Amount Provided to Each Guaranteed Party (Note2)	Maximum Balance for the Period	Ending balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable (Note3)	Guarantee Provided by Parent Company	Guarantee Provided by a Subsidiary	Guarantee Provided to Subsidiaries in Mainland China
		Name	Nature of Relationship										
1	KYEC	King Long Technology (Suzhou) Ltd.	Note 1	$4,470,455	$929,800	$929,800	$454,626	-	4.16%	$8,940,909	Y	N	Y
2	KYEC	Suzhou Zhengkuan Technology Ltd.	Note 1		$831,325	$831,325	$355,604	-	3.72%		Y	N	Y

Note 1: A subsidiary in which endorser/guarantor holds directly over 50% of equity interest.

Note 2: The amount of guarantees/endorsements for any single entity shall not exceed 20% of net worth of endorser/guarantor.

Note 3: The maximum endorsement/guarantee amount allowable shall not exceed 40% of the Company's net worth as of December 31, 2015.

Marketable Securities Held
As of December 31, 2015
(Amount in Thousands of New Taiwan Dollars, Unless Specified otherwise)

Held Company Name	Securities Type	Securities Name	Relationship with the Company	Financial Statement Account	Balances as of December 31, 2015				Note
					Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
KYEC	Stock	Parawin Venture Capital Corp.	-	Financial assets measured at cost, noncurrent	1,295,870	$12,959	2.00%	$12,959	Note 4
	Stock	ADL Engineering Inc.	-	Financial assets measured at cost, noncurrent	372,122	-	1.76%	-	Note 1 & Note 4
	Stock	Shieh Yong Investment Co., Ltd.	-	Financial assets measured at cost, noncurrent	57,810,000	500,000	7.58%	500,000	Note 4
	Stock	Yong Li Investment Co., Ltd.	-	Financial assets measured at cost, noncurrent	3,332,258	33,322	8.06%	33,322	Note 4
	Stock	Apm Communication, Inc.	-	Financial assets measured at cost, noncurrent	34,854	-	0.44%	-	Note 2 & Note 4
	Stock	Greenliant Systems, Ltd.	-	Financial assets measured at cost, noncurrent	2,333,333	30,301	2.78%	30,301	Note 4
	Stock	YANN YUAN INVESTMENT CO., LTD.	-	Financial assets measured at cost, noncurrent	20,000,000	1,000,000	13.89%	1,000,000	Note 4
	Stock	Mcube Inc.	-	Financial assets measured at cost, noncurrent	528,745	44,879	1.17%	44,879	Note 4
	Stock	Unimicron Corporation	-	Available-for-sale financial assets, current	717,000	10,002	0.05%	10,002	
	Stock	Faraday Technology Corporation	-	Available-for-sale financial assets, current	120,000	5,376	0.05%	5,376	
	Fund	KGI Victory Money Market Fund	-	Available-for-sale financial assets, current	4,399,937	50,378	-	50,378	
	Fund	TCB Bank Money Market Fund	-	Available-for-sale financial assets, current	4,986,238	50,030	-	50,030	
	Stock	Skymedi Corporation	-	Available-for-sale financial assets, noncurrent	860,561	9,638	2.15%	9,638	Note 3 & Note 5

Note 1: The carrying value included accumulated impairment loss amounted to NT$327,490 thousand.

Note 2: The carrying value included accumulated impairment loss amounted to NT$23,427 thousand.

Note 3: The carrying value excluded accumulated impairment loss amounted to NT$9,681 thousand.

Note 4: Due to no quoted prices in an active market, the amount is expressed in the amount of cost net of accumulated impairment losses.

Note 5: The amount is expressed in the amount after considering transaction price and liquidity.

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

Attachment 3

Marketable Securities Acquired and Disposed of at Costs or Prices of at Least NT$300 Million or 20% of the Paid-in Capital
For the year ended December 31, 2015
(Amount in Thousands of New Taiwan Dollars, Unless Specified otherwise)

Held Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Amount	Carrying Value	Gain/Loss on Disposal	Shares/Units	Amount
KYEC	YANN YUAN INVESTMENT CO., LTD.	Financial assets measured at cost, noncurrent	YANN YUAN INVESTMENT CO., LTD.	N/A	-	$-	20,000,000	$1,000,000	-	-	-	-	20,000,000	$1,000,000

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

Attachment 4

ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
For the year ended December 31, 2015
(Amount in Thousands of New Taiwan Dollars, Unless Specified otherwise)

Company Name	Types of Property	Transaction Date	Transaction Amount	Amount Paid	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
Wi-shun Construction Company	Civil engineering	2015.4.8	$521,905	$411,000	Wi-shun Construction Company	N/A	-	-	-	$-	N/A	Manufacturing purpose	N/A

