

2015 Annual Report

HIWIN TECHNOLOGIES CORP.

2016.6.18

Contents

| | |
|--|----------|
| I. Letter to Shareholders | 1 |
| i. Business Report 2015..... | 3 |
| ii. Business Plan Outline 2016..... | 4 |
| II. Company Profile | 7 |
| III. Corporate Governance Report | |
| i. Organization Chart..... | 13 |
| ii. Information of Directors, Supervisors and Leading Managers | 15 |
| iii. Implementation of Corporate Governance..... | 28 |
| iv. Information on Accountant's Fees | 53 |
| v. Information on Change of Accountant | 53 |
| vi. If the Company's Chairman, General Manager and Managers Responsible for Financial and Accounting Affairs Have Held Office in the CPA Firm or Any of Its Affiliated Companies Within the Last Year, Their Names, Job Titles and the Periods During Which They Have Held Such Office Should Be Disclosed | 54 |
| vii. Transfer and Pledge of Shares by the Chairman, Supervisors, Managers and Shareholders Holding more than 10% of the Company's Shares within the Latest Year and up till the Publication Date of This Annual Report..... | 54 |
| viii. Information of the 10 Largest Shareholders Who Are Related as Stated in Statement of Financial Accounting Standards No. 6, or Couples or Relatives Within the Second Degree of Kinship | 56 |
| ix. The Shareholdings and Joint Shareholding Held by the Company, its Directors, its Supervisors, its Managers and Affiliates Controlled Directly or Indirectly by the Company in the Same Invested Businesses | 57 |
| IV. Capital Overview | |
| i. Capital and Shares | 58 |
| ii. Issuance of Corporate Bonds | 62 |
| iii. Issuance of Preferred Stocks | 62 |
| iv. Issuance of Global Depositary Receipts (GDR) | 62 |
| v. Exercise of Employee Stock Option Plan (ESOP) | 62 |
| vi. Acquisition of New Restricted Stock | 62 |
| vii. Mergers and Acquisitions of New Shares Issued by Other Companies | 62 |
| viii. Execution of Capital Utilization Plan | 62 |
| V. Business Overview | |
| i. Business Content..... | 63 |
| ii Market, Production and Sales Status | 68 |
| iii. Employee Data of the Recent Two Years and Up to the Publication Date | 71 |
| iv. Information Regarding Expenditure on Environmental Protection | 71 |
| v. Labor Relations..... | 73 |
| vi. Important Contracts | 75 |
| VI. Financial Overview | |
| i. Condensed Balance Sheets and Statements of Income for the Past Five Years | 77 |
| ii. Financial Analyses for the Last Five Years | 83 |
| iii. Supervisors' Audit Report of the Financial Report for the Past Year..... | 89 |
| iv. The Financial Report and the Accountant's Audit Report for the Past Year | 90 |
| v. Consolidated Financial Statements Audited by CPA for the Past Year | 90 |
| vi. The Impacts of Any Financial Difficulties Encountered by the Company or Its Affiliates in the Past Year and up to the Annual Report Publication Date on the Company's Financial Status | 90 |
| VII. Review and Analysis of Financial Status, Financial Performance, and Risk Management | |
| i. Financial Status | 91 |
| ii. Financial Performance | 92 |

| | |
|---|-----|
| iii. Cash Flow | 93 |
| iv. Effects of Major Capital Expenditure on Financial Business of the Past Year | 93 |
| v. Investment Policy of the Past Year, Main Causes for Profits or Losses, Improvement Plan and Investment Plan for the Coming Year | 94 |
| vi. Risk Analysis | 94 |
| vii. Other Important Matters | 97 |
| VIII. Special Disclosures | |
| i. Information on Affiliates | 98 |
| ii. Private Placement of Securities during the Past Year and up to the Annual Report Publication Date | 102 |
| iii. Holding or Disposal of Stocks of the Company by Subsidiaries in the Past Year and up to the Annual Report Publication Date | 102 |
| iv. Other Necessary Supplemental Information | 102 |
| v. Events Having Significant Impacts on Shareholders' Equity or Security Price According to Article 36.2.2 of Securities Exchange Act in the past year and up to the issuance of annual report | 102 |
| Appendix | |
| The Financial Report and the Accountant's Audit Report for the Past Year | 103 |

I. Letter to Shareholders

Dear Shareholders,

As the market demand slowed and the economy was in decline in mainland China in 2015, plus the effects of exchange-rate depreciation of yen and euro, the output value of Taiwan's manufacturing industry in 2015 was down 10.8% from 2014. Moreover, Japanese competitors set up factories in mainland China and went off the beaten track to use equipment and materials made in mainland China to reduce the cost, thus competing in the global marketplace with lower-priced linear guideway. The company's consolidated revenue was NT\$ 14.89 billion in 2015, down 1% from last year's NT\$ 15.9 billion. The reason why HIWIN was still able to deliver stable performance in such a weak economy and competitive environment is that it has made long-term investment in innovations and expanded the product line and its global market layout is deep and broad, which can show our business capacity.

In terms of research and development, HIWIN is devoted to developing middle and high-end products, such as smart screws, linear guideway and robots, moving towards the goal of realizing industry 4.0. Using the smart ball screw and linear guideway system displayed in EMO 2015, the operator can monitor the machine production state remotely from the cloud and predict the time to replace spares with a smart phone, truly realizing intelligent manufacturing of industry 4.0. AB/AC axis, the key system part of five-axis processing machine with linear motor at the core starts delivery, leading Taiwan's machine tools into the era of five-axis combined processing machine through transformation and upgrading. As for manufacturing capacity, the execution of vertical and horizontal integration is being sped up. HIWIN cooperates with end product manufacturing process to provide machine design service, converged device, machine arm and electromechanical parts, and authorized equipment manufacturers' operation mode of the total solution, which also starts a "new era of original service" of HIWIN.

HIWIN aims to become the world's major robot manufacturer, design and build a smart and automatic production line for its customers and provide one-stop integrated service. Throughout 2015, there were many successful application cases of HIWIN's various robots in many industries, such as electron, medical service, food, banks, consumer goods, machine tools, industrial machinery, panels and PCB. IFR estimates that the global demand for various robots will exceed 1.3 million in 2018, so HIWIN is ready to shine in the field of robots.

HIWIN succeeded in purchasing Luren Precision in 2015, a special machine tool factory of high-precision gear cutter and gear manufacturing process in Taiwan, whose hardware and software technology related to gear and gear cutter can greatly assist HIWIN in building various globally competitive robots, completing the puzzle in HIWIN's key manufacturing process field of robots. In addition, for future development, HIWIN positively enlarged the scale of investment in Taiwan, mainland China, Germany, Japan, America and Italy and built a more detailed marketing network, both of which would add new functions to future revenue growth and lay a solid foundation for HIWIN's moving towards the world's No.1 leading brand.

HIWIN continued to focus on R&D innovation and brand marketing in 2015 and gained recognition from media at home and abroad. It ranked 5th in Top 100 Fastest Growing Enterprises 2009~2014 published by Nikkei Business and it's also the only Taiwanese enterprise in the top 20; it ranked 37th in Forbes Top 100 Global Innovators again; it's weight was in top 10 of Nasdaq's Robo-Stox constituents; it won Taiwan Excellence Gold Award and Taiwan Excellence Silver Award given by the Ministry of Economic Affairs for the 15th consecutive year; it's been in Top 20 Most Innovative Taiwanese Companies selected by Ministry of Economic Affairs for 5 consecutive years (2011~2015); besides, it also won Excellence in Corporate Social Responsibility (CSR) Award and its CSR report was accredited by AA1000 and won Taiwan Corporate Social Award and Growth Through Innovation Award.

HIWIN has long been devoted to operation and pursuing solid growth and performs its duties as a corporate citizen in its global sites. "HIWIN Thesis Award" is held in Taiwan for the 13th time, having a giant effect on research and teaching of universities; HIWIN commissions Chinese Mechanical Engineering Society (Beijing) to hold "HIWIN Doctoral Dissertation Award" (candidates are from mainland China, Taiwan, Hongkong and Macao) in mainland China, and it has been held for the 6th time and become a benchmarking award in mainland China; It is estimated that the compound library it donates to 6 elementary schools in Hsinchu will be completed and open in Sep. 2016. It continues to cooperate with universities in industry-university cooperative projects to help students build competency for their future jobs; it cooperates with universities to set joint research and development centers, combine specialties of the industry and schools and cultivate senior talents in medical engineering and rehabilitation technology; it assists universities in setting up a training center of industrial robot application, expecting this center to become one of the important training bases of Taiwan's robot professionals; it denotes "Robotic Gait Training System" to hospitals to refine rehabilitation and medical quality through their service platform and influence, benefiting more patients.

Looking ahead to 2016, we can see that the global economy tends to recover; although it recovers slowly and conservatively, opportunities and challenges coexist. The "Robotic Gait Training System" it had worked on for years was officially approved for sale by China Food and Drug Administration in March 2016. Mainland China is energetically pushing for "Made in China 2025" and has included robots in the 13th Five Year Plan; the demand for intelligent manufacturing and robots is rising rapidly, which is the best opportunity for HIWIN. On the other hand, America's economic growth slows and depreciation effects of yen and euro continue, both of which will intensify the industry competition. Therefore, facing the transformation of the overall environment, we will respond prudently, continue to invest R&D resources, develop new products, improve manufacturing process and enhance operating efficiency. As a leading company in the development of intelligent manufacturing and intelligent automation thanks to our innovative thinking, we believe we will cooperate with Taiwanese and global customers to go to the future of industrial upgrading, becoming the best partner of customers in industry 4.0.

Here, I'd like to thank all our colleagues for their tireless efforts and all shareholders, government agencies and banking consortia for their support; I appreciate shareholders' long term support for

HIWIN's management team in innovation and building its global brand position and I hope you will continue supporting us and giving us advice in the new year.

The implementation results of the business plan 2015 are shown as below:

i. Business Report 2015

(i) Implementation Results of the Business Plan

The combined financial statement shows the revenue for 2015 was NT\$ 14.881,048 billion, down 1% from NT\$ 15.087336 billion in 2014; the operating profit was NT\$ 1.902617 billion, down 33% from NT\$ 2.847835 billion in 2014; the net profit before tax was NT\$ 1.834186 billion, down 37% from NT\$ 2.910942 billion in 2014; the net profit after tax belonging to the owner of the parent company was NT\$ 1.642238 billion, down 32% from NT\$ 2.404906 billion in 2014; the earnings per share were NT\$ 6.10, down 32% from NT\$ 8.93 in 2014.

(ii) Financial Revenues and Expenditures, and Profitability Analysis

1. Financial Revenues and Expenditures

Unit: Billion

| Item \ Year | Number of Certified Financial Statements in 2015 | |
|---|--|------------|
| | Amount | Percentage |
| Net Revenue | 14.881048 | 100% |
| Operating Costs | 9.547429 | 64% |
| Operating Margin | 5.333619 | 36% |
| Operating Expenses | 3.431002 | 23% |
| Operating Profit | 1.902617 | 13% |
| Non-Operating Net Expenditure | 0.068431 | 1% |
| Net Profit After Tax | 1.394559 | 9% |
| Net Profit After Tax Belonging to the Owner of the Parent Company | 1.642238 | 11% |

Note: this is a combined financial statement and our company doesn't disclose the financial forecasting 2015, so the budget achieving rate cannot be disclosed.

2. Profitability Analysis

| Item | 2015 |
|--|------|
| Return On Assets | 5% |
| Return On Equity | 10% |
| Operating Profit/Paicl-Up Capital Ratio | 71% |
| Net Profit Before Tax/Paicl-Up Capital Ratio | 68% |
| Net Profit Ratio | 9% |
| Earnings Per Share (NT\$) | 6.10 |

(iii) State of Research and Development

1. In 2015, R&D expenditure accounted for 6 of the business volume; 184 patent applications were filed and 179 Letters Patents were issued; we had 1170 valid patents by the end of 2015.

2.Our Rankings in Top 100 Patents 2015 Selected by Taiwan Intellectual Property Office, MOEA (Legal Persons in Taiwan):

- (1)Patent applications ranked 41st
- (2)Invention Patent Applications ranked 54th
- (3)Invention Patent Certificates ranked 60th
- (4)Patent Certificates ranked 63rd

Its R&D achievements are second to none in the field of metal, steel and precision machinery in Taiwan, holding onto its leadership position.

3.The single axis robot module won iF and Red Dot awards, setting a precedent; Delta Robot, a parallel one, won Taiwan Excellence Silver Award given by the Ministry of Economic Affairs.

4.R&D Achievements:

- (1)Development of new recirculating ball screw (Super Z)
- (2)Continued development and volume production of high speed ball screw (Super T)
- (3)Development of next-generation smart ball screw
- (4)Development of short-stroke small screw
- (5)The robotic gait training system MRG-P100 was certified by China Food and Drug Administration.
- (6)The robotic endoscope holder MTG-H100 and the robot for bath MHS-B100 achieved ISO13485 certification.
- (7)Development of Electric Power Steering (EPS)
- (8)Expansion and volume production of small integrated single axis robotic arm, articulated robotic arm and parallel robotic arm and electric clamping jaw
- (9)Development of long-stroke single axis robot module
- (10)Development and volume production of AB axis and AC axis.

ii. Business Plan Outline 2016

(i) Business Policy

- 1.Strengthening technology integration of product modules
- 2.Broadening and deepening intelligent manufacturing
- 3.Building vertical and horizontal marketing network synchronously
- 4.Providing system integration service and total solution.

(ii) Expected Sales Volume and Its Basis

- 1.The expected sales volume of our company for 2016 is shown as below:

Unit: NT\$ 1000

| Product Category | Sales Volume |
|------------------|--------------|
| Ball Screw | 1,595 |
| Linear Guideway | 18,466 |
| Industrial Robot | 324 |
| Total | 20,385 |

2.Basis

The company's product sales volume for 2016 is estimated based on the global economic trend, the industrial management environment, market supply and demand, competition situation, an analysis of business development of the existing client base and potential customer development progress and the balance of production and marketing.

(iii) Important Production and Sales Policy

1. Providing customers with solutions based on collaborative design and original service;
2. Electromechanical integrated marketing; providing robot system service; making horizontal alliances based on the Partner Ecosystem thinking to become the best partner of customers in automation and manufacturing upgrading;
3. Focusing on the global channel and building a new business model of local fast delivery to meet market demand rapidly;
4. Realizing intelligent automation of production, strengthening quality control, reducing costs and providing customers with stable and high precision products.

(iv) Future Company Development Strategy

1. Extending from the core technology, it'll develop diversified products and enter new markets, such as medical treatment and energy.
2. It'll continue to innovate R&D, create product differentiation and strengthen market competitiveness.
3. It'll accelerate product system modularization to satisfy new market demands of future elastic design and original services.
4. It'll guide intelligent manufacturing and industry upgrading with intelligent and automatic products to propel industry 4.0.
5. It'll apply robot products to various industries and enhance the ration of key self-made components.

(v) Effects of External Competitive Environment, Regulatory Environment and Overall Business Environment

Though the global economy expects to expand at a tepid pace in 2016, there are many uncertain factors: financial crisis of emerging economies due to interest rate rise in America, asynchronism of major countries in quantitative easing policies, the financial market turbulence derived from the depreciation of exchange rate in countries, whether global terrorist attacks can be stopped successfully and challenges and opportunities coexisting in the market.

On the other hand, as there's a shortage of labor and a pay rise in mainland, and the demographic dividend is being lost, and labor-intensive manufacturing industry is transforming to technology-intensive manufacturing industry, the demand for diversified and supermatic industrial robots is on the rise.

Having long been devoted to developing new products positively, HIWIN has the greatest diversity of robots. With its core technology and ability to make key components by itself, it has become the best partner of customers in industry upgrading and moving towards intelligent and automatic industry. Along the way, these results of efforts are the best weapon for HIWIN to

confront external business environment changes and horizontal competition. Therefore, facing future management and development, we're confident that we can continue to expand market in the fast-changing environment and march towards number one in the world.

Truly Yours

Eric Y. T. Chuo (Chairman)








HIWIN Technologies Corp.

II. Company Profile

1. Establishment Date

1989年 •Established in Oct.