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES Attachment 5

Total Purchase from or Sales to Related Parties of at least NT$100 Million or 20% of the Paid-in Capital
For the year ended December 31, 2015
(Amount in Thousands of New Taiwan Dollars, Unless Specified otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable	
			Purchase/ Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
KYEC	MediaTek Inc.	The chairman of the Company and the chairman of MediaTek are close relatives	Sales	$1,248,007	8.22%	Month-end 75 days	Note	Month-end 30 to 120 days	$357,117	11.17 %
	MediaTek Singapore Pte. Ltd.	Subsidiary of MediaTek Inc.	Sales	$1,187,804	7.82%	Month-end 60 days		Month-end 30 to 120 days	$266,717	8.34 %
	MStar Semiconductor, Inc.	Subsidiary of MediaTek Inc.	Sales	$161,827	1.07%	Month-end 60 days		Month-end 30 to 120 days	$30,880	0.97 %
King Long Technology (Suzhou) Ltd.	Suzhou Zhengkuan Technology Ltd.	Associate	Sales	$110,170	8.37%	Month-end 60 days		Month-end 60 days	$115,503	26.80%

Note: Unit price were not significantly different from those with third parties.

Receivables From Related Parties Amounting to At Least NT$100 Million for 20% of the Paid-in Capital
As of December 31, 2015
(Amount in Thousands of New Taiwan Dollars, Unless Specified otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
KYEC	MediaTek Inc.	The chairman of the Company and the chairman of MediaTek are close relatives	$357,117	3.14	$-	-	$107,485	$-
	MediaTek Singapore Pte. Ltd.	Subsidiary of MediaTek Inc.	$266,717	4.89	$644	-	$104,474	$-
King Long Technology (Suzhou) Ltd.	Suzhou Zhengkuan Technology Ltd.	Associate	$115,503	0.99	$88,837	Accelerate acceptance	$11,060	$-

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

Attachment 7

Intercompany Relationship and Significant Intercompany Transactions
For the year ended December 31, 2015
(Amount in Thousands of New Taiwan Dollars, Unless Specified otherwise)

No.	Company Name	Counter Party	Nature of Relationship	Intercompany Transactions			
				Financial Statement Item	Amount (Foreign Currency in Thousands)	Term	% of Consolidated Net Revenue or Total Assets
0	KYEC	KYEC USA Corp.	1	Commission expenses	$47,598	Month-end 30 days	0.28%
				Other payables	8,206		0.02%
		King Long Technology (Suzhou) Ltd.		Guarantee provided	454,626 (USD 13,850)	Month-end 60 days	-
				Equipment	118,646		0.29%
				Trade Receivables	296		-
				Other Receivables	134,274		0.33%
				Sales	1,644		0.01%
				Deferred credits	57,056		0.14%
		KYEC Japan. K.K.		Other payables	4,529	Month-end 55 days	0.01%
				Commission expenses	31,050		0.18%
		KYEC SINGAPORE PTE. LTD.		Commission expenses	32,140	Month-end 30 days	0.19%
		Suzhou Zhengkuan Technology Ltd.		Guarantee provided	355,604 (USD 10,833)	Month-end 60 days	-
				Equipment	4,448		0.01%
				Other Receivables	4,431		0.01%
1	King Long Technology (Suzhou) Ltd.	Suzhou Zhengkuan Technology Ltd.	3	Sales	110,170	Month-end 60 days	0.64%
				Trade Receivables	115,503		0.29%
				Other Receivables	73,216		0.18%
		KYEC	2	Equipment	107,888	A.M.S. 90 days	0.27%
				Sales	2,567		0.01%
				Trade Receivables	989		-
2	Suzhou Zhengkuan Technology Ltd.	King Long Technology (Suzhou) Ltd.	3	Sales	94	Month-end 60 days	-
				Trade Receivables	109		-