2. Company History

- | | | |
|------|---|---|
| 1992 | <ul style="list-style-type: none"> •Set up a subsidiary in USA. •Acquired ISO 9001 certification through SGS, UK.  | |
| 1993 | <ul style="list-style-type: none"> •Acquired HOLZER and set up a subsidiary in Germany. •Acquired Aircraft Quality Systems Approval by McDonnell Douglas Corp., USA. •Precision Ballscrew Awarded the 1th “Taiwan Excellence Silver Award”. |  |
| 1996 | <ul style="list-style-type: none"> •Merged with Finest Ballscrew Company, Taiwan.  | |
| 1997 | <ul style="list-style-type: none"> •Acquired ISO 14001 certification from TÜV Germany. |  |
| 1999 | <ul style="list-style-type: none"> •Linear Bearing Awarded the 7th “Taiwan Excellence Gold Award”. •Strategic alliance formed with Parker Hannifin, USA. •HIWIN Linear Guideway was Awarded the 8th “Taiwan Excellence Award”. •Set up a subsidiary in Japan. |   |
| 2000 | <ul style="list-style-type: none"> •HIWIN Germany reinvested HIWIN Switzerland. •Awarded the “Excellence Award” of the 8th “Industrial Technology Advancement Award” from MOEA. •Awarded the 1st “Industrial Excellence Award” by MOEA. •Ranked 79th in Top Patents 100 of National Institutional Corps in Taiwan. |  |
| 2001 | <ul style="list-style-type: none"> •HIWIN Germany reinvested HIWIN Czech Republic. •High Speed Ballscrew Awarded 9th “Taiwan Excellence Silver Award”. •Ranked 816th in Top 1,000 Manufacturers 2001 by Common Wealth Magazine. |  |
| 2002 | <ul style="list-style-type: none"> •Self-lubricated Linear Guideway Awarded the 10th “Taiwan Excellence Silver Award”. •Awarded the Gold Medal of the 11th “National Invention Award” by MOEA. •Awarded “Outstanding Promoter” of “National Award of Excellence-Taiwan”. •Ranked 65th in Top 100 Patents of National Institutional Corps in Taiwan. •Ranked 855th in Top 1,000 Manufacturers 2002 by Common Wealth Magazine.  •Acquired OHSAS 18001 Occupational Safety and Health Certificate by TÜV Germany. |    |
| 2003 | <ul style="list-style-type: none"> •Precision Linear Module Awarded the 11th “National Product Image Gold Award”. •Purchased a land with an area of 15,332 tsubo in Yun-Lin Science Industrial Park and built a plant in the first phase. •Ranked 734th in Top 1,000 Manufacturers 2003 by Common Wealth Magazine. |  |
| 2004 | <ul style="list-style-type: none"> •Awarded “Most Outstanding” of the 12th “Industrial Technology Advancement Award” by MOEA. |  |

- Continued the expansion of the new factory in Yun-Lin Science Industrial Park and started production.
- R&D Center in Tokyo, Japan was founded.
- Hosted the first HIWIN THESIS AWARDS.
- Ranked 603rd in Top 1,000 Manufacturers 2004 by Common Wealth Magazine.
- 2005 •Awarded the 2nd Taiwan Superior Brands Award by Bureau of Foreign Trade, MOEA.
- All-Electric Injection Molding Machine Ballscrew Awarded the 11th “National Product Image Gold Award”.
- Selected “Enterprise Citizen” by Common Wealth Magazine.
- Ranked 79th in Top 100 Patents of National Institutional Corps in Taiwan.
- Ranked 552nd in Top 1,000 Manufacturers 2005 by Common Wealth Magazine.
- 2006 •Won First Place in the competition of acquiring new land in Taichung Precision Machinery & Innovation Park planned by Taichung City Government among over 500 companies and got a land of 12,665 tsubo.
- Awarded the 3rd Taiwan Superior Brands Award by Bureau of Foreign Trade, MOEA.
- Super S Ballscrew Awarded the 14th “Taiwan Excellence Silver Award”.
- New factory started in Chicago, US.
- Ranked 40^h in Top 100 Patents of National Institutional Corps in Taiwan.
- Ranked 513th in Top 1,000 Manufacturers 2006 by Common Wealth Magazine.
- 2007 •Ranked 3rd of “Excellence in Corporate Social Responsibility” honor in mid-size company category from Common Wealth Magazine.
- Selected as the benchmarking company in “Flagship Enterprise Development Project” by MOEA.
- Groundbreaking for the new headquarter in Taichung Precision Machinery & Innovation Park.
- Acquired new land and started new plant in Tanzi.
- Acquired ISAT certification from Applied Material (USA) and became a qualified supplier.
- Ranked 32nd in Top 100 Patents of National Institutional Corps in Taiwan.
- HIWIN Germany acquired new factory and land with an area of about over 2000 square metres to merge with the old plant and expand production capacity.
- RG Linear Guideway Awarded the 10th “Taiwan Excellence Silver Award”.
- Ranked 440th in Top 1,000 Manufacturers 2007 by Common Wealth Magazine.
- 2008 •Ranked 3rd of “Excellence in Corporate Social Responsibility” honor in mid-size company category from Common Wealth Magazine.
- 105,214 m² land in Dapumei Intelligent Industrial Park Registered.
- E2 Series Awarded the 16th “Taiwan Excellence Gold Award”.



- Awarded the Industry Contribution Award of “National Invention Award” 2008 from Intellectual Property Office, MOEA.
- Hosted the first HIWIN Intelligence Robotic Competition.
- Ranked 36th in Top 100 Patents of National Institutional Corps 2008 in Taiwan.
- Obtained the certification of Taiwan Occupational Safety & Health Management System (TOSHMS).
- Ranked 380th in Top 1,000 Manufacturers 2008 by Common Wealth Magazine.
- 2009 •Ranked 3rd of “Excellence in Corporate Social Responsibility” honor in mid-size company category from Common Wealth Magazine.
- Energy Conservation Driving Module R1 Series was Awarded the 17th “Taiwan Excellence Gold Award”.
- Listed on the Taiwan Stock Exchange.
- Awarded Taiwan Superior Brands Award 2009 by Bureau of Foreign Trade, MOEA.
- CEO was honored the Gold Merit winner of National Innovation Award (Individual Category) by Intellectual Property Office, MOEA.
- Honored with the Excellent Copr. Award for Reserve Military Officer by Ministry of National Defense.
- 20th anniversary of HIWIN.
- Reinvested MegaFabs Motion Systems LTD in Israel.
- Ranked 33rd in Top 100 Patents of National Institutional Corps 2009 in Taiwan.
- Ranked 471st in Top 1,000 Manufacturers 2009 by Common Wealth Magazine.
- 2010 •Additional 97,567 m² land in Dapumei intelligent Industrial Park Registered, total land area reaching 149,706 m².
- Energy Conservation Driving Module SK Series Awarded the 18th “Taiwan Excellence Gold Award”.
- Ranked 59th in Top 100 Patents of National Institutional Corps 2010 in Taiwan.
- Received the 2nd Contribution Award for Job Creation from Executive Yuan.
- Honored with the Contribution Award for Providing Job Opportunities to Veterans by Executive Yuan.
- Received the Contribution Award for Job Creation from Taichung City Government.
- Awarded the National Champion Award by MOEA for committing public facilities green landscaping, and employing specialists for long term maintenance.
- Ranked 313th in Top 1,000 Manufacturers 2010 by Common Wealth Magazine.
- Ranked 2nd of “Excellence in Corporate Social Responsibility” honor in mid-size company category from Common Wealth Magazine.
- 2011 •Received the 1st Contribution Award for Job Creation from Executive Yuan.
- Energy-Saving & Thermal-Controlling Ballscrew C1 Series Awarded the 19th “Taiwan Excellence Gold Award”.



- Awarded Taiwan Top 100 Brands by Bureau of Foreign Trade, MOEA.
- Awarded the first “Monte Jade Innovation Award” by Monte Jade Science and Technology Association.
- Awarded the first “Taiwan Green Classic Award” by MOEA.
- Awarded Taiwan Top 10 Innovative Enterprises 2011 by MOEA.
- Awarded National Enterprises Innovation Award.
- Received the “Taiwan TrainQuali System-Enterprise TTQS” Silver Award.
- Hosted 1st Annual HIWIN Doctoral Dissertation Award.
- CEO was honored with the Management of Technology Award from Chinese Society for Management of Technology.
- CEO was honored with SUPER MVP Manager of the year from Manager Today Magazine.
- CEO was awarded the Honorary Doctor of Engineering from National Kaohsiung First University of Science & Technology.
- CEO received the Honorary Professor glory from Dalian University of Technology.
- Ranked 33rd in Top 100 Patents of National Institutional Corps 2011 in Taiwan.
- Ranked 223th in Top 1,000 Manufacturers 2011 from Common Wealth Magazine.



2012

- Honored with the Contribution Award for providing job opportunities to alternative military service from Ministry of the Interior.
- Acquired Greenhouse Gases Emissions ISO14064-1 Certificate.
- Acquired Product Carbon Footprint PAS 2050-1Certificate.
- Ranked No. 1 of the Best Business Performance from 2009~2011 by Common Wealth Magazine.
- Awarded for the safety working environment record of continuously occupational accidents or injuries free by Council of Labor Affairs.
- Ranked the No.21 of the Taiwan “2012 Excellence in Corporate Social Responsibility” under the category of large-scale enterprise by Common Wealth Magazine.
- Recirculation Divide Ballscrew RD Series Awarded with the 20th “Taiwan Excellence Gold Award”.
- The new HIWIN Global Headquarter and R&D Center were officially opened.
- Forbes 2012 Honor “200 Best Under A Billion”.
- Awarded “Taiwan Top 20 Innovative Enterprises” by Ministry of Economic Affairs.
- TTQS Certificate of TaiwanTrainQuali System Enterprise Version Gold.
- CEO was awarded the Honorary Doctor of Business Administration from National Chung Cheng University.
- Ranked 257th in Top 1,000 Manufacturers 2012 from Common Wealth Magazine.
- CEO was awarded the 6th National Excellence Manager Outstanding Achievement Award by Chinese Professional Management Association. In the meantime, the Associate Vice President Dr. Jerry Chiu was awarded the 30th National Excellence R&D Manager Award.
- Operational Headquarters Received the honor of “Taichung Outstanding Healthy Workplace” by Bureau of Health Promotion, Department of Health, ROC.



- 2013
- Awarded the first Taiwan Mittelstand Award.
 - Crossed Roller Bearing Series Awarded with the 21th “Taiwan Excellence Gold Award”.
 - Received the “Taiwan TrainQuali System-Enterprise TTQS” Gold Award.
 - Acquired ISO 13485 certification.
 - Honored with the SGS 18 Years Merit Award by SGS Yarsley Ltd., UK.
 - Awarded “Taiwan Top 20 Innovative Enterprises” by Ministry of Economic Affairs.
 - CEO was awarded the Honorary Alumnus with Golden Eagle Award by Tamkang University.
 - Started Management Associate Program to develop international marketing talents.
 - HIWIN signed the Industry-Academy Collaboration contract with Taichung Industrial High School and National Taiwan University of Science and Technology, to foster the future leaders.
 - “Chuo Yung-Tong Memorial Library” donation contract signing ceremony was held in Dec. 2013.
 - HIWIN released the first “Corporate Social Responsibility Report”.
 - Subsidiaries in Singapore, South Korea, and Italy, were founded.
 - Ranked 259th in Top 1,000 Manufacturers 2013 from Common Wealth Magazine.
- 2014
- Tangential External Recirculation Ballscrew Super T Series Awarded with the 22th “Taiwan Excellence Gold Award”.
 - Introduced the Toyota Production System (TPS) for improvement.
 - Ranked No.50 of “The World’s Most Innovative Growth Companies 2014” by Forbes.
 - HIWIN was selected as No.1 weighted component in the investment benchmark Index “The ROBO-STOX Global Robotics & Automation Index “ among 81 promising worldwide companies.
 - HIWIN established collaborative research centers with National Tsing Hua University.
 - HIWIN-MPEI(Moscow Power Engineering Institute) Precision Electrical Engineering Research Center established.
 - HIWIN teamed up with industrial computer supplier Advantech Co.
 - Stone ceremony for the second factory of HIWIN GmbH was held.
 - Awarded with Taiwan Top 20 Innovative Enterprises by MOEA.
 - HIWIN Robotic Gait Training System acquired the CE Medical Devices Certificate.
 - Subsidiary in Suzhou, China, was founded.
 - Held the groundbreaking ceremony of “Chuo Yung-Tong Memorial Library”.
 - Awarded the “Taiwan Corporate Sustainability Awards (TCSA)” and honored with “Social Inclusion Award”.
 - Selected as one of the favorite enterprise for R&D alternative service.
 - Acquired the Certification of Taiwan Intellectual Property Management System (TIPS).
 - Ranked 227th in Top 1,000 Manufacturers 2014 from Common Wealth Magazine.
- 2015
- Acquired 48% stake in Luren Precision Co.,Ltd.
 - Acquired the certification of ISO 50001 Energy Management System.
 - Ranked No.37 of “The World’s Most Innovative Growth Companies 2015” by Forbes.

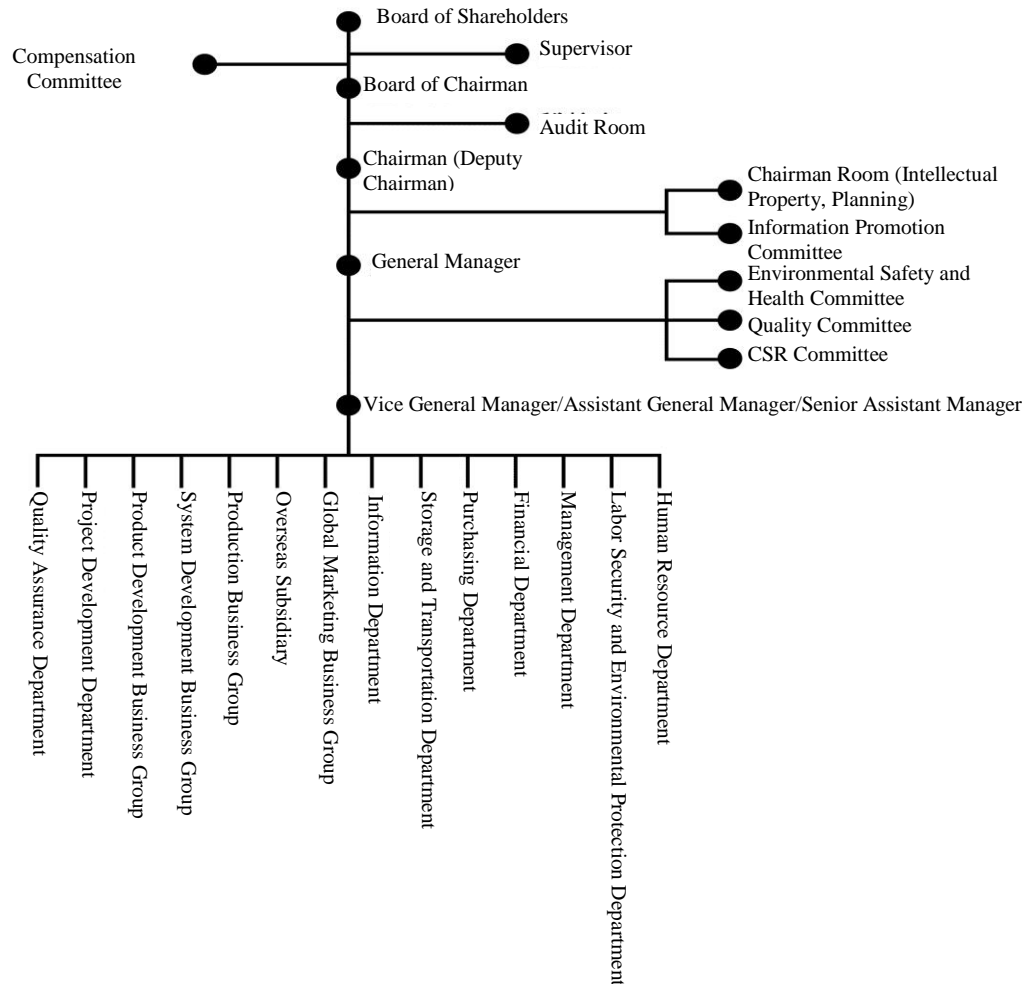


- Robotic Gait Training System MRG-P100 Awarded with the 23th “Taiwan Excellence Gold Award”.
 - General Manager Enid Tsai was honored “50 Power Businesswomen In Asia” by Forbes, the only one from Taiwan.
-
- Released “Corporate Social Responsibility Report” 2013~2014 and acquired AA1000 certification.
 - Awarded Taiwan Corporate Sustainability Awards (TCSA) and Growth through Innovation Awards.
 - Ranked the No.31 of the Taiwan “Excellence in Corporate Social Responsibility” under the category of large-scale enterprise by Common Wealth Magazine.
 - Cooperated with China Medical University to set up a R & D Center.
 - Entered Top 20 Innovative Companies selected by MOEA.
 - Started a new project of “Jingke Plant II”.
 - Held the groundbreaking ceremony of dormitories of Taichung City Precision Machinery Innovation Technology Park.
 - CEO was awarded an honorary doctorate of philosophy from National Tsing Hua University and an honorary doctorate of engineering from Taiwan University of Technology.
-
- 2016
- Rated as No.5 in Top100 Global Growth Enterprises by Nikkei Business Publications.
 - Held cornerstone-laying ceremony for a new plant of HIWIN China.
 - Ranked in the top 5 percent of listed companies in the 2nd Corporate Governance Evaluation.
 - The single axis robot module won iF and Red Dot awards.
 - Delta Robot, a parallel one, won Taiwan Excellence Silver Award.
 - CEO Ranked 25th in Top 50 Taiwanese CEOs 2015 selected by Harvard Business Review.
 - Cooperated with China Medical University to set up a R & D Center.

III. Corporate Governance Report

i. Organization System

(i) Organization Chart



(ii) Functions of Each Main Department

- **Audit Room**
Corporate management risk assessment and normal audit
- **Chairman Room**
The company's business objective setting, promotion of major plans, business performance appraisal and analysis, activity planning, brand management, overseas procurement, legal management and intellectual property management
- **Human Resource Department**
Planning, management, selection, training and retention of human resource, and educational training
- **Labor Security and Environmental Protection Department**
Having specific responsibility for environmental protection and health, labor safety and health, and plant safety management
- **Management Department**
Building and maintaining the general affairs management system

- **Financial Department**
Budgeting and capital planning, financial affairs, accounting and taxation planning, and evaluation management of overseas subsidiaries reinvestment companies
- **Purchasing Department**
Domestic procurement of production equipment and raw materials
- **Storage and Transportation Department**
Warehouse management of raw materials, semi-finished products and finished products, and product shipping
- **Information Department**
Information system planning, software development, safety and operation of maintenance information network system
- **Global Marketing Business Group**
Marketing management, market survey, new product planning, market expanding and customer service
- **Overseas Subsidiary**
Marketing management, market survey, new product planning, market expanding, customer service and product processing and manufacturing
- **Production Business Group**
Manufacturing of products, including ball screws, linear guideway, linear bearing, special bearing and robots
- **System Development Business Group**
Equipment development, design, assembling and maintenance, system product development and manufacturing, and plant electric system maintenance
- **Product Development Business Group**
Research and development of new products and subsystem products, drawing design, and customers' technology consulting
- **Project Development Department**
Research and development of major new products and equipment, and project planning and implementation
- **Quality Assurance Department**
Product quality system building, implementation and auditing, and quality control

ii.Information of Directors, Supervisors and Leading Managers

(i)Information of Directors and Supervisors

April 30, 2016

Unit: shares; %

| Title | Nation ality or Registr ation Place | Name | Date of Assumption of Duty (Selection) | Term of Office | Date of Selection for the First Time | Shares Held at the Date of Selection | | Shares Held Now | | Shares Held Now by Spouse and Minor Children | | Shares Held under the Names of Others | | Main Experiences (Education Background) | Posts Held in This Company and Other Companies | With Spouse or a Relative Within the Second Degree of Kinship Who Are a Director or Supervisor | | |
|--------------------------|---|-----------------|---|----------------------|---|---|---------------------------|---------------------|---------------------------|--|---------------------------|---|---------------------------|---|--|---|--------------------|------------------------------------|
| | | | | | | Number of Shares | Shareh olding Ratio | Number of Shares | Shareh olding Ratio | Number of Shares | Shareh olding Ratio | Number of Shares | Shareh olding Ratio | | | Title | Name | Relati onship |
| Chairman | Taiwan | Eric Y. T. Chuo | June 28, 2013 | 3 years | Sep. 26, 1989 | 13,261,363 | 5.38% | 13,535,572 | 5.03% | 1,022,974 | 0.38% | - | - | Master of Management at University of San Francisco Honorary Doctor of Management at National Chung Cheng University Honorary Doctor of Engineering at National Kaohsiung First University of Science and Technology Honorary Doctor of Engineering at Taiwan University of Technology Honorary Doctor of Philosophy at National Tsing Hua University | Note 1 | Director | Zhuo Wenheng | Father -Son Relati onship |
| Deputy Chairman | Taiwan | Chen Jin-tsai | June 28, 2013 | 3 years | Dec. 3, 1989 | 5,513,031 | 2.24% | 3,902,436 | 1.45% | 2,958,714 | 1.10% | - | - | Master of Accounting at Tamkang University | Note 2 | - | - | - |
| Director | Taiwan | Hui-Chin Tsai | June 28, 2013 | 3 years | Sep. 26, 1989 | 4,362,044 | 1.77% | 4,350,649 | 1.62% | - | - | - | - | Doctor of Organizational Psychology at Philips Academy | Note 3 | - | - | - |
| Director | Taiwan | Li Xunqin | June 28, 2013 | 3 years | Dec. 3, 1989 | 11,588,546 | 4.70% | 12,380,116 | 4.60% | 2,531,708 | 0.94% | - | - | Having a Certificate of Completion from University of California at Berkeley | Note 4 | - | - | - |
| Director | Taiwan | Zhuo Wenheng | June 28, 2013 | 3 years | Aug. 16, 1993 | 5,428,407 | 2.20% | 5,931,765 | 2.20% | - | - | - | - | Master of Business Administration from at Dominican University | Note 5 | Chairma n | Eric Y. T. Chuo | Father -Son Relati onship |
| Independe nt Director | Taiwan | Jiang Zhenghe | June 28, 2013 | 3 years | June 24, 2008 | - | - | - | - | 188,800 | 0.07% | - | - | Master of Administration at National Chengchi University | - | - | - | - |
| Independe nt Director | Taiwan | Chen Zeyu | June 28, 2013 | 3 years | June 28, 2013 | - | - | - | - | - | - | - | - | Having graduated from Bank Insurance Department of Tamkang University | - | - | - | - |

| | | | | | | | | | | | | | | | | | |
|------------|--------|------------------------------|---------------|---------|----------------|-----------|-------|-----------|-------|-----------|-------|---|---|--|---|---|---|
| Supervisor | Taiwan | Sanko Investments Limited | June 28, 2013 | 3 years | June 30, 2004 | 2,814,575 | 1.14% | 3,075,561 | 1.14% | - | - | - | - | - | - | - | - |
| | Taiwan | Representative: Hunag Yousan | | | June 25, 2007 | - | - | - | - | 1,000,110 | 0.37% | - | - | Chairman of Shengli Iron And Steel Company | - | - | - |
| Supervisor | Taiwan | Zhang Liangji | June 28, 2013 | 3 years | April 21, 1997 | 1,727,340 | 0.70% | 1,887,510 | 0.70% | 229,478 | 0.09% | - | - | Bachelor of Commerce at Chinese Culture University | - | - | - |

Note1: Chairman of this company, HIWIN America, HIWIN Germany, HIWIN Japan, HIWIN Singapore, HIWIN South Korea, HIWIN China, HIWIN Investment Corporation, HIWIN Mikrosystem Corp. and Hulk Energy Technology Co., Ltd., legal representative of SUNENGINE CORPORATION LTD., chairman of HIWIN Education Foundation, supervisor of Chengda Venture Group and chairman of Luren Precision Co., Ltd.

Note 2: Deputy chairman of this company, WIN Semiconductors Corp., Inventec Solar Energy Corporation and Kinmac Solar Corporation, director of ITEQ Corporation, independent director of Tong Hsing Electronic Industries Limited and Kinsus Interconnect Technology Corp., director of Namchow Chemical Industrial Ltd. and supervisor of Taipei Financial Center Corporation.

Note 3: General Manager of this company, director of HIWIN America, HIWIN China, HIWIN Investment Corporation and HIWIN Education Foundation, and chairman of HIWIN Healthcare Corp.

Note 4: Chairman of Zhengjie Enterprise Limited, Zhenqiang Limited and Naqiang Limited.

Note 5: Executive vice president of this company, director of HIWIN America, HIWIN Japan, HIWIN Singapore, HIWIN South Korea, HIWIN Investment Corporation and HIWIN Corporate Management Company, director of Hulk Energy Technology Co., and director of HIWIN Education Foundation.

1. Principal Shareholders of Institutional Shareholders

April 30, 2016

| Name of Institutional Shareholders | Top 10 Shareholders of Sanko Investments Limited | |
|------------------------------------|--|--------------------|
| | Name | Shareholding Ratio |
| Sanko Investments Limited | Huang Jingyi | 25% |
| | Huang Yicang | 25% |
| | Huang Mingcang | 25% |
| | Huang Xiaoyu | 25% |

2. Information of Directors and Supervisors

| Name | Requirements | Whether work experience of over 5 years and professional qualifications below are equipped | | | Conformity to Independence | | | | | | | | | | The number of other public companies where posts of independent directors are held by these people |
|---|--------------|---|--|--|----------------------------|---|---|---|---|---|---|---|---|----|--|
| | | The title ranks above lecturer in departments of commerce, law, accounting or related to company business public and private universities and colleges. | Judge, procurator, lawyer, accountant or professional personnel (having national certificates) related to company business | Work experience in commerce, law, finance, or accounting or required by company business | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| Chairman: Eric Y. T. Chuo | | | ✓ | | | | | | | | ✓ | | ✓ | ✓ | 0 |
| Deputy Chairman: Chen Jin-tsai | | | ✓ | | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 2 |
| Director: Hui-Chin Tsai | | | ✓ | | | | | ✓ | | | ✓ | ✓ | ✓ | ✓ | 0 |
| Director: Li Xunqin | | | ✓ | | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Director: Zhuo WenHeng | | | ✓ | | | | | | | | ✓ | | ✓ | ✓ | 0 |
| Independent Director: Jiang Zhenghe | | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Independent Director: Chen Zeyu | | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Supervisor and Legal Representative of Sanko Investments Limited: Huang Yousan | | | ✓ | | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | 0 |
| Supervisor: Zhang Liangji | | | ✓ | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |

(1) Not an employee of the Company or other affiliates;

(2) Not a director or supervisor of the Company (the same does not apply if the person is an independent director of the parent company or subsidiaries where the company have over 50% voting shares directly or indirectly);

(3) Not an individual shareholder in Top 10 Shareholders or the company where he/she, his/her spouse and minor children have over 1% of the total issued shares or have such shares in the name of others;

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

(5) Not a director, supervisor, or employee of institutional shareholders having over 5% of the total issued shares or

in Top 5 Shareholders;

- (6) Not a director, supervisor, manager or shareholder having 5% of the shares of the specified company or agency that have financial transaction or business contact with the company;
- (7) Not a professional, proprietor, partner, company or the owner, partner, director, supervisor, manager or spouse of the professional consulting entities providing services or consultation in business, law, finance and accounting for the Company or its affiliates. Excluding members of compensation committee who exercise power in accordance with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Compensation committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.
- (8) Not the spouse or a relative within the second degree of kinship of any other director of the Company.
- (9) Not being involved in any of the situations set forth in Article 30 of the Company Act.
- (10) Not a government agency, juristic person, or its representative set forth in Article 27 of the Company Act.

(ii)Information of General Manager and Vice General Managers, Assistant Managers, and Directors of Departments and Branches

April 30, 2016

| Title | Nation ality or Registr ation Place | Name | Date of Assumption of Duty (Selection) | Shares Held | | Shares Held Now by Spouse and Minor Children | | Shares Held under the Names of Others | | Main Experiences (Education Background) | Posts Held in Other Compa nies Now | With Spouse or a Relative Within the Second Degree of Kinship Who Are a Manager | | |
|---|---|--------------------|---|---------------------|---------------------------|--|---------------------------|--|---------------------------|---|---|--|--------------------|------------------------------------|
| | | | | Number of Shares | Sharehol ding Ratio | Number of Shares | Sharehol ding Ratio | Num ber of Shar es | Shareh olding Ratio | | | Title | Name | Relatio nship |
| Chairman and CEO | Taiwan | Eric Y. T. Chuo | Dec. 28, 2011 | 13,535,572 | 5.03% | 1,022,974 | 0.38% | - | - | Master of Management at University of San Francisco Honorary Doctor of Management at National Chung Cheng University Honorary Doctor of Engineering at National Kaohsiung First University of Science and Technology Honorary Doctor of Engineering at Taiwan University of Technology Honorary Doctor of Philosophy at National Tsing Hua University | Note 1 | Executive Vice General Manager | Zhuo Wenheng | Father- Son Relatio nship |
| General Manager | Taiwan | Hui-Chin Tsai | July 1, 2008 | 4,350,649 | 1.62% | - | - | - | - | Doctor of Organizational Psychology at Philips Academy | Note 2 | - | - | - |
| Executive Vice General Manager of Chairman Room | Taiwan | Lin Mingyao | Jan. 1, 2012 | 623 | 0.00% | 166,860 | 0.06% | - | - | Master of Mechanics at Taiwan University of Technology Master of Business Administration at Tulane University | Note 3 | - | - | - |
| Executive Vice General Manager of Chairman Room | Taiwan | Zhuo Wenheng | Feb. 1, 2015 | 5,931,765 | 2.20% | - | - | - | - | Master of Business Administration at Dominican University | Note 4 | Chairman | Eric Y. T. Chuo | Father- Son Relatio nship |
| Senior Vice General Manager of Marketing Business Group | Taiwan | Yang Shengzhi | Jan. 1, 2008 | 116,832 | 0.04% | 3,194 | 0.00% | - | - | Master of Business Administration at Drexel University | Note 5 | - | - | - |
| Vice General Manager of Chairman Room | Taiwan | Song Xiande | May 13, 2013 | - | - | - | - | - | - | Graduate of National Taipei University of Technology | Note 6 | - | - | - |
| Vice General Manager of Marketing Business Group | Taiwan | Peng Yanqi | Feb. 1, 2015 | 4,370 | 0.00% | - | - | - | - | Master of Information Engineering at University of Southern California | Note 7 | - | - | - |
| Assistant General Manager of Financial Department | Taiwan | Lin Yifeng | Dec. 28, 2011 | 383,659 | 0.14% | 307,638 | 0.11% | - | - | Master of Business Administration at Dominican University | Note 8 | - | - | - |
| Assistant General Manager of Chairman Room | Taiwan | Qu Yueling | Feb. 1, 2015 | 40,154 | 0.01% | 13,263 | 0.00% | - | - | Doctor at Institute of Aerospace of National Cheng Kung University | - | - | - | - |

| | | | | | | | | | | | | | | |
|---|--------|----------------|----------------|---------|-------|-----------|-------|---|---|---|---------|---|---|---|
| Senior Assistant Manager of Financial Department | Taiwan | Liao Kehuang | May 1, 2014 | 28,417 | 0.01% | - | - | - | - | Master at Accounting Institute of National Chung Hsing University | - | - | - | - |
| Assistant Manager of Business Department | Taiwan | Zhang Kunyao | April 1, 2007 | 2,953 | 0.00% | - | - | - | - | Master of Mechanics at University of Southern California | - | - | - | - |
| Assistant Manager of Production Business Group | Taiwan | Jiang Mingjun | Jan. 16, 2008 | 69,611 | 0.03% | 31,827 | 0.01% | - | - | Bachelor of Mechanics at Chung Cheng Institute of Technology | - | - | - | - |
| Assistant Manager of Marketing Business Group | Taiwan | Deng Hongqun | Nov. 1, 2009 | 13,238 | 0.00% | - | - | - | - | Master of Management at I-Shou University | - | - | - | - |
| Assistant Manager of Chairman Room | Taiwan | Qiu Shirong | July 1, 2011 | 19,294 | 0.01% | 4,954,925 | 1.84% | - | - | Master of Business Administration at University of Massachusetts | Note 9 | - | - | - |
| Assistant Manager of System Research Department | Taiwan | Wang Fuqing | July 1, 2011 | 64,659 | 0.02% | - | - | - | - | Doctor of Mechanics at National Chung Cheng University | - | - | - | - |
| Assistant Manager of Financial Department | Taiwan | Wu Yueqin | Jan. 1, 2012 | 248,808 | 0.09% | - | - | - | - | Master of Business Administration at Feng Chia University | Note 10 | - | - | - |
| Assistant Manager of Quality Assurance Department | Taiwan | Wu Junliang | Aug. 1, 2012 | 33,750 | 0.01% | - | - | - | - | Doctor of Engineering at National Tsing Hua University | - | - | - | - |
| Assistant Manager of Financial Department | Taiwan | Chen Zhizhong | 20141116 | - | - | - | - | - | - | Master at Accounting Institute of National Chengchi University | Note 11 | - | - | - |
| Assistant Manager of Chairman Room | Taiwan | Chen Xiulian | Nov. 16, 2014 | 6,142 | 0.00% | - | - | - | - | Master of Management at Dominican University | - | - | - | - |
| Assistant Manager of Production Business Group | Taiwan | Li Wenbin | Feb. 1, 2015 | 5,591 | 0.00% | - | - | - | - | Mechanics Institute at Feng Chia University | - | - | - | - |
| Assistant Manager of Chairman Room | Taiwan | He Youheng | Feb. 1, 2015 | 70,910 | 0.03% | - | - | - | - | Bachelor of Mechanics of National Taipei University of Technology | Note 12 | - | - | - |
| Assistant Manager of Information Department | Taiwan | Zhang Yongming | March 26, 2016 | - | - | - | - | - | - | Master at Information Engineering Institute of Tunghai University | - | - | - | - |
| Assistant Manager of Chairman Room | Taiwan | Yang Chuangbao | March 26, 2016 | 1,000 | 0.00% | 21 | 0.00% | - | - | Master at Mechanics Institute of National Chung Hsing University | - | - | - | - |

Note 1: Chairman of this Company, HIWIN America, HIWIN Germany, HIWIN Japan, HIWIN Singapore, HIWIN South Korea, HIWIN China, HIWIN Investment Corporation, HIWIN Mikrosystem Corp. and Hulk Energy Technology Co., Ltd., legal representative of SUNENGINE CORPORATION LTD., chairman of HIWIN Education Foundation, supervisor of Chengda Venture Group and chairman of Luren Precision Co., Ltd.

Note 2: Director of this Company, HIWIN America, HIWIN China, HIWIN Investment Corporation, HIWIN Education Foundation and Chairman of HIWIN Healthcare Corp.

Note 3: Director of HIWIN Education Foundation.

Note 4: Director of this Company, HIWIN America, HIWIN Japan, HIWIN Singapore, HIWIN South Korea, HIWIN Investment Corporation, and HIWIN Corporate Management Company, director of Hulk Energy Technology Co. and director of HIWIN Education Foundation.

Note 5: General Manager of HIWIN South Korea.

Note 6: Legal representative of Luren Precision Co., Ltd.

Note 7: General Manager of HIWIN China.

Note 8: Supervisor of HIWIN Japan, HIWIN South Korea and HIWIN China.

Note 9: General Manager of HIWIN America.

Note 10: Legal representative of HIWIN Mikrosystem Corp. and Hulk Energy Technology Co., Ltd., and HIWIN Education Foundation.

Note 11: Chen Zhizhong was relieved of duty on May 15, 2015.

Note 12: He Youheng was relieved of duty on May 9, 2016.05.09.

(iii) Remunerations of Directors, Supervisors and Leading Managers in the Past Year

1. Remunerations of Directors (Including Independent Directors)

Unit: NT\$ 1000

| Title | Name | Directors' Remuneration | | | | | | | | Ratio of the Total Remuneration (A+B+C+D) to Net Profit After Tax (%) | | Relevant Remuneration Received by Directors Who are Also Employees | | | | | | | | | | Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Profit After Tax (%) | | Compensation Paid to Directors from Reinvestment Business Other than the Company's Subsidiary | |
|----------------------|-----------------|-------------------------|---------------------------------------|--------------|---------------------------------------|--------------|---------------------------------------|--|---------------------------------------|---|---------------------------------------|--|---------------------------------------|--------------|-----|---------------------------------------|---|--------------|---------------------------------------|--|---------------------------------------|---|---------------------------------------|---|------------------------------------|
| | | Remuneration (A) | | Pension (B) | | Bonus (C) | | Business Affairs Expense (D) (Note 1) | | | | Salary, Bonus and Special Disbursement (E) (Note 2) | | Pension (F) | | Employee remuneration (G) (Note 3) | | | | Exercisable Employee Stock Options (H) | | | | | New Restricted Employee Shares (I) |
| | | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report | This Company | | All Companies in the Financial Report | | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report | | |
| Chairman | Eric Y. T. Chuo | - | - | - | - | 15,494 | 15,494 | 14,329 | 14,329 | 1.82% | 1.82% | 17,062 | 17,062 | - | - | 1,869 | - | 1,869 | - | - | - | - | 2.97% | 2.97% | 12,035 (Note: 4) |
| Director | Hui-Chin Tsai | - | - | - | - | 36,153 | 36,153 | 1,190 | 1,190 | 2.27% | 2.27% | 25,532 | 25,532 | 180 | 180 | 2,487 | - | 2,487 | - | - | - | - | 3.99% | 3.99% | None |
| Deputy Chairman | Chen Jin-tsai | | | | | | | | | | | | | | | | | | | | | | | | |
| Director | Li Xunqin | | | | | | | | | | | | | | | | | | | | | | | | |
| Director | Zhuo Wenheng | | | | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Jiang Zhenghe | | | | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Chen Zeyu | | | | | | | | | | | | | | | | | | | | | | | | |

Note: 1: It includes the company car costs (NT\$ 13. 619 million) and excludes annual salaries of drivers (NT\$ 867, 000).

Note: 2: It includes the company car costs NT\$ 8.534 million and excludes annual salaries of drivers (NT\$ 788, 000).

Note: 3: The employee remuneration list hadn't been decided as of the publication date of the annual report, so the remuneration planned to be distributed this year shall be based on practices in previous years.

Note: 4: Remuneration of Chairman Eric Y. T. Chuo as HIWIN Mikrosystem Corp.