Names, Locations, and Related Information of Investees over the Company exercises Significant Influence (Excluding Information on Investment In Mainland China)
For the year ended December 31, 2015
(Amount in Thousands of New Taiwan Dollars and United States Dollar, Unless Specified otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balances as of December 31, 2015			Net Income (loss) of the Investee	Profits/losses of Investee	Note
				December 31, 2015	December 31, 2014	Shares	Percentage of Ownership	Carrying Value			
KYEC	KYEC USA Corp.	Note 1	Business agent of sales and communication in USA	$4,973	$4,973	160,000	100.00%	$15,685	$(140)	$(140)	
	KYEC Investment International Co., Ltd.	Note 2	Investment activities	5,008,021	5,008,021	157,155,000	100.00%	4,135,791	(147,942)	(147,942)	
	KYEC Technology Management Co., Ltd.	Note 3	Investment activities	251,579	251,579	7,500,000	100.00%	267,124	3,964	3,964	
	KYEC Japan K.K.	Note 4	Electronic parts and components manufacturing and sales, business agent of sales and communication in Japan	102,735	102,735	1,899	89.83%	43,102	7,146	6,418	
	KYEC SINGAPORE PTE. Ltd.	Note 5	Business agent of sales and communication in southeast Asia and Europe area	1,830	1,830	78,000	100.00%	1,128	4	4	
	Dawning Leading Technology Inc.	Note 6	Selling and manufacturing of electronic components	1,021,310	1,019,130	96,511,646	27.29%	1,185,058	152,282	49,786	
	Fixwell Technology Corp.	Note 8	Selling and wholesale of eletronic parts and components and repairing of electronic related products	28,000	28,000	2,800,000	23.33%	40,750	42,450	9,835	
KYEC Investment International Co., Ltd.	KYEC Microelectronics Co., Ltd.	Note 7	Investment activities	USD 96,155	USD 96,155	98,000,000	92.89%	USD 106,026	USD 1,783	-	
	Sino-Tech Investment Co., Ltd.	Note 3	Investment activities	USD 40,000	USD 40,000	40,000,000	100.00%	USD 11,053	USD (3,165)	-	
	Strong Outlook Investment Ltd.	Note 2	Investment activities	USD 21,000	USD 21,000	35,000,000	100.00%	USD 8,915	USD (3,132)	-	
KYEC Technology Management Co., Ltd.	KYEC Microelectronics Co., Ltd.	Note 7	Investment activities	USD 7,500	USD 7,500	7,500,000	7.11%	USD 8,138	USD 1,783	-	

Note 1：101 Meto Drive., #540 San Jose, CA 95110 USA.
Note 2：P.O. Box 957, Offshore Incorporations Centre Road Town, Tortola, British Virgin Islands.
Note 3：Portcullis TrustNet Chambers, P.O. Box 1225, Apia, Samoa.
Note 4：5F 2-3-8 Momochihama, Sawara-ku, Fukuoka 814-0001 Japan.
Note 5：750A Chai Chee Road Unit 07-22 Chee, Singapore 238884.
Note 6：No.118, Zhonghua Rd., Zhunan Township, Miaoli County 350, Taiwan (R.O.C.)
Note 7：P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.
Note 8：No.380, Huashan Rd., Dadu Dist., Taichung City 432, Taiwan (R.O.C.)

Information on Investment in Mainland China
For the year ended December 31, 2015
(Amount in Thousands of New Taiwan Dollars and United States Dollars, Unless Specified otherwise)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated outflow of Investment from Taiwan as of January 1, 2015	Investment Flows		Accumulated outflow of Investment from Taiwan as of December 31, 2015	Net Income (Losses) of the Investee Company	Percentage of Ownership	Share of Profits/Losses (Note 5)	Carrying Amount as of December 31, 2015	Accumulated Inward Remittance of Earnings as of December 31, 2015
					Outflow	Inflow						
King Long Technology (Suzhou) Ltd.	Note 1	$3,463,070 (USD 105,501)	Indirectly investment in Mainland China through companies registered in a third region (Note 2)	$3,402,475 (USD 103,655)	$-	$-	$3,402,475 (USD 103,655)	$55,766 (USD 1,783)	100.00%	$55,766 (USD 1,783)	$3,747,444 (USD 114,164)	$-
Suzhou Zhengkuan Technology Ltd.	Note 3	$2,461,875 (USD 75,000)	Indirectly investment in Mainland China through companies registered in a third region (Note 4)	$2,002,325 (USD 61,000)	$-	$-	$2,002,325 (USD 61,000)	$(174,742) (USD(5,531))	100.00%	$(199,742) (USD(6,296))	$655,472 (USD 19,969)	$-

Accumulated Investment in Mainland China as of December 31, 2015	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$5,404,800 (USD164,655)	$6,061,300 (USD184,655)	$13,411,364

Note 1: Sales and manufacturing of components of automotive data processing machinery, solid memory parts, monitoring burn-in machinery, and testing and assembly service of integrated circuits.

Note 2: The Company got the approval from The Investment Commission, MOEA, to invest indirectly in King Long Technology Ltd.(Suzhou) via KYEC Investment International Co., Ltd. which registered in BVI.

Note 3: IC testing and assembly service, manufacturing and selling of IC Monitoring Burn-In machinery

Note 4: The Company got the approval from The Investment Commission, MOEA, to invest indirectly in Zhen Kun Technology Ltd.(Suzhou) via Sino-tech Investment Co., Ltd which registered in Samoa. Sino-tech Investment Co., Ltd. is invested by KYEC Investment International Co., Ltd. which registered in BVI.

Note 5: Recognition of investment gains (losses) was calculated based on the investee's audited financial statements.

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