Remuneration Notch Table

| Notch of Remunerations of Directors of This Company | Name of Directors | | | |
|---|--|--|--|---|
| | The Total Remuneration (A+B+C+D) | | The Total Remuneration (A+B+C+D+E+F+G) | |
| | This Company | All Companies in the Financial Report | This Company | All Reinvestment Businesses of This Company |
| Below NT\$ 2,000,000 | | | | |
| NT\$ 2,000,000 (Including) ~NT\$ 5,000,000 (Excluding) | | | | |
| NT\$ 5,000,000 (Including) ~NT\$ 10,000,000 (Excluding) | Li Xunqin, Hui-Chin Tsai, Zhuo Wenheng, Jiang Zhenghe, Chen Zeyu | Li Xunqin, Hui-Chin Tsai, Zhuo Wenheng, Jiang Zhenghe, Chen Zeyu | Li Xunqin, Jiang Zhenghe, Chen Zeyu | Li Xunqin, Jiang Zhenghe, Chen Zeyu |
| NT\$ 10,000,000 (Including) ~NT\$ 15,000,000 (Excluding) | Chen Jin-tsai | Chen Jin-tsai | Chen Jin-tsai, Zhuo Wenheng | Chen Jin-tsai, Zhuo Wenheng |
| NT\$ 15,000,000 (Including) ~NT\$ 30,000,000 (Excluding) | Eric Y. T. Chuo | Eric Y. T. Chuo | Hui-Chin Tsai | Hui-Chin Tsai |
| NT\$ 30,000,000 (Including) ~NT\$ 50,000,000 (Excluding) | | | Eric Y. T. Chuo | |
| NT\$ 50,000,000 (Including) ~NT\$ 100,000,000 (Excluding) | | | | Eric Y. T. Chuo |
| Above NT\$ 100,000,000 | | | | |
| Total | 7 | 7 | 7 | 7 |

2. Remuneration of Supervisors

Unit: NT\$ 1000

| Title | Name | Remuneration of Supervisors | | | | | | Ratio of the Total Remuneration (A+B+C) to Net Profit After Tax (%) | | Compensation Paid to Directors from Reinvestment Business Other than the Company's Subsidiary |
|------------|---|-----------------------------|--|---------------------|---|---------------------------------|---|---|---|---|
| | | Remuneration (A) | | Bonus (B) (Note: 1) | | Business Affairs Expense (C) | | | | |
| | | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report | |
| Supervisor | Representative of Sanko Investments Limited: Hunag Yousan | 0 | 0 | 10,329 | 10,329 | 240 | 240 | 0.64% | 0.64% | None |
| Supervisor | Zhang Liangji | | | | | | | | | |

Note: 1: Remuneration planned to be paid to directors & supervisors for 2014 has not been approved by the board of shareholders.

Remuneration Notch Table

| Notch of Remunerations of Supervisors of This Company | Name of Supervisors | |
|---|---|---|
| | The Total Remuneration (A+B+C) | |
| | This Company | All Companies in the Financial Report (D) |
| Below NT\$ 2,000,000 | | |
| 2,000,000 (Including) ~ 5,000,000 (Excluding) | | |
| 5,000,000 (Including) ~10,000,000 (Excluding) | Representatives of Sanko Investments Limited: Hunag Yousan, Zhang Liangji | Representatives of Sanko Investments Limited: Hunag Yousan, Zhang Liangji |
| 10,000,000 (Including) ~15,000,000 (Excluding) | | |
| 15,000,000 (Including) ~30,000,000 (Excluding) | | |
| 30,000,000 (Including) ~50,000,000 (Excluding) | | |
| 50,000,000 (Including) ~100,000,000 (Excluding) | | |
| Above NT\$ 100,000,000 | | |
| Total | 2 | 2 |

3. Remuneration of CEO, General Managers and Vice General Managers

Unit: NT\$ 1000

| Title | Name | Remuneration (A) | | Pension (B) | | Bonus and Special Disbursement (C) (Note: 1) | | Employee remuneration (D) (Note: 2) | | | | RATIO OF THE TOTAL REMUNERATION (A+B+C+D) TO NET PROFIT AFTER TAX (%) | | Exercisable Employee Stock Options | | New Restricted Employee Shares | | Compensation Paid to Directors from Reinvestment Business Other than the Company's Subsidiary (Note: 3) |
|---|-----------------|------------------|-------------|-------------|-------------|--|---------------------------------------|-------------------------------------|---------------------------------------|--------------|---------------------------------------|---|---------------------------------------|------------------------------------|---------------------------------------|--------------------------------|---------------------------------------|---|
| | | | | | | | | | | | | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report | |
| | | Cash Bonus | Stock Bonus | Cash Bonus | Stock Bonus | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report | | | | | | | |
| Chairman and CEO | Eric Y. T. Chuo | 32,950 | 35,348 | 683 | 683 | 44,604 | 45,064 | 9,049 | - | 9,049 | - | 5.32% | 5.49% | - | - | - | - | 12,035 |
| General Manager | Hui-Chin Tsai | | | | | | | | | | | | | | | | | |
| Executive Vice General Manager of Chairman Room | Lin Mingyao | | | | | | | | | | | | | | | | | |
| Executive Vice General Manager of Chairman Room | Zhuo Wenheng | | | | | | | | | | | | | | | | | |
| Senior Vice General Manager of Marketing Business Group | Yang Shengzhi | | | | | | | | | | | | | | | | | |
| Vice General Manager of Chairman Room | Peng Yanqi | | | | | | | | | | | | | | | | | |
| Vice General Manager of Marketing Business Group | Song Xiande | | | | | | | | | | | | | | | | | |

| | | | | | | | | | | | | | | | | | | |
|---|------------|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| Assistant General Manager of Financial Department | Peng Yanqi | | | | | | | | | | | | | | | | | |
| Assistant General Manager of Chairman Room (Note: 4) | Lin Yifeng | | | | | | | | | | | | | | | | | |

Note: 1: It includes the company car costs (NT\$ 15. 836 million) and excludes annual salaries of drivers (NT\$ 788, 000).

Note: 2: Employee remunerations were NT\$ 123.951 million in 2015, but the employee remuneration distribution list hadn't been decided as of the publication date of the annual report, so the remuneration planned to be distributed this year shall be based on practices in previous years.

Note: 3: Remuneration of Chairman Eric Y. T. Chuo as HIWIN Mikrosystem Corp.

Note: 4: Qu Yueling, Assistant General Manager of Chairman Room assumed his post on Feb. 1, 2015.

Remuneration Notch Table

| Notch of Remunerations of General Managers and Vice General Managers | Name of General Managers and Vice General Managers | |
|--|---|---|
| | This Company | All Reinvestment Businesses of This Company |
| Below NT\$ 2,000,000 | | |
| 2,000,000 (Including) ~5,000,000 (Excluding) | Qu Yueling | Qu Yueling |
| 5,000,000 (Including) ~10,000,000 (Excluding) | Lin Mingyao, Yang Shengzhi, Peng Yanqi, Song Xiande, Lin Yifeng | Lin Mingyao, Yang Shengzhi, Peng Yanqi, Song Xiande, Lin Yifeng |
| 10,000,000 (Including) ~15,000,000 (Excluding) | Zhuo Wenheng | Zhuo Wenheng |
| 15,000,000 (Including) ~30,000,000 (Excluding) | Eric Y. T. Chuo、Hui-Chin Tsai | Hui-Chin Tsai |
| 30,000,000 (Including) ~50,000,000 (Excluding) | | Eric Y. T. Chuo |
| 50,000,000 (Including) ~100,000,000 (Excluding) | | |
| Above NT\$ 100,000,000 | | |
| Total | 9 | 9 |

4.Name of Managers Distributing Employee remunerations and Distribution Status

April 30, 2016
Unit: NT\$ 1000

| | Title | Name | Stock Bonus | Cash Bonus | Total | Ratio of the Total to to Net Profit After Tax (%) |
|----------|---|-----------------|-------------|------------|--------|---|
| Managers | Chairman and CEO | Eric Y. T. Chuo | - | 14,981 | 14,981 | 0.91% |
| | General Manager | Hui-Chin Tsai | | | | |
| | Executive Vice General Manager of Chairman Room | Lin Mingyao | | | | |
| | Executive Vice General Manager of Chairman Room | Zhuo Wenheng | | | | |
| | Senior Vice General Manager of Marketing Business Group | Yang Shengzhi | | | | |
| | Vice General Manager of Chairman Room | Song Xiande | | | | |
| | Vice General Manager of Marketing Business Group | Peng Yanqi | | | | |
| | Assistant General Manager of Financial Department | Lin Yifeng | | | | |
| | Assistant General Manager of Chairman Room | Qu Yueling | | | | |
| | Assistant Manager of Production Business Group | Jiang Mingjun | | | | |
| | Assistant Manager of Business Department | Zhang Kunyao | | | | |
| | Assistant Manager of Marketing Business Group | Deng Hongqun | | | | |
| | Assistant Manager of Chairman Room | Qiu Shirong | | | | |
| | Assistant Manager of System Research Department | Wang Fuqing | | | | |
| | Assistant Manager of Financial Department | Wu Yueqin | | | | |
| | Assistant Manager of Quality Assurance Department | Wu Junliang | | | | |
| | Senior Assistant Manager of Financial Department | Liao Kehuang | | | | |
| | Assistant Manager of Financial Department (Note: | Chen Zhizhong | | | | |
| | Assistant Manager of Chairman Room | Chen Xiulian | | | | |

| | | | | | | |
|--|--|----------------|--|--|--|--|
| | Assistant Manager of Production Business Group (Note: 3) | Li Wenbin | | | | |
| | Assistant Manager of Chairman Room (Note: 4) | He Youheng | | | | |
| | Assistant Manager of Information Department (Note: 5) | Zhang Yongming | | | | |
| | Assistant Manager of Chairman Room (Note: 5) | Yang Chuangbao | | | | |

Note: 1: Employee remunerations were NT\$ 123.951 million in 2015, but the employee remuneration distribution list hadn't been decided as of the publication date of the annual report, so the remuneration planned to be distributed this year shall be based on practices in previous years.

Note: 2: Chen Zhizhong was relieved of duty on May 15, 2015.

Note: 3: Li Wenbin assumed his post on Feb. 1, 2015.

Note: 4: He Youheng assumed his post on Feb. 1, 2015 and was relieved of duty on May 9, 2016.05.09.

Note: 5: Zhang Yongming and Yang Chuangbao assumed their posts on March 26, 2016.

(iv)Analysis of the Ratio of the Total Remuneration Given to Directors, Supervisors, General Managers and Vice General Managers by This Company and All Companies in the Consolidated Financial Statements over the Past Two Years to the Net Profit After Tax in the Individual Financial Report, and Description of the Relationship between the Remuneration Policy, Standards and Packages, Procedures for Determining Remuneration, and Business Performance and Future Risk

1. Analysis of the Ratio of the Total Remuneration Given to Directors, Supervisors, General Managers and Vice General Managers by This Company and All Companies in the Consolidated Financial Statements over the Past Two Years to the Net Profit After Tax in the Individual Financial Report

| Title \ Item | Ratio of the Total Remuneration to the Net Profit After Tax | | | |
|---|---|---------------------------------------|--------------|---------------------------------------|
| | 2015 | | 2014 | |
| | This Company | All Companies in the Financial Report | This Company | All Companies in the Financial Report |
| Director | 6.96% | 6.96% | 6.71% | 6.71% |
| Supervisor | 0.64% | 0.64% | 0.70% | 0.70% |
| CEO, General Manager and Vice General Manager | 5.32% | 5.49% | 4.51% | 4.60% |

Note: 1. The net profit after tax belonging to the parent company was NT\$ 1,642,238 thousand in 2015.

2. The net profit after tax belonging to the parent company was NT\$ 2,404,906 thousand in 2014.

(1) This Company's board of directors passed the distribution resolution of remunerations of employees, directors and supervisors for 2105 on March 26, 2016 (NT\$ 123,951,000 for employees and NT\$ 61,975,000 for directors and supervisors, accounting for 7.55% and 3.77% respectively of the net income after tax in 2015); the employee remuneration distribution list hadn't been decided as of the publication date of the annual report, so this was a tentative estimation.

(2)The total remunerations of directors include those for the posts they're holding concurrently, so some of the total remunerations of CEO, general managers and vice general managers are calculated repetitively.

2.Description of the Relationship between the Remuneration Policy, Standards and Packages, Procedures for Determining Remuneration, and Business Performance and Future Risk

According to rules of this Company, from the profit earned by the Company as shown through the annual account closing, the sum to pay all taxes and to cover previous losses, if any, shall be first withheld, then 10% for legal reserve, and then for special reserve as required by law, and less than 6% (including) for dividends. For the final surplus, if any, the board of directors shall make a dividend distribution proposal based on the company's earnings performance, expansion plan, profitability and the capital adequacy ratio, and submit it to the board of shareholders; remunerations and salaries of CEO, general managers, vice general managers and employees are paid in accordance with manager's remuneration distribution method passed by the board of directors.

According to the amendment of the company law in May, 2015, the dividend and bonus distribution is subject to shareholders and employees are not entitled to surplus distribution. Therefore, this company proposed amending the company articles in the board meeting on Nov. 10, 2015 and the amendment is expected to be decided in the general meeting of shareholders on June 28, 2016.

iii. Implementation of Corporate Governance

(i)The Operation of Board of Directors

1.The Board of Directors held 11 meetings (A) in 2015. The attendance of directors is listed as follows:

| Title | Name | Number of Meetings Attended Personally (B) | Number of Meetings Attended by Proxy | Personal Attendance Rate (%) (B/A) | Remarks |
|----------------------|-----------------|--|--------------------------------------|------------------------------------|---------|
| Chairman | Eric Y. T. Chuo | 11 | 0 | 100.0% | |
| Deputy Chairman | Chen Jin-tsai | 8 | 3 | 72.7% | |
| Director | Li Xunqin | 7 | 4 | 63.6% | |
| Director | Zhuo Wenheng | 10 | 1 | 90.9% | |
| Director | Hui-Chin Tsai | 10 | 1 | 90.9% | |
| Independent Director | Jiang Zhenghe | 11 | 0 | 100.0% | |
| Independent Director | Chen Zeyu | 11 | 0 | 100.0% | |

2.All items listed in Item 3, Clause 14 of the Securities and Exchange Act, as well as objections or reservations from the independent directors with regards to items discussed in the board meeting that are also documented or stated: none

3.Directors' avoidance of motions in conflict of interest: none

4.Completion of goals set to strengthen the functions of the board of directors (for example, establishing the Audit Committee and increasing information transparency) in this and the last fiscal years: this company has included the operation of the board of directors into the internal control system according to law; refer to (ii) and (iii) below for such operation.

(ii)The Operation of the Audit Committee or Supervisors' Participation in the Operation of Board of Directors: This Company doesn't Set the Audit Committee and Supervisors' Participation in the Operation of Board of Directors is shown in the table below.

1.The Board of Directors held 11 meetings (A) in 2015. The attendance of supervisors is listed as follows:

| Title | Name | Number of Meetings Attended Personally (B) | Personal Attendance Rate (%) (B/A) | Remarks |
|------------|--|--|---------------------------------------|---------|
| Supervisor | Representative of Sanko Investments Limited: Hunag Yousan | 10 | 90.9% | |
| Supervisor | Zhang Liangji | 9 | 81.8% | |

Other Essential Information:

I.Composition and Responsibility of Supervisors:

(i)Communication between supervisors and the company's employees and shareholders (for example, communication channels and means):

As this company notifies supervisors to be present in every shareholder meeting, shareholders and employees can communicate with supervisors at the shareholder meeting. Besides, there is a complaint box set up on the company website, encouraging shareholders and employees to contact the supervisors directly if they find any suspicious behavior or behaviors that may violate this company's code of professional ethics.

(ii)Communication between supervisors and internal audit supervisors and accountants (for example, communications about corporate finance and business status, and way and results of such communications):

To make the company's supervisors know the operational risks and improvement in real time, this company has established the internal control system and management methods which accord with "Regulations Governing Establishment of Internal Control Systems by Public Companies"; to ensure the effective implementation of the internal control system, it sets an audit department directly under the board of directors; this department makes audit plans according to regulations of competent authorities, present them in Director's Report after audit and send the audit results and improvement to supervisors, so supervisors can know the operational risks and improvement in real time; supervisors and accountants can communicate with each other as needed at ordinary times, and apart from that, accountants can communicate with supervisors by attending board meetings.

II. If a supervisor attending the board meeting made any statement, the date, term, content of the motion, board resolution and how the company responded to the statement of the supervisor shall be stated clearly:
none

(iii)Implementation of Corporate Governance and its Differences from Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies and the Causes

| Evaluation Items | Implementation | | | Differences from Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|---|------------------------------|----|---|--|
| | Yes | No | Abstract | |
| 1. Does the Company set and disclose corporate governance best practice principles according to "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies"? | V | | This Company sets its own "Corporate Governance Best Practice Principles" according to "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies"; there are no major differences between its implementation and the principles it has set; it'll continue to promote the implementation of corporate governance according to relevant provisions. | None |
| 2. The Company's shareholding structure and stockholders' equity (1)Does the company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and treat them based on the procedure? (2)Does the company possess the list of its major shareholders as well as the ultimate owners of those shareholders? (3)Does the company establish and execute the risk management and firewall mechanisms between it and affiliated companies? (4)Does the company establish internal rules against insiders trading with undisclosed information? | V V V V | | (1)The Company has established an internal operation procedure and designated related departments to handle shareholders' suggestions or disputes; it has also established a spokesperson system, so there's a person responsible for responding to shareholders' questions, including suggestions, doubts, disputes and litigation. (2)The Company knows the shareholding of its directors, managers and major shareholders holding over 10% of its shares at all times. (3)The Company has established related internal control systems and firewall mechanisms, such as rules governing the management of its subsidiaries and procedures for loan, endorsement and guarantee according to law and regulations. (4) The Company has established "Procedure for Precaution against Insider Trading and Internal Significant Information Processing" to expressly prohibit insiders from trading marketable securities using undisclosed information; besides, Article 37 of "Corporate Governance Best Practice Principles" also stipulates that board members shall do their duties loyally, bear their duties of care and exercise their powers in a highly disciplined and prudent way; the audit department evaluate whether the procedure execution above meet the rules irregularly by random checks, and the Company has also emphasized precaution against insider trading to directors and supervisors. | None |
| 3. Composition and Responsibilities of the Board of Directors (1)Does the Board develop and implement a diversified policy for its members? (2)Does the company voluntarily establish other functional | V V | | (1)The Company has set "Corporate Governance Best Practice Principles" which writes that board members should pay attention to gender equality and be equipped with knowledge, skills and qualities necessary for performing their duties; it has indeed executed such principles, and the current board members include a female director. (2)This Company has set a compensation committee | None |

| Evaluation Items | Implementation | | | Differences from Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|---|----------------|----|--|--|
| | Yes | No | Abstract | |
| <p>committees in addition to the Remuneration Committee and the Audit Committee?</p> <p>(3) Does the company establish a standard to measure the performance of the Board, and implement it annually?</p> <p>(4) Does the company regularly evaluate the independence of CPAs?</p> | V | V | <p>according to law and no other functional committees at present.</p> <p>(3) Though this Company hasn't set performance evaluation methods of the board of directors, it discusses the board's operation performance annually and suggests improvements; it'll work out performance evaluation methods in the future and then evaluate the board performance annually.</p> <p>(4) The Company Corporate has CPAs respond to "Independence Evaluation Questionnaire" annually according to Governance Best Practice Principles for TWSE/GTSM Listed Companies and the board evaluates the independence of CPAs regularly (Note); CPAs of the Company don't hold director or independent director positions in the Company, or have direct or indirect financial interest, and they're not shareholders of the Company, so they're undoubtedly independent.</p> | |
| 4. Does the company establish a communication channel and build a designated section on its website for interested parties, and handle all the issues they care for in terms of corporate social responsibilities? | V | | <p>(1) The Company instructs related departments to communicate with interested parties as required and there is an "Area for Interested Parties" on the corporate website for customers, suppliers, media and employees to contact the Company. In addition, it has also established a spokesperson system, so there's a person responsible for dealing with related issues of legal persons and investors.</p> <p>(2) The "Area for Interested Parties" on the corporate website provides a questionnaire for interested parties to give suggestions or put questions and the important social responsibility issue they're deeply concerned about must be responded to appropriately.</p> | None |
| 1. Does the company appoint a professional shareholder service agency to deal with shareholder affairs? | V | | This Company usually entrusts related affairs of the board of shareholders to professional stock affairs agencies and it authorizes Yuanta Securities to do the job this year. | None |
| <p>6. Information Disclosure</p> <p>(1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?</p> <p>(2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a</p> | V | V | <p>(1) The Company has disclosed information regarding the Company's financials and corporate governance status, and declares related information using the path appointed by the financial management bureau on time according to relevant provisions.</p> <p>(2) Our Company has a dedicated department for collecting related information to post them on its English-language website and it also has a spokesperson system, so there's a person responsible for dealing with related issues of legal persons and investors. It convenes 3 investor conferences irregularly every year and announces the information and videos of the conferences on the</p> | None |

| Evaluation Items | Implementation | | | Differences from Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies and the Causes | | | | | | | | |
|---|-------------------|---|--|--|----------------|-------------------|----------------|------------------|-------------------------------|---------------|---|-----------------------------------|
| | Yes | No | Abstract | | | | | | | | | |
| spokesman system, webcasting investor conferences)? | | | company website and Market Observation Post System in accordance with the regulations. | | | | | | | | | |
| 7. Does the Company have other important information that is helpful for understanding the status of corporate governance? | | | | | | | | | | | | |
| (1) Operational Performance: To implement corporate governance, in addition to setting an effective internal control system and conducting self-inspection, the Company has independent directors to increase the practical experience of the team using their professional experience so as to strengthen the board functions, safeguard stockholders' equity and improve information transparency; on the other hand, it has established the public information reporting procedure so that shareholders and interested parties can know its financial and business standing and status of corporate governance well. Moreover, to strengthen corporate governance, besides strengthening the Chinese and English websites so that investors can know the company information in real time, the Company has established a platform for interested parties for them to give feedbacks in real time so that it can handle them quickly for improvement; it entered top 5% of the listed companies in the second Corporate Governance Ratings. | | | | | | | | | | | | |
| (2)About information of expenditure on environmental protection, and labor relations (employee equity and care): Please read Sections iv and v in Chapter V. | | | | | | | | | | | | |
| (3) Investor Relations Treating all shareholders with the principle of being fair and open, the Company convenes shareholders' meetings every years according to the corporate law and relevant regulations, notifies shareholders to be present in such meetings according to relevant provisions, gives them chances of asking questions or making proposals to achieve balance, makes meeting rules of procedure for such meetings according to law, keeps meeting minutes appropriately and discloses related data on the public information observation station; besides, to ensure that its shareholders have the right to know, participate in and decide the big issues, apart from disclosing major information in real time, it has established posts of the spokesperson and deputy spokesperson to handle shareholders' suggestions and doubts; meanwhile, it convenes 3 investor conferences every year to respond to questions of legal persons and investors and make them know its business results and state of operation better. | | | | | | | | | | | | |
| (4)Respect equities of interested parties: The Company discloses the company information honestly according to law to safeguard basic rights and interests of investors, keeps channels of communication open with the correspondent bank, employees, consumers and suppliers and sets an "Area for Interested Parties" on the corporate website for interested parties to contact it in real time. It respects and safeguards their legitimate interests. It has an argon mailbox (communication channel with the chairman), a hope mailbox (communication platform with general managers) and a help mailbox (feedback platform for human resources) to encourage colleagues to express their opinions and report violations, which facilitates its organic growth and development. | | | | | | | | | | | | |
| (5)Strengthen corporate governance and safeguard investors' rights and interests: To reduce risks and spread risks of major damages to the Company and its shareholders caused by directors, supervisors and managers due to mistakes or negligence, the Company has stipulated in Article 25 of Articles of the Company that it shall buy insurance for directors' and supervisors' liability for damage in their service execution scope during their term in office; it bought Directors and Supervisors Liability Insurance as of March 27, 2016: | | | | | | | | | | | | |
| <table><tr><td>Insured Object</td><td>Insurance Company</td><td>Insured Amount</td><td>Insurance Period</td></tr><tr><td>All Directors and Supervisors</td><td>ACE Insurance</td><td>5 million dollars (NT\$ 163,275,000)</td><td>March 27, 2016~ March 26, 2017</td></tr></table> | | | | | Insured Object | Insurance Company | Insured Amount | Insurance Period | All Directors and Supervisors | ACE Insurance | 5 million dollars (NT\$ 163,275,000) | March 27, 2016~ March 26, 2017 |
| Insured Object | Insurance Company | Insured Amount | Insurance Period | | | | | | | | | |
| All Directors and Supervisors | ACE Insurance | 5 million dollars (NT\$ 163,275,000) | March 27, 2016~ March 26, 2017 | | | | | | | | | |

| Evaluation Items | Implementation | | | Differences from Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|------------------|----------------|----|----------|--|
| | Yes | No | Abstract | |

(6) Related courses on corporate governance studied by the directors and supervisors in 2015 are listed below:

| Title | Name | Start Date | Course Title | Hours |
|----------------------|---|----------------|---|-------|
| Chairman | Eric Y. T. Chuo | Aug. 4, 2015 | Practice Advancement Seminar of Directors and Supervisors (Including Independent Directors) | 3 |
| | | July, 8, 2015 | Innovation, Policy Change, Enterprise Future Change | 3 |
| Deputy Chairman | Chen Jin-tsai | Oct. 22, 2015 | Corporate Social Responsibility and Sustainability Competitiveness | 3 |
| | | Aug. 12, 2015 | CSR and Sustainable Governance | 3 |
| Director | Li Xunqin | July 24, 2015 | Protection Laws of Business Secrets Indispensable to Commercial Wars | 3 |
| | | May 29, 2015 | A Game for Transforming Taiwan Companies | 3 |
| Director | Zhuo Wenheng | Nov. 5, 2015 | Tax Planning from Corporate Governance-- Technology Investment and Application of Enterprises Mergers and Acquisitions Act | 3 |
| | | Sep. 22, 2015 | Group Governance | 3 |
| Director | Hui-Chin Tsai | June 12, 2015 | Corporate Governance and Government Interaction | 3 |
| | | May 27, 2015 | Listed Company Ethics Leaders Forum | 3 |
| Independent Director | Jiang Zhenghe | March 26, 2015 | Relevant Standards and Operation Practices of the Audit Committee | 3 |
| | | March 24, 2015 | How to Perform Benefiting Functions of the Functional Committee under the Board of Directors | 3 |
| Independent Director | Chen Zeyu | June 26, 2015 | Practical Operation of Independent Directors and the Audit Committee | 3 |
| | | May 29, 2015 | A Game for Transforming Taiwan Companies | 3 |
| Supervisor | Representative of Sanko Investments Limited: Hunag Yousan | Dec. 18, 2015 | Professional Directors and Supervisors' View on Corporate Governance and the Construction of the Efficient Board of Directors | 3 |
| | | May 29, 2015 | A Game for Transforming Taiwan Companies | 3 |
| Supervisor | Zhang Liangji | Nov. 20, 2015 | Professional Directors and Supervisors' View on Corporate Governance and the Construction of the Efficient Board of Directors | 3 |
| | | May 29, 2015 | A Game for Transforming Taiwan Companies | 3 |

(7) Related courses on corporate governance studied by the financial supervisors and audit supervisors in 2015 are listed below:

| Title | Name | Start Date | Course Title | Hours |
|---|-----------|-----------------------------|---|-------|
| Assistant General Manager of Financial Department | Li Yifeng | Jan. 21, 2016-Jan. 22, 2016 | Continuous Advancement Course for Accounting Supervisors of Publishers, Securities Dealers and Stock Exchange | 12 |
| Manager | Chen | Sep. 4, 2015 | internal control case study | 6 |

| Evaluation Items | Implementation | | | Differences from Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|--|----------------|--------------|---|--|
| | Yes | No | Abstract | |
| (Audit Supervisor) | Shichong | Oct. 7, 2015 | Discussion on Fraud Risk form Cycle Control Operation | 6 |
| (8) Certificates of financial and accountancy personnel and auditors of the Company: 6 persons with CPA, 1 person with US CPA, one person with Australia CPA and 6 persons with CIA. | | | | |
| 8. Does the company have a self-evaluation report on corporate governance or authorize any other professional organization to conduct such evaluation? It has made a self-evaluation of corporate governance according to “Corporate Governance Evaluation System” established by Taiwan Stock Exchange and entered top 5% of the listed companies in the second Corporate Governance Ratings published by Corporate Governance Center of Taiwan Stock Exchange on April 9, 2016. | | | | |

Note: Accountant Independence Evaluation Criteria

| No. | Evaluation Item | Evaluation Outcome | Conformity to Independence |
|-----|--|--------------------|----------------------------|
| 1 | Does the accountant have a direct or important indirect financial interest in the Company? | No | Yes |
| 2 | Does the accountant finance or guarantee something for the Company or other directors and supervisors? | No | Yes |
| 3 | Does the accountant have a close commercial relationship with the Company? | No | Yes |
| 4 | Is there a potential employment relationship between the accountant and the Company? | No | Yes |
| 5 | Are there contingent fees related to the audit case? | No | Yes |
| 6 | Have the accountant held the post of director, supervisor or manager, or a post having significant impacts on the audit case recently or in the last 2 years? | No | Yes |
| 7 | Does the accountant advertise or broker shares or other securities issued by the Company? | No | Yes |
| 8 | Can the non-audit services the accountant provides affect important items in the audit case directly? | No | Yes |
| 9 | Does the accountant act as the counsel of the Company or mediate conflicts with a third party on behalf of the Company? | No | Yes |
| 10 | Is there a kinship between the accountant and the Company's directors, supervisors, managers or persons having significant impacts on the audit case? | No | Yes |
| 11 | Does the CPA who retires within one year hold the post of director, supervisor or manager, or a post having significant impacts on the audit case? | No | Yes |
| 12 | Has the accountant accepted valuable presents or gifts from the Company or other directors or managers? | No | Yes |
| 13 | Does the accountant provide services of directors, supervisors or other equivalent posts to the Company's colleagues? | No | Yes |
| 14 | Does the accountant provide non-audit services below (excluding what's said in Norm of Professional Ethics for Certified Public Accountant of the Republic of China No.2): (1) Bookkeeping service (2) Evaluation service (3) Tax service (4) Internal audit service (5) Short-term staffing service (6) Recruiting senior managers (7) Corporate finance service | No | Yes |

(iv) Composition, Responsibilities and Operation of the Remuneration Committee:

1.Information of Remuneration Committee Members

| Identity | Requirement | Having over 5 years of work experience and the following professional qualifications | | | Conformity to Independence (Note 1) | | | | | | | | The number of other public companies where posts of independent directors are held by these people | Remarks (Note 2) |
|----------------------|----------------|---|--|--|-------------------------------------|---|---|---|---|---|---|---|--|------------------|
| | | Having the title ranking above lecturer in departments of commerce, law, or accounting or related to company business in public and private universities and colleges | Judge, procurator, lawyer, accountant or professional technical personnel (having national certificates) related to company business | Work experience in commerce, law, finance, or accounting or required by company business | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | |
| Independent Director | Jiang Zhenghe | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 | ✓ |
| Other | Huang Congzhou | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 | |
| Other | Xiao Tinglang | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 2 | |

Note 1: If the member meets any of the following criteria in the two years before being elected or during the term of office, please check the corresponding boxes:

- (1)Not an employee of the Company or other affiliates;
- (2)Not a director or supervisor of the Company (the same does not apply if the person is an independent director of the parent company or subsidiaries where the company have over 50% voting shares directly or indirectly);
- (3)Not an individual shareholder in Top 10 Shareholders or the company where he/she, his/her spouse and minor children have over 1% of the total issued shares or have such shares in the name of others;
- (4)Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of any of the persons in the preceding three paragraphs;
- (5)Not a director, supervisor, or employee of institutional shareholders having over 5% of the total issued shares or in Top 5 Shareholders;
- (6)Not a director, supervisor, manager or shareholder having 5% of the shares of the specified company or agency that have financial transaction or business contact with the company;
- (7)Not a professional, proprietor, partner, company or the owner, partner, director, supervisor, manager or spouse of the professional consulting entities providing services or consultation in business, law, finance and accounting for the Company or its affiliates.
- (8)Not being involved in any of the situations set forth in Article 30 of the Company Act.

Note 2: if the member is a director, please state whether this conforms to Article 6.5 of “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded over the Counter”.

2.Responsibilities of Remuneration Committee

To assist the board of directors in executing, evaluating and reviewing the policy, system, standard and structure of salaries and remunerations of the Company's directors and managers regularly, the remuneration committee shall exercise the care of a good administrator in faithfully performing the official powers listed below, and shall submit suggestions for discussion to the board of directors.

- (1)The committee shall make and periodically review the performance evaluation, remuneration policy, system, standards and structure of directors and managers.
- (2)The committee shall periodically evaluate and set the remuneration of directors and managers.

3.Operation of the Remuneration Committee

- (3)The committee has 3 members.
- (4)Term for the Current Committee Members: June 28, 2013~ June 27, 2016; The Remuneration Committee held 3 (A) meetings in 2015 and the qualifications of the committee members as well as their attendance records are shown below:

| Title | Name | Number of Meetings Attended Personally (B) | Number of Meetings Attended by Proxy | Personal Attendance Rate (%) (B/A) | Remarks |
|---|----------------|--|--------------------------------------|------------------------------------|---------|
| Convener | Jiang Zhenghe | 3 | 0 | 100 | |
| Committee Member | Huang Congzhou | 3 | 0 | 100 | |
| Committee Member | Xiao Tinglang | 3 | 0 | 100 | |
| Other necessary information: 1.If the Board does not adopt or revise proposals of the remuneration committee, the Board meeting date, session, session, content of the motion, the Board decision, and the Company's response to the remuneration committee's opinions shall be properly recorded (for example, if the remuneration package approved by the Board is superior to that suggested by the remuneration committee, the difference and reasons must be noted): none 2.Should a committee member oppose or reserve their opinion regarding any decision made by the remuneration committee and their opinion has been recorded or submitted in a written statement, the committee meeting date, session, content of the motion, opinions of all members, and the response to the opinions shall be recorded: none | | | | | |

(v) Fulfillment of Social Responsibility:

| Evaluation Items | Operation Status | | | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|---|-------------------------------------|------|---|---|
| | Yes | None | Abstract | |
| <p>1. Implementation of corporate Governance</p> <p>(1) Has the Company established a corporate social responsibility policy or system and reviewed the implementation results?</p> <p>(2) Does the Company periodically hold educational training on social responsibilities?</p> <p>(3) Has the Company established a dedicated (or non-dedicated) department (in the charge of senior managers authorized by the Board and reporting to the Board) to promote corporate social responsibilities?</p> <p>(4) Has the Company established reasonable salary and compensation policies, combined employee performance evaluation policies with corporate social responsibility policies and established a clear and effective reward and punishment system?</p> | <p>V</p> <p>V</p> <p>V</p> <p>V</p> | | <p>(1) The ideas of the company's fulfillment of corporate social responsibility mainly focus on "education"; the Company has established "Corporate Social Responsibility Practice Principles" based on "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and put it on the company website; apart from updating related information of corporate social responsibility, the relevant units convene meetings irregularly to review the current measures and present improvement plans, so the principles are implemented well.</p> <p>(2) The Company carries out health promotion activities for colleagues, volunteer training activities and social responsibility and environment protection trainings for new employees regularly. It has been holding JIMTOF since 2010, hoping students from National Tsing Hua University can learn from the strong points of the precision mechanical industry in other countries during their visits, enhance their international visibility and absorb international precision machinery development techniques so that they can be engaged in industries related to the machinery positively in the future to make precision machinery technologies in Taiwan compete with those in Japan and Germany and become an important motive force that drives mechanical industry upgrading in Taiwan and makes Taiwan's machinery go international; besides, to refine the disclosure in CER report, it invites external specialists to give lessons in the company to make heads of relevant units learn more of social responsibility and disclose related information more completely when writing the report.</p> <p>(3) Units in the Company that promote corporate social responsibility include Chairman Room, Management Department, Labor Security and Environmental Protection Department, Human Resource Department, Financial Department and Planning Section; the chairman and the general manager are responsible for setting the Company's vision of corporate social responsibility; relevant units convene meetings irregularly and report big issues to the Board; CSR committee pays attention to issues related to education, economy, environment and social vulnerable group, and report big issues to the Board; please read "Corporate Governance" in the Company's CSR report.</p> <p>(4) The Company has established reasonable salary</p> | None |

| Evaluation Items | Operation Status | | | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|--|-------------------|------|--|---|
| | Yes | None | Abstract | |
| | | | <p>2. Waste reduction and recovery</p> <p>3. Reduction of greenhouse gases</p> <p>4. Save water and chemicals</p> <p>5. Increase the use of energy saving products</p> <p>6. Build carbon footprint</p> <p>7. Avoid using harmful and toxic substance</p> <p>(4) The Company's greenhouse gas inventory: a direct emission of 5,892 tonnes of CO₂-e and an indirect emission of 84,790 tonnes of CO₂-e in 2015, totaling 90,682 tonnes of CO₂-e; a direct emission of 5,336 tonnes of CO₂-e and an indirect emission of 85,322 tonnes of CO₂-e, totaling 90,658 tonnes of CO₂-e.</p> <p>(5) The Company expects to continue to promote several energy management action plans in 2016 with NT\$ 4.2 million, which can save 1,469,566 kilowatt-hours and NT\$ 4.94 million in annual electricity costs, and reduce carbon emissions of 766 tonnes of CO₂-e.</p> <p>(6) The Company is devoted to reducing traditional pollutants to respond to the government's CO₂ emission reduction and energy saving policy; through the energy budget of the Bureau of Energy, MOEA, it's selected as the demonstration enterprise group (the only listed company in the precision mechanical industry) of ISO 50001 energy management system by the Industrial Development Bureau, MOEA; Taiwan Green Productivity Foundation assists the Operational Headquarters of HIWIN in importing the energy management system according to the international standard; after the operational status of the Operational Headquarters of HIWIN was inspected by TUV Rheinland, it passed ISO 50001 energy management system verification successfully; it implements control according to the management system (PDCA) every year.</p> | |
| <p>3. Safeguarding public welfare</p> <p>(1) Has the Company established its management policies and procedures in accordance with relevant laws, regulations, as well as International Covenants on Human Rights?</p> <p>(2) Has the company set up a complaint channel and mechanism and handle complaints properly?</p> | <p>V</p> <p>V</p> | | <p>(1) The Company employs employees according to relevant labor laws and International Covenants on Human Rights, and has made "Working Rules" and "Employee Code of Conduct", and established related management policies and procedures to safeguard employees' working rights and interests.</p> <p>(2) The Company has set an employee complaint box; meanwhile, it uses a two-way communication and coordination mode for employees and the employer and convenes labor-management conferences regularly to coordinate labor relationship and discuss</p> | None |

| Evaluation Items | Operation Status | | | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|--|------------------|------|--|---|
| | Yes | None | Abstract | |
| (3) Does the company provide a healthy and safe work environment and organize training on health and safety for its employees on a regular basis? | V | | how to promote employee-employer cooperation and improve working conditions, and plan for labor welfare, so the relationship between employees and the employer has been harmonious since the factory was opened and there has been no labor trouble so far. | |
| (4) Has the Company established mechanisms for regular communications with employees and keeping employees informed in a reasonable manner changes in Company operations that might have significant impacts on employees? | V | | (3) The Company has passed OHSAS 18001/TOSHMS Occupational Safety and Health verification, and it invites professional institutes to conduct external audits every year to keep the management system operating. Furthermore, it carries out employee safety and health training, fire-fighting drilling and working environmental harm control evaluation, and provides sufficient protection to safeguard employee health and safety. | |
| (5) Has the Company established an effective career capability development training program for employees? | V | | To implement environmental safety and health policy, the Company has established systematic management (OHSAS18001 and TOSHMS); through the management spirit of PDCA Cycle, it adds the environmental safety and health concepts to R&D, product manufacturing and service, raw materials using and waste gas; in addition, it promotes continuous improvement in goal management schemes through organizing meetings, educational training and employee involvement to fulfill environmental safety and health protection. The mode of operation is shown below: | |
| (6) Has the Company established consumer protection policies as well as complaint procedures with regards to R&D, procurement, production, operations and service flows? | V | | 1. Every factory has appointed occupational safety and health management units and personnel to draw up occupational safety and health management plans, promote work environment and operation hazard risk identification, evaluate and control health and safety management items, carry out automatic inspection before operation of mechanical equipment and working environment monitoring and continuously improve safety and health facilities so as to create a safe, healthy, comfortable and friendly work environment. | |
| (7) In terms of the marketing and labeling of products and services, has the Company followed relevant laws, regulations, and international norms? | V | | 2. Before being designed or purchased, the equipment must conform to necessary safety and health standards and be reviewed and evaluated by safety and health personnel through the management system of change, and must meet safety and health standards before being used in the factory. | |
| (8) Before doing business with suppliers, does the Company assess whether or not the suppliers have had previous records of negatively affecting the environment or society? | V | | 3. All factories hold occupational health and safety committee meetings regularly every year to review and improve related safety and health | |
| (9) Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society? | | | | |

| Evaluation Items | Operation Status | | | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|------------------|------------------|------|--|---|
| | Yes | None | Abstract | |
| | | | <p>issues, and take precautionary measures depending on operating risks, such as mechanical equipment management, contractor management, chemicals safety management, personal protective equipment requirements and safety audit management. Besides, they also do emergency response drills regularly so as to minimize employees' and the Company's capital losses and impacts of disasters on the society and environment.</p> <p>4.It appoints special physicians and employs special nurses to provide health service near factories, plans and implements labor health education, health promotion and guidance, prevention and cure of work-related injuries, health consultation, first aid and emergency treatment, and holds regular health promotion activities, such as healthy eating, relaxation, preserving health using traditional Chinese medicine and walking to fitness to satisfy employees' health needs. Moreover, it also conducts health examination according their ages and special work health examination to effectively evaluate and track employees' health condition.</p> <p>5.It conducts working environment monitoring semiannually, including physical and chemical factors defined in laws and regulations, such as illumination, concentrations of carbon dioxide, noise, and concentration of special chemical substances specified by laws and regulations. When there is an unusual phenomenon found from monitoring, the labor security personnel in the factory will conduct evaluation and improvement to ensure an acceptable level of hazard factor exposure risk so as to protect the health of operating personnel.</p> <p>6.Apart from improvement in work environment and workplace health, there's also improvement in human factors engineering, including simple fork lift truck, vacuum extractor, hydraulic cart and trolley; moreover, it also conducts allotment of labor, and educational trainings and advocacy on correct handling posture.</p> <p>(4) Besides convening regular labor-management conference s to communicate with employees, it holds a monthly meeting at the beginning of every month where senior managers report the company's business and operation status to all the employees;</p> | |

| Evaluation Items | Operation Status | | | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|------------------|------------------|------|--|---|
| | Yes | None | Abstract | |
| | | | <p>meanwhile, it also sets feedback boxes for employees to communicate with the chairman, general managers and the human resource department to create a good communication environment.</p> <p>(5) It has a perfect career development training system, the theme of which covers core competencies building, specialized knowledge and skills at different levels in different fields, and leadership management and humanistic quality to cultivate all occupational skills in employees.</p> <p>(6) The drive control and system protects produced and sold by the Company are industrial products; by providing customers with a complete package of technology support and after-sale services, it hopes to grow together with its customers; there is a special area for interested parties on the company website for consumers to give feedbacks or complain in real time and the Company will respond to their questions to protect their rights and interests.</p> <p>(7) The Company's products are sold around the globe, so they must conform to environmental protection regulations of all countries; it and its suppliers jointly ensure they conform to the regulations above, and improve the suppliers' quality, environmental awareness and ability, and share the corporate social responsibility.</p> <p>(8) At present, the Company usually asks the suppliers to fill in "New Supplier Evaluation and Survey Form" before doing business, which lists social responsibility and their environmental impacts and shall be answered in details by manufacturers; it evaluates whether to trade with suppliers based on this form.</p> <p>(9) It stipulates when purchasing main equipment, if the manufacturer has significant effect on environmental protection, it will reevaluate whether to continue to make deals with the supplier; after deciding to deal with the supplier, both parties must sign a sale and purchase agreement which shall state expressly the articles of corporate social responsibility; both parties shall obey policies of corporate social responsibility, and the business operation mode shall meet standards of ethics, law and the public, and consider their effects on the society and natural environment; in case either party violates policies of corporate social responsibility, the other party has the right to terminate or rescind the contract.</p> | |

| Evaluation Items | Operation Status | | | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|---|------------------|------|---|---|
| | Yes | None | Abstract | |
| <p>4. Strengthening information disclosure</p> <p>(1) Has the Company disclosed relevant and reliable corporate social responsibility information on its website as well as on the Market Observation Post System (M.O.P.S.)?</p> | V | | <p>(1) The Company has a special area for corporate social responsibility on the company website, publishes related information of its corporate social responsibility on the Market Observation Post System according to relevant law or decree, and discloses relevant and reliable related information of its corporate social responsibility in the annual report.</p> <p>(2) The Company regularly issues CSR report to disclose and promote corporate social responsibility on http://www.HIWIN.com.tw/CSR/.</p> | None |
| <p>5. If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies”, please describe any difference between the Principles and their implementation:</p> <p>The Company has established corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/ TPEX Listed Companies”, and there is no major difference between actual operation and the principles. Besides, with the efforts of all the colleagues, corporate governance, energy conservation and environment protection and efforts devoted to public welfare, and protection of other rights of interested parties are well received.</p> | | | | |
| <p>6. Other important information useful for a better understanding of the company’s corporate social responsibility practices:</p> <p>(1) The Company has been spending millions of New Taiwan Dollars holding “HIWIN Thesis Award” every year since 2004, which has been held for the 12th time up to the publication date of the annual report, mainly to encourage students to throw themselves into R&D and innovation of mechanical engineering field and cultivate more talents for Taiwan and enterprises there so as to promote and improve the research interests and level of students in Taiwan and absorb more talents into the mechanical industry.</p> <p>(2) It has been holding HIWIN Articulated Robot Hands-on Competition since 2008, and which has been held for the 8th time up to the publication date of the annual report, laying a foundation for talents and technology of the future robot industry.</p> <p>(3) HIWIN serves as a gatekeeper for talents of Taiwan’s mechanical industry, and has been assisting Taiwan Automation Intelligence and Robotics Association (TAIROA) in promoting “Automation Engineer” Certificate Examination since 2009, mobilizing teachers from machinery-related universities and colleges and business elites, totaling 500, to set and review questions in such exams. The examination has been given for the 13th time up to the publication date of the annual report, with nearly 50,000 having registered, and will continue to be held.</p> <p>(4) It founded HIWIN Education Foundation in 2009, which aims at improving Taiwan’s industrial level through education and financial assistance and scholarships.</p> <p>(5) HIWIN Education Foundation has been holding “A Delegation of Undergraduates from Department of Mechanics to JIMTOF” since 2010 to motivate students in Department of Mechanics to concentrate on the study of precision machinery and develop an international outlook and then improve the innovation of technology of Taiwan’s mechanical industry. Through primary election and secondary selection of undergraduates from Department of Mechanics in Taiwan, this activity selects 40 sophomores and juniors at most from departments related to mechanical engineering, automation and motor to go to Japan to visit biennial JIMTOF and leading factories there.</p> <p>(6) It has been authorizing Chinese Mechanical Engineering Society to hold “HIWIN Doctoral Dissertation Award” since 2011, which aims at improving the precision machinery and manufacturing technology level of ethnic Chinese in mainland China, Hongkong, Macao and Taiwan, strengthening the cultivation of high-level creative talents, improving the education quality of doctoral students in the field of mechanical engineering and intelligent automation in mainland China and Taiwan, and motivating and encouraging students to throw themselves into R&D and creative application of the field above. It has been held for</p> | | | | |

| Evaluation Items | Operation Status | | | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|--|------------------|------|----------|---|
| | Yes | None | Abstract | |
| <p>the 5th time up to the publication date of the annual report and will continue to be held.</p> <p>(7) It has been holding “HIWIN Forum - Outstanding CEO Lecture” since 2102 with Asia University and National Kaohsiung First University of Science and Technology respectively, which invites managers of companies whose stock is listed on the stock exchange or traded over the counter with a good business performance or operators whose enterprise is the champion in its field though it’s unlisted to talk about their experiences. It hopes enterprise operators and senior managers can have an opportunity to see and listen to these enterprise leaders. 20 lectures (10 series) have been held up to the publication date of the annual report and will continue to be held.</p> <p>(8) The Company has been devoted to Industry-Government-Academia Cooperation and school education; to fulfill corporate social responsibility, it donates a compound library to 6 elementary schools in Hsinchu with Chairman Chuo, which expects to have online reading functions, a reading room, an auditorium and a lecture hall so that teachers and students can use it conveniently; it can also help children develop reading habits, an international outlook and a basic ability to cope with globalization.</p> <p>(9) It continues to make contributions to corporate bodies and governmental agencies of education, culture, charity and environmental protection to fulfill corporate social responsibility.</p> | | | | |
| <p>7. A clear statement shall be made below if the company products or corporate social responsibility reports were verified by relevant certification bodies:</p> <p>(1) The Company has invested in product development of medical equipment since 2010, and has achieved Medical Device Good Manufacturing Practice (GMP) of medical device quality control system ISO1348 (5), CE certification of EU Medical Device Directive and CFDA certification of mainland China, and won the 23rd “Taiwan Excellence Gold Award” in 2015.</p> <p>(2) In addition to passing verification of Taiwan Branch of British Standards Institution (BSI) and conforming to GRI/G4 standard and AA1000AS 2008 Standard TYPE 1, the Company’s CSR report won Top 50 Corporate Sustainability Report Gold Award and Growth through Innovation Award given by Taiwan Institute for Sustainable Energy.</p> | | | | |

(vi) Implementation of Ethical Corporate Management:

| Evaluation Items | Operation | | | Differences from Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|--|----------------------------|----|---|--|
| | Yes | No | Abstract | |
| <p>1. Establishment of ethical corporate management policy and scheme</p> <p>(1) Has the company expressly stated its ethical corporate management policy and practices in its regulations and external documents? Have its board and management implemented the commitment of ethical corporate management positively?</p> <p>(2) Has the company made rules against dishonesty with clear statements regarding operational procedures, behavior guidelines and appeal system, and implemented them?</p> <p>(3) Has the company made appropriate precautionary measures against high potential dishonesty or operating activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies?</p> | <p>V</p> <p>V</p> <p>V</p> | | <p>(1) The Company has established "Ethical Corporate Management Best-Practice Principles", expecting its Board and management positively implement its ethical corporate management policy and reinforce employees' perception of its ethical corporate management ideas through daily recitation and advocacy of the management ideas "Professional Level, Enthusiasm for Work and Professional Ethics".</p> <p>(2) The Company has established "Employee Code of Conduct", which expressly states operational procedures and that it will begin disciplinary procedures according to the circumstances for any violation of Code of Ethics or corruption; for any violation of government decrees or corruption, anyone can report to supervisors, managers, internal auditors or other competent personnel by e-mail or in written report, and personnel of relevant units must report this to the Chairman after receiving the report; the internal auditors check whether the preceding system are followed irregularly and include dishonesty into the key points of such check to implement the rules.</p> <p>(3) The Company has established "Employee Code of Conduct" according to "Ethical Corporate Management Best-Practice Principles", and made appropriate precautionary measures against high potential dishonesty or operating activities stated in Article 2, Paragraph 7 of "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies"; the internal audit department also plays an important role in ensuring the obedience of professional ethics. To ensure that the financial, management and operation information is correct, reliable and timely and employee behaviors conform to relevant policies, rules, procedures and regulations, the internal audit department audits according to the annual audit plan authorized by the Board, and submits the results and improvement plans to the Board and management so that to implement the audit effects.</p> | None |

| Evaluation Items | Operation | | | Differences from Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|--|--|----|---|--|
| | Yes | No | Abstract | |
| <p>2. Implementation of ethical corporate management</p> <p>(1) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts?</p> <p>(2) Does the company establish a dedicated (or non-dedicated) unit under the Board to promote ethical corporate management and report to the Board regularly?</p> <p>(3) Has the company established policies to prevent conflicts of interest and provided appropriate communication channels, and implemented them?</p> <p>(4) Has the company established an effective accounting system and internal control system to implement ethical corporate management? Does the internal control unit audit on a regular basis or authorize the accountant to audit?</p> <p>(5) Does the company regularly hold internal and external educational trainings on ethical corporate management?</p> | <p>V</p> <p>V</p> <p>V</p> <p>V</p> <p>V</p> | | <p>(1) The Company has established an effective assessment mechanism for its suppliers and outsourcers and the contracts with them state both parties' rights and obligations in details, and sign the confidentiality agreement.</p> <p>(2) The Company promotes advocacies related to ethical corporate management and Human Resources Department is responsible for the execution; it does everything possible to promote ethical corporate management and all its colleagues, managers, directors and supervisors should follow "Ethical Corporate Management Best-Practice Principles"; relevant members are obliged to report to the Board, and any colleague finding dishonesty in anyone can also report it through the Company's open channels, and serious violation can be reported to the Board irregularly for the Board to supervise whether it's dealt with according to the rules.</p> <p>(3) The Company's internal staff can report conflicts of interest to their department managers and the audit department, or the chairman or the general manager through the feedback box for them to handle this personally.</p> <p>(4) The Company's management ideas "Professional Level, Enthusiasm for Work and Professional Ethics" have shown its emphasis on ethical corporate management; to build and a corporate culture of ethical corporate management and develop well, it has established "Ethical Corporate Management Best-Practice Principles" and the internal audit unit has established internal audit plans to execute audit and check whether employees are honest or cheat irregularly.</p> <p>(5) The Company advocates ethical corporate management ideas through morning meetings every month, supervisors and basic and promotion trainings.</p> | None |

| Evaluation Items | Operation | | | Differences from Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|---|-------------------------|----|--|--|
| | Yes | No | Abstract | |
| 3. Operation of the Company's offence reporting system (1) Has the Company established a specific offence reporting and reward systems, set up convenient offence reporting channels, and appointed an appropriate person for the one who has been reported? (2) Has the Company established standard operating procedures as well as a relative protection mechanism for whistleblowers? (3) Does the Company take measures to protect whistleblowers from being inappropriately treated? | V V V | | (1) The "Employee Code of Conduct" of the Company has stated the offence reporting system, and a reward and punishment system for employees has also been established; to make it convenient for whistleblowers to report the breach of good faith, the Company has a feedback box on the company website for them to send mails to the chairman, the general manager and Human Resources Department directly. (2) The Company has stated the investigation methods for offence reporting in "Employee Code of Conduct"; after receiving the report, personnel in relevant units should submit it to the chairman who will instructs relevant units to investigate and handle it in private, and the reported matter and the whistleblower should be kept secret. (3) The company takes perfect protective measures for whistleblowers and doesn't disclose their names and other relevant information to guarantee the investigation quality and protect them from being retaliated or inappropriately treated. | None |
| 4. Strengthening information disclosure (1) Has the company disclosed its ethical corporate management policies and the implementation results on the company website and Market Observation Post System? | V | | (1) The Company discloses its ethical corporate management ideas, corporate mission and brand meaning on both the company website and Market Observation Post System; besides, it puts "Ethical Corporate Management Best-Practice Principles" on the company website and Market Observation Post System. (2) Apart from disclosing its ethical corporate management principles on the company website, it also has a dedicated department for collecting and publishing the company information, and has disclosed relevant and reliable ethical corporate management information in the annual report and CSR report. | None |
| 5. If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe the differences between the policies and their implementation: none. | | | | |
| 6. Other important information to facilitate a better understanding of the company's ethical corporate management: none. | | | | |

(vii) Corporate Governance Rules and Regulations:

1. Corporate Governance Regulations:

- (1) It establishes Operating Procedures of Acquisition or Disposal of Assets, Procedures for Endorsements and Guarantees, Procedures for Lending Funds to Other Parties, Rules and Procedures of Board Meetings and Organization Rules of the Remuneration Committee according to relevant norms set by Financial Supervisory Commission, Executive Yuan.

(2)It establishes Ethical Corporate Management Code, Code of Conduct, Corporate Governance Practice Principles, Corporate Social Responsibility Practice Principles, Rules and Procedures of Shareholder Meetings and Rules Governing Election of Directors and Supervisors according to relevant norms and reference examples set by Taiwan Stock Exchange.

2.The information above can be downloaded in “Relevant Regulations and Rules Governing Corporate Governance” under “Corporate Governance” on Market Observation Post System or in “Relevant Rules Governing Corporate Governance” under “Investor” at http://www.hiwin.com.tw/stock/corporate_governance.aspx.

(viii) Other Important information helpful for enhancing understanding of the corporate governance of the Company: none.

(ix) Implementation of the internal control system:

1.Statement on Internal Control

HIWIN Technologies Corp.

Date: March 26, 2016

The Company hereby makes the following statement about its internal control system for the year 2015 based on its self-examination:

1. The Company is aware that it is the Board and managers' responsibility to establish, implement, and maintain an internal control system and the Company has set up such a system. The purpose of the system is to ensure the effectiveness and efficiency (including profitability, performance, and protection of assets) of the Company's operations, the reliability of its financial statements and compliance with relevant laws and regulations.
2. Internal control systems have their inherent limitations. No matter how well they are designed, an effective internal control system can only reasonably ensure achievement of the above three objectives. In addition, an internal control system's effectiveness may change as circumstances change. Nevertheless, self-supervision mechanisms have been built into the Company's internal control system. Once a deficiency is identified, the Company will immediately take corrective action.
3. The Company determines whether the design and implementation of its internal control system is effective by referring to the criteria stated in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter, the "Regulations"). The Regulations provides measures for judging the effectiveness of the internal control system. There are five components of an internal control system as specified in the Regulations which are broken down based on the management control process, namely: (1) Control Environment, (2) Risk Evaluation, (3) Control Operation, (4) Information and Communication, and (5) Monitoring. Each component consists of several items. Please refer to the Regulations for the above items.
4. The Company uses the above criteria to determine whether the design and implementation of its internal control system is effective.
5. After a test of the Company's internal control system based on the above criteria, the Company is of the opinion that, as of December 31, 2015, its internal control system (including supervision and management of subsidiaries) is effective and therefore can reasonably ensure achievement of the above objectives, which include awareness of the degree to which operating results and goals are achieved, reliability of financial reporting and compliance with the law.
6. This statement shall become a principal part of the Company's annual report and prospectus and be made available to the public. If the content of the above is untruthful or certain important information is withheld, the Company shall be held liable pursuant to Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
7. This statement has been approved on March 26, 2016 by the Board, with none of the 10 Directors present opposing it.

HIWIN Technologies Corp.

| | |
|--------------------------------|-----------|
| Chairman: Eric Y. T. Chuo | Signature |
| General Manager: Hui-Chin Tsai | Signature |

2. If the company has commissioned external auditors to review the company's internal control system, the external auditor's report should be disclosed: none.

(x) In the last year and as of the publication date of the Annual Report, any disciplinary measures taken against the Company or its internal staff according to law or taken by the Company against its staff due to violations of the internal control system, the main deficiency and improvement should be noted: none.

(xi) Major resolutions of Shareholder and Board Meetings in the last year and as of the publication date of the Annual Report:

| Name | Date | Major Resolutions |
|---------------------|----------------|---|
| Shareholder Meeting | June 25, 2015 | Approved Business Report and Financial Statement 2014 |
| | | Approved Earnings Distribution Statement 2014 |
| | | Approved the issuance of new shares for capital increase out of earnings |
| | | Passed amendments to the Articles of Incorporation |
| | | Lifted restrictions on Director Non-Competition |
| Board Meeting | Jan. 13, 2015 | Approved capital increase and decrease for HIWIN Japan |
| | | Approved replacement of the company spokesman and deputy spokesman |
| Board Meeting | March 23, 2015 | Approved Business Plan 2015 |
| | | Approved Annual Financial Statement 2014 |
| | | Passed Business Report 2014 |
| | | Passed Earnings Distribution Statement 2014 |
| | | Passed the issuance of new shares for capital increase out of earnings |
| | | Passed part amendments to the Articles of Incorporation |
| | | Passed amendments to the Procedures Governing the Acquisition or Disposal of Assets |
| | | Passed the date and venue for the Board meetings in 2015, when and where proposals of shareholders holding one percent or more of the total number of outstanding shares are accepted, and related issues |
| | | Approved capital increase of HULKet |
| | | Passed the buying tender of land of Taichung City Precision Machinery Innovation Technology Park |
| Board Meeting | May 11, 2015 | Approved First-Quarter Financial Statement 2015 |
| | | Approved capital increase of Luren Precision |
| | | Passed part amendments to the Articles of Incorporation |
| | | Passed amendments to the Procedures Governing the Acquisition or Disposal of Assets |
| | | Passed amendments to the Rules Governing Ethical Corporate Management |
| | | Lifted restrictions on Director and Manager Non-Competition |
| | | Passed the date, venue and proposals for the Board meetings in 2015, and related issues (correct reasons for the convening) |
| | | Passed land lease and purchase of Factory I in Yun-Lin Science Industrial Park |
| Board Meeting | June 2, 2015 | Passed land purchase and factory building of HIWIN America |
| | | Passed loans to HULKet |
| | | Passed amendments to Forward Exchange Transaction Evaluation and Operating Procedures |
| | | Passed strategic alliance between NEXCOM and FU BURG |
| Board Meeting | July 22, 2015 | Passed ex-right and ex-dividend base date |

| | | |
|---------------|----------------|---|
| Board Meeting | Aug. 11, 2015 | Approved Second-Quarter Financial Statement 2015 |
| | | Passed the subscription of residential land of Dabaishih of Yun-Lin Science Industrial Park |
| | | Passed factory building phase I in Taichung City Precision Machinery Innovation Technology Park |
| | | Passed endorsement for HIWIN Singapore |
| Board Meeting | Nov. 10, 2015 | Approved Third-Quarter Financial Statement 2015 |
| | | Approved capital increase and decrease for HIWIN Japan |
| | | Passed loans to HIWIN Japan and HIWIN Italy |
| | | Passed endorsement for HIWIN South Korea |
| | | Passed part amendments to the Articles of Incorporation |
| | | Passed "Operating Procedures and Guidelines Governing Ethical Corporate Management" |
| | | Passed the establishment of "Operating Procedures for Application of Suspending and Resuming Trading with Listed Securities" |
| Board Meeting | Dec. 25, 2015 | Passed cash capital increase of HULKet |
| | | Passed land lease and purchase of Factory II in Yun-Lin Science Industrial Park |
| Board Meeting | March 26, 2016 | Passed Business Plan 2016 |
| Name | Date | Major Resolutions |
| Board Meeting | March 26, 2016 | Approved Annual Financial Statement 2015 |
| | | Passed Annual Business Report 2015 |
| | | Passed Earnings Distribution Statement 2015 |
| | | Approved the issuance of new shares for capital increase out of earnings |
| | | Passed part amendments to the Articles of Incorporation |
| | | Passed amendments to the Procedures Governing the Acquisition or Disposal of Assets |
| | | Passed amendments to Procedures for Endorsements and Guarantees |
| | | Passed amendments to Procedures for Lending Funds to Other Parties |
| | | Passed amendments to Rules and Procedures of Shareholder Meetings |
| | | Passed amendments to Rules and Procedures of Board Meetings |
| | | Passed amendments to Rules Governing Election of Directors and Supervisors |
| | | Passed amendments to Code of Conduct for Directors, Supervisors and Managers |
| | | Passed amendments to Rules Governing Ethical Corporate Management |
| | | Approved the election of the directors of the 10th Board |
| | | Lifted restrictions on Non-Competition of the directors of the 10th Board and their representatives |
| | | Passed the date and venue for the Board meetings in 2016, when and where proposals of shareholders holding one percent or more of the total number of outstanding shares and candidate nomination of directors are accepted, and related issues |
| | | Passed capital increase of HULKet |
| | | Passed factory building phase I in Suzhou Industrial Park for HIWIN mainland China |
| | | Passed factory building phase II in Taichung City Precision Machinery Innovation Technology Park |
| Board Meeting | May 10, 2016 | Approved First-Quarter Financial Statement 2016 |
| | | Passed the review of shareholder proposals and candidate nomination of directors (including independent directors) |
| | | Passed establishment of "Audit Committee" and "Organization Rules of the Audit Committee" |
| | | Passed loans to HULKet |

Implementation Result of Resolutions of Shareholder Meeting 2015:

1.Approved annual accounts 2014

Implementation result: passed at Shareholder Meeting 2015

2.Approved Earnings Distribution Statement 2014

Implementation result: passed at Shareholder Meeting 2015, with NT\$ 0.6 per share as stock dividend and NT\$ 2.9 dividend per share for stockholders, totaling NT\$ 3.5; NT\$ 3.2 and cash dividends and NT\$ 0.3 stock dividends had been distributed before Aug. 28, 2015, and capital increase out of earnings had also been handled before Sep. 18, 2015.

3.Discussed the issuance of new shares for capital increase out of earnings

Implementation result: passed at Shareholder Meeting 2015; capital increase out of earnings had been handled before Sep. 18, 2015.

4.Discussed amendments to the Articles of Incorporation

Implementation result: amended according to the resolution.

5.Discussed lifting restrictions on Director Non-Competition

Implementation result: passed through voting and executed according to the resolution of shareholder meeting.

6.Discussed the Procedures Governing the Acquisition or Disposal of Assets

Implementation result: amended according to the resolution; the amended one is disclosed on the company website.

(xii) Different opinions in records or written statements from directors or supervisors regarding major resolutions passed by the Board in the last year and as of the publication date of the Annual Report: none

(xiii) Resignation or dismissal of Chairman, General Manager, Accounting Supervisor, Finance Supervisor, Internal Audit Supervisor or R&D Supervisor in the last year and as of the publication date of the Annual Report: none.

iv. Information on Accountant's Fees

(i) Information on Accountant's Fees:

| Name of the Accounting Firm | Name of Accountants | Audit Period | Remarks |
|-----------------------------|------------------------------|--------------|---------|
| Deloitte & Touche | Yan Xiaofang Zeng Dongyun | 2015 | |

Monetary Unit: NT\$ 1000

| Notch | Items | Audit Fees | Non- Audit Fees | Total |
|-------|---------------------------|------------|-----------------|-------|
| 1 | Below 2,000 | | ✓ | |
| 2 | 2,000 (including) ~4,000 | | | |
| 3 | 4,000 (including) ~6,000 | ✓ | | ✓ |
| 4 | 6,000 (including) ~8,000 | | | |
| 5 | 8,000 (including) ~10,000 | | | |
| 6 | Above 10,000 (including) | | | |

Monetary Unit: NT\$ 1000

| Name of the Accounting Firm | Name of Accountants | Audit Fees | Non- Audit Fees | | | | | Audit Period | Remarks |
|-----------------------------|---------------------|------------|-----------------|--------------|----------------|-------|----------|--------------|---|
| | | | System Design | 2015 | Human Resource | Other | Subtotal | | |
| Deloitte & Touche | Yan Xiaofang | 4,310 | - | Audit Period | - | 205 | 205 | 2015 | The rest mainly includes capital increase out of earnings and reimbursed expenses |
| | Zeng Dongyun | | | | | | | | |

1. Paying at least one-fourth of non-audit fees to CPAs, their accounting firm, and its affiliates: no such cases.
2. Change of CPA firm and the audit fees paid in the year of the change are less than those paid in the previous year: no such cases.
3. Audit fees paid in the current year are at least 15% less than those paid in the previous year: no such cases.

(ii) CPA Independence

The Company evaluates CPA Independence regularly based on the items below and reports the results to the Board:

1. CPA Independence Evaluation Questionnaire
2. The same accountant hasn't executed certification work continuously for over 5 years.
3. The Company will confirm whether the audit results are affected before the non-audit services are provided.

v. Information on Change of Accountant

(i) About the former accountant

| | | | |
|--|---|----------------|-----------|
| Date of Change | March 26, 2016 | | |
| Reasons and Explanations | As a result of internal job transfers within Deloitte & Touche, the company's CPAs were changed from Yan Xiaofang and Cheng Derui to Yan Xiaofang and Zeng Dongyun. | | |
| Was the termination of audit services initiated by the Company or the CPA? | <div>Parties Involved</div> Situation | Account | Appointer |
| | The Company terminated the appointment. | Not Applicable | |
| | The CPA rejected being appointed. | | |
| Opinions and reasons of the | Not Applicable | | |

| | | | |
|---|-------------|---|-----------------------------------|
| audit report other than unqualified opinions issued within the recent 2 years | | | |
| Having different opinions from the issuer | Yes | | Accounting Principles or Practice |
| | | | Disclosure of Financial Reports |
| | | | Audit Range and Steps |
| | | | Others |
| | No | ✓ | |
| | Explanation | | |
| Other Disclosures (according to Sub-item 4 of Item 1, Paragraph 5, Article 10 of Guidelines Governing the Preparation of Financial Reports by Securities) | None | | |

(ii) About the succeeding accountant

| | |
|--|----------------|
| Name of the Accounting Firm | |
| Name of Accountants | |
| Date of Appointment | |
| Inquiries and replies relating to the accounting methods or principles of certain transactions, and opinions issued for the financial reports prior to appointment | Not Applicable |
| Different opinions in written form made by the succeeding accountant from the former accountant | |

(iii) Former accountants' response to Item 1 and Sub-item 3 of Item 2, Paragraph 5, Article 10 of these principles: Not Applicable.

vi. If the Company's Chairman, General Manager and Managers Responsible for Financial and Accounting Affairs Have Held Office in the CPA Firm or Any of Its Affiliated Companies Within the Last Year, Their Names, Job Titles and the Periods During Which They Have Held Such Office Should Be Disclosed: none.

vii. Transfer and Pledge of Shares by the Chairman, Supervisors, Managers and Shareholders Holding more than 10% of the Company's Shares within the Latest Year and up till the Publication Date of This Annual Report

(i) Changes of shares held by directors, supervisors, managers and major shareholders

Unit: shares

| Title | Name | 2015 | | Jan. 1, 2016 to Apr 30, 2016 | |
|----------------------------|-----------------|------------------------------------|---------------------------------------|------------------------------------|---------------------------------------|
| | | Increase (Decrease) in Shares Held | Increase (Decrease) in Shares Pledged | Increase (Decrease) in Shares Held | Increase (Decrease) in Shares Pledged |
| Chairman & CEO | Eric Y. T. Chuo | 86,113 | 274,000 | (121,000) | - |
| Deputy Chairman | Chen Jin-tsai | 113,663 | 1,000,000 | - | (1,000,000) |
| Director & General Manager | Hui-Chin Tsai | 126,717 | - | - | - |

| | | | | | |
|---|------------------------------|-----------|-------------|-----------|-------------|
| Director & Vice General Manager of Chairman Room | Zhuo Wenheng | 172,769 | - | - | - |
| Director | Li Xunqin | 368,828 | (1,400,000) | (283,000) | (2,000,000) |
| Independent Director | Jiang Zhenghe | - | - | - | - |
| Independent Director | Chen Zeyu | - | - | - | - |
| Supervisor | Sanko Investments Limited | 89,579 | - | - | - |
| | Representative: Hunag Yousan | - | - | - | - |
| Supervisor | Zhang Liangji | 54,976 | - | - | - |
| Executive Vice General Manager of Chairman Room | Lin Mingyao | (161,982) | - | - | - |
| Senior Vice General Manager of Marketing Business Group | Yang Shengzhi | 3,402 | - | - | - |
| Vice General Manager of Marketing Business Group | Peng Yanqi | 127 | - | - | - |
| Vice General Manager of Chairman Room | Song Xiande | - | - | - | - |
| Assistant General Manager of Financial Department | Lin Yifeng | 11,174 | - | - | - |
| Assistant General Manager of Chairman Room | Qu Yueling | 1,402 | - | (8,000) | - |
| Assistant Manager of Production Business Group | Jinag Mingjun | 2,027 | - | - | - |
| Assistant Manager of Business Department | Zhang Kunyao | 86 | - | - | - |
| Assistant Manager of Marketing Business Group | Deng Hongqun | 385 | - | - | - |
| Assistant Manager of Chairman Room | Qiu Shirong | 561 | - | - | - |
| Assistant Manager of System Research Department | Wang Fuqing | 1,883 | - | - | - |
| Assistant Manager of Financial Department | Wu Yueqin | 7,246 | - | - | - |
| Assistant Manager of Quality Assurance Department | Wu Junliang | 983 | - | - | - |
| Senior Assistant Manager of Financial Department | Liao Kehuang | (29,173) | - | - | - |
| Assistant Manager of Financial Department (Note 1) | Chen Zhizhong | - | - | - | - |
| Assistant Manager of Chairman Room | Chen Xiulian | 178 | - | - | - |
| Assistant Manager of Production Business Group (Note 2) | Li Wenbin | 162 | - | - | - |
| Assistant Manager of Chairman Room (Note 3) | He Youheng | 2,065 | - | - | - |
| Assistant Manager of Information Department (Note 4) | Zhang Yongming | - | - | - | - |
| Assistant Manager of Chairman Room (Note 4) | Yang Chuangbao | - | - | - | - |

Note 1: Chen Zhizhong was relieved of duty on May 15, 2015.

Note 2: Li Wenbin assumed his posts on Feb. 1, 2015.

Note 3: He Youheng assumed his posts on Feb. 1, 2015 and relieved of duty on May 9, 2016

Note 4: Zhang Yongming and Yang Chuangbao assumed their posts on March 26, 2016.

(ii) Stock transferred to related parties: none.

(iii) Stock rights pledged to related parties: none.

viii. Information of the 10 Largest Shareholders Who Are Related as Stated in Statement of Financial Accounting Standards No. 6, or Couples or Relatives within the Second Degree of Kinship

April 30, 2016
Unit: shares %

| Name of Major Shareholders | Shares Held Personally | | Shares Held by Spouse or Minor Children | | Combined Shares Held in The Name of Others | | Names and Relationship of the Top Ten Shareholders Who Are Related, Couples or Relatives within the Second Degree of Kinship | | Remarks |
|-------------------------------------|------------------------|--------------------|---|--------------------|--|--------------------|--|--|---------|
| | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Name | Relationship | |
| HIWIN Investment Corporation | 20,916,392 | 7.77% | - | - | - | - | Eric Y. T. Chuo | Chairman | |
| Representative: Eric Y. T. Chuo | 13,535,572 | 5.03% | 1,022,974 | 0.38% | - | - | Zhuo Xiumin Zhuo Wenheng Zhuo Xiuyu | Within the First Degree of Kinship | |
| Eric Y. T. Chuo | 13,535,572 | 5.03% | 1,022,974 | 0.38% | - | - | Zhuo Xiumin Zhuo Wenheng Zhuo Xiuyu | Within the First Degree of Kinship | |
| Nan Shan Life Insurance Co. Ltd. | 12,901,763 | 4.79% | - | - | - | - | - | - | |
| Representative: Du Yingzong | - | - | - | - | - | - | | | |
| Li Xunqin | 12,380,116 | 4.60% | 2,531,708 | 0.94% | - | - | - | - | |
| Fubon Life Insurance Co., Ltd. | 11,754,014 | 4.37% | - | - | - | - | - | - | |
| Representative: Zheng Benyuan | - | - | - | - | - | - | | | |
| Cathay Life Insurance Company, Ltd. | 9,544,612 | 3.54% | - | - | - | - | - | - | |
| Representative: Cai Hongtu | - | - | - | - | - | - | | | |
| Stichting APG | 6,816,946 | 2.53% | | | | | | | |
| Zhuo Wenheng | 5,931,765 | 2.20% | - | - | - | - | Eric Y. T. Chuo Zhuo Xiumin Zhuo Xiuyu | Within the First Degree of Kinship Within the Second Degree of Kinship Within the Second Degree of Kinship | |
| Zhuo Xiumin | 4,775,655 | 1.77% | 198,564 | 0.08% | - | - | Eric Y. T. Chuo Zhuo Wenheng | Within the First Degree of Kinship Within the | |

| | | | | | | | | | |
|------------|-----------|-------|--------|-------|---|---|--|--|--|
| | | | | | | | Zhuo Xiuyu | Second Degree of Kinship Within the Second Degree of Kinship | |
| Zhuo Xiuyu | 4,666,167 | 1.73% | 82,767 | 0.03% | - | - | Eric Y. T. Chuo Zhuo Xiumin Zhuo Wenheng | Within the First Degree of Kinship Within the Second Degree of Kinship Within the Second Degree of Kinship | |

ix. The Shareholdings and Joint Shareholding Held by the Company, its Directors, its Supervisors, its Managers and Affiliates Controlled Directly or Indirectly by the Company in the Same Invested Businesses

Dec. 31, 2015
Unit: shares %

| Reinvestment Business | Investment of the Company | | Investment of Business Directly or Indirectly Controlled by Directors, Supervisors and Managers | | Comprehensive Investment | |
|---------------------------------|---------------------------|--------------------|---|--------------------|--------------------------|--------------------|
| | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio |
| Hiwin Germany GmbH | Note | 100% | - | - | Note | 100% |
| Hiwin Corporation U.S.A | 2,148,000 | 100% | - | - | 2,148,000 | 100% |
| Hiwin Corporation Japan | 30,200 | 100% | - | - | 30,200 | 100% |
| HULKet | 115,393,463 | 48% | 32,148,830 | 13% | 147,542,293 | 61% |
| Hiwin Singapore Pte. Ltd | 5,000,000 | 100% | - | - | 5,000,000 | 100% |
| Hiwin Corporation South Korea | 1,000,000 | 100% | - | - | 1,000,000 | 100% |
| HIWIN Italy | - | - | Note | 100% | Note | 100% |
| HIWIN China | Note | 100% | - | - | Note | 100% |
| Luren Precision | 11,352,373 | 47% | 368,156 | 2% | 11,720,529 | 49% |
| Hiwin Healthcare Corp. | 100,000 | 100% | - | - | 100,000 | 100% |
| Luren Precision (Japan) | - | - | 200 | 47% | 200 | 47% |
| Luren Precision Chicago Co. Ltd | - | - | 460,000 | 47% | 460,000 | 47% |
| Luren Precision Shanghai | - | - | Note | 47% | Note | 47% |
| Luren Precision Xiamen | - | - | Note | 47% | Note | 47% |

Note: unissued shares

IV. Capital Overview

i. Capital and Shares

(i) Source of Capital

Unit: NT\$ 1000; 1000 shares

| Date | Issue Price | Authorized Stock | | Paid-Up Capital | | Remarks | | |
|---------------|-------------|------------------|-----------|------------------|-----------|--|--|--|
| | | Number of Shares | Sum | Number of Shares | Sum | Source of Capital | Subscriptions Paid with Property other than Cash | Others |
| Oct. 8, 1999 | 12 | 130,500 | 1,305,000 | 123,500 | 1,235,000 | Cash Capital Increase | None | Tai Tsai Cheng (1) No. 72181, dated Aug. 05, 1999 |
| Oct. 22, 2001 | 10 | 151,900 | 1,519,000 | 135,850 | 1,358,500 | Capital Increase out of Earnings or Capital Reserves | None | Tai Tsai Cheng (1) No. 151591, dated Aug. 14, 2001 |
| Oct. 15, 2002 | 10 | 151,900 | 1,519,000 | 139,925 | 1,399,255 | Capital Increase out of Earnings | None | Tai Tsai Cheng (1) No. 145107, dated Aug. 14, 2002 |
| Oct. 9, 2003 | 10 | 151,900 | 1,519,000 | 145,544 | 1,455,442 | Capital Increase out of Earnings or Employee Bonuses | None | Tai Tsai Cheng (1) No. 137138, dated Aug. 15, 2003 |
| Oct. 5, 2004 | 10 | 191,038 | 1,910,380 | 156,918 | 1,569,178 | Capital Increase out of Earnings or Employee Bonuses | None | Jin Kuan Cheng (1) No. 0930135195, dated Aug. 6, 2004 |
| Oct. 5, 2005 | 10 | 191,038 | 1,910,380 | 177,706 | 1,777,059 | Capital Increase out of Earnings or Employee Bonuses | None | Jin Kuan Cheng (1) No. 0940132392, dated Aug. 9, 2005 |
| Aug. 2, 2006 | 10 | 300,000 | 3,000,000 | 201,345 | 2,013,448 | Capital Increase out of Earnings or Employee Bonuses | None | Jin Kuan Cheng (1) No. 0950133960, dated Aug. 2, 2006 |
| June 25, 2009 | 24 | 300,000 | 3,000,000 | 223,390 | 2,233,898 | Cash Capital Increase | None | Jin Kuan Cheng (1) No. 0970071383, dated Jan. 8, 2009 |
| Aug. 16, 2010 | 10 | 300,000 | 3,000,000 | 227,858 | 2,278,576 | Capital Increase out of Earnings | None | Jin Kuan Cheng (1) No. 0990032889, dated June 25, 2010 |
| Aug. 29, 2011 | 10 | 300,000 | 3,000,000 | 234,693 | 2,346,933 | Capital Increase out of Earnings | None | Jin Kuan Cheng (1) No. 1000031785, dated July 11, 2011 |
| Sep. 17, 2012 | 10 | 300,000 | 3,000,000 | 246,428 | 2,464,280 | Capital Increase out of Earnings | None | Jin Kuan Cheng (1) No. 1010031169, dated July 13, 2012 |

| | | | | | | | | |
|---------------|----|---------|-----------|---------|-----------|----------------------------------|------|--|
| Sep. 18, 2013 | 10 | 300,000 | 3,000,000 | 253,821 | 2,538,208 | Capital Increase out of Earnings | None | Jin Kuan Cheng (1) No. 1020027958, dated July 18, 2013 |
| Sep. 15, 2014 | 10 | 300,000 | 3,000,000 | 261,435 | 2,614,354 | Capital Increase out of Earnings | None | Jin Kuan Cheng (1) No. 1030026626, dated July 14, 2014 |
| Sep. 2, 2015 | 10 | 300,000 | 3,000,000 | 269,278 | 2,692,785 | Capital Increase out of Earnings | None | Jin Kuan Cheng (1) No. 1040027343, dated July 21, 2015 |

Unit: 1000 shares

| Stock Class | Authorized Stock | | | Remarks |
|--------------|---------------------------|-----------------|---------|----------------------------|
| | Outstanding Capital Stock | Unissued Shares | Total | |
| Common Stock | 269,278 | 30,722 | 300,000 | Shares of Listed Companies |

Information for Shelf Registration System: none.

(ii) Shareholding Structure

April 30, 2016

| Shareholding Structure Quantity | Governmental Agencies | Financial Institutions | Other Legal Persons | Individual | Foreign Institutions and Outsiders | Total |
|------------------------------------|-----------------------|------------------------|---------------------|-------------|------------------------------------|-------------|
| Number of People | 5 | 3 | 161 | 34,747 | 386 | 35,302 |
| Number of Shares Held | 2,801,363 | 34,200,389 | 30,221,237 | 144,461,629 | 57,593,838 | 269,278,456 |
| Shareholding Ratio | 1.04% | 12.70% | 11.22% | 53.65% | 21.39% | 100% |

(iii) Equity Dispersion

April 30, 2016

| Class of Shareholding | Number of Shareholders | Number of Shares | Shareholding Ratio |
|-----------------------|------------------------|------------------|--------------------|
| 1 ~ 999 | 13,911 | 1,118,750 | 0.42% |
| 1,000 ~ 5,000 | 17,731 | 31,635,819 | 11.75% |
| 5,001 ~10,000 | 2,063 | 14,241,155 | 5.29% |
| 10,001~15,000 | 576 | 6,874,969 | 2.55% |
| 15,001~20,000 | 275 | 4,782,773 | 1.78% |
| 20,001~30,000 | 269 | 6,535,077 | 2.43% |
| 30,001~50,000 | 171 | 6,673,166 | 2.48% |
| 50,001 ~100,000 | 126 | 8,868,484 | 3.29% |
| 100,001~200,000 | 78 | 11,279,919 | 4.19% |
| 200,001~400,000 | 43 | 12,836,522 | 4.77% |
| 400,001~600,000 | 12 | 5,886,320 | 2.19% |
| 600,001~800,000 | 12 | 8,354,072 | 3.10% |
| 800,001~1,000,000 | 5 | 4,563,639 | 1.69% |
| Above 1,000,001 | 30 | 145,627,791 | 54.07% |
| Total | 35,302 | 269,278,456 | 100.00% |

(iv) List of Major Shareholders

April 30, 2016

| Share | Number of Shares | Shareholding Ratio |
|-------------------------------------|------------------|--------------------|
| Name of Major Shareholders | | |
| HIWIN Investment Corporation | 20,916,392 | 7.77% |
| Eric Y. T. Chuo | 13,535,572 | 5.03% |
| Nan Shan Life Insurance Co. Ltd. | 12,901,763 | 4.79% |
| Li Xunqin | 12,380,116 | 4.60% |
| Fubon Life Insurance Co., Ltd. | 11,754,014 | 4.37% |
| Cathay Life Insurance Company, Ltd. | 9,544,612 | 3.54% |
| Stichting APG | 6,816,946 | 2.53% |
| Zhuo Wenheng | 5,931,765 | 2.20% |
| Zhuo Xiumin | 4,775,655 | 1.77% |
| Zhuo Xiuyu | 4,666,167 | 1.73% |

(v) Market price, net value, earnings, dividends and other relevant information for the last two years

| Year | | 2014 | 2015 | Jan. 1, 2016 to March 31, 2016 |
|----------------------------------|---|--------------------------------|--------------|--------------------------------|
| Item | | | | |
| Market Price per Share | Highest | 378.00 | 274.50 | 164.00 |
| | Lowest | 216.00 | 124.50 | 104.00 |
| | Average | 285.63 | 205.00 | 132.80 |
| Net Value per Share | Before Distribution | 49.45 | 50.68 | 51.07 (Note 2) |
| | After Distribution | 44.90 | (Note 1) | (Note 1) |
| Earnings per Share | Weighted Average Number of Shares (1000 Shares) | 269,278 | 269,278 | 269,278 (Note 2) |
| | Earnings per Share (after-tax) | 9.20 | 6.10 | 0.53 (Note 2) |
| | Earnings per Share (after-tax) after retroactive adjustment | 8.93 | (Note 1) | (Note 1) |
| Dividend per Share | Cash Dividends | 3.2 | 2.1 (Note 1) | - |
| | Stock Dividends | Dividends from Earnings | 0.3 | 0.2 (Note 1) |
| | | Dividends from Capital Reserve | - | - |
| | Accumulated Unpaid Dividends | | - | - |
| Analysis of Return on Investment | Price/Earning Ratio | 31.05 | 33.61 | - |
| | Price/Dividend Ratio | 89.26 | 97.62 | - |
| | Cash Dividend Yield (%) | 1.12 | 1.02 | - |

Note 1: The earnings distribution for 2015 has not yet been approved by the Shareholders' Meeting.

Note 2: The financial statement of the first quarter of 2016 audited by the accountant.

(vi) Dividend Policy and Implementation

1. Dividend Policy

The Company is capital-intensive, and if it has earnings at the end of a fiscal year, the sum to pay all taxes and to cover previous losses, if any, shall be first withheld, then 10% for legal reserve, and then for special reserve as required by law, and less than 6% (including) for dividends. To be in conjunction with “Dividend Equalization Policy” of Securities and Futures Bureau, conform to its operating environment and pursue sustainable operation and long-term development, it distributes earnings in the form of cash dividends preferentially and then stock dividends, but the proportion of stock dividends distributed shall not be higher than 2/3 of the total dividends and bonuses of shareholders in the current year. The Board drafts the earnings distribution plan according to law every year and submits it to the Shareholders’ Meeting for approval.

According to the amendment to the Articles of Incorporation in May, 2015, the apportionment of stock dividends and bonuses is subject to shareholders and employees are not objects of earnings distribution. For this, the Board proposed to amend the Articles of Incorporation on Nov. 10, 2015, which expects to be approved at the shareholders’ meeting on June 28, 2016.

2. The dividend distribution proposed at the shareholders’ meeting

As for the annual earnings distribution plan of 2015, the Board decided on March 26, 2016 to allocate a total of NT\$ 619,340,449 (NT\$ 2.3 per share) for shareholders’ dividends, including stock dividends of NT\$ 53,855,700 (NT\$ 0.2 per share) and cash dividends of NT\$ 565,484,749 (NT\$ 2.1 per share); the plan will be implemented after the Shareholders’ Meeting approves it and authorizes the Board to set the ex-right and ex-dividend base date.

(vii) The influences of the bonus shares proposed at the shareholders’ meeting on the Company’s business performance and earnings per share: not applicable because the Company didn’t disclose financial forecasts for 2016.

(viii) Employee Bonuses and Remunerations of Directors and Supervisors

1. Percentage or scope of employee bonuses and remunerations of directors and supervisors provided for in the Articles of Incorporation:

According to Articles of Incorporation, if the company has earnings at the end of a fiscal year, it should make an allocation in this way: 1. a minimum of 1% for employee remunerations, 2. a maximum of 4% for directors’ remunerations. Employee remunerations shall be given in either stock or cash at the option of the Board, and the directors’ remunerations shall be given in cash. If there is a cumulative loss, the Company shall reserve a certain amount of the earnings to cover the loss, and make an allocation using the method above.

According to the amendment to the Articles of Incorporation in May, 2015, the apportionment of stock dividends and bonuses is subject to shareholders and employees are not objects of earnings distribution. For this, the Board proposed to amend the Articles

of Incorporation on Nov. 10, 2015, which expects to be approved at the shareholders' meeting on June 28, 2016.

2. Basis for estimating the amount of employee bonuses and remunerations of directors and supervisors, basis for calculating the number of shares to be distributed as stock bonuses, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

At the end of the fiscal year, material differences between these estimates and the amounts proposed by the Board of Directors in the following year are adjusted for in the year of the proposal. If the actual amounts still differ from the proposed amounts after the publication of the annual financial statement, the differences are charged to the earnings of the following year as a result of change in accounting estimate.

3. Information on proposals passed by the board of directors to distribute employee bonuses:

(1) Remunerations to employees, directors and supervisors in the form of cash bonuses:

NT\$ 123,950,832 for employees and NT\$ 61,975,416 for directors and supervisors

(2) The proportion of the number of shares for employees as remunerations to net profits after tax and the total of employee bonuses of the individual or individual financial reports in the current period: Not applicable. The number of shares for employees as remunerations and the percentage of after-tax net profit during current period, and the proportion of total employee bonus: Not applicable.

4. The actual distribution of employee bonuses and remunerations of directors and supervisors in the previous year:

(1) The employee remunerations were NT\$ 199,299,409 in 2014.

(2) The remunerations of directors and supervisors were NT\$ 99,649,704 in 2014.

(3) There is no difference between the actual distribution and the distribution passed at the Board Meeting.

(ix) Stock buyback: none.

ii. Issuance of Corporate Bonds: none.

iii. Issuance of Preferred Stocks: none.

iv. Issuance of Global Depositary Receipts (GDR): none.

v. Exercise of Employee Stock Option Plan (ESOP): none.

vi. Acquisition of New Restricted Stock: none.

vii. Mergers and Acquisitions of New Shares Issued by Other Companies: none.

viii. Execution of Capital Utilization Plan: the Company hasn't issued marketable securities or completed the private placement of marketable securities, has completed the plan in the recent 3 years, with no plan effects shown.

V. Business Overview

i. Business Content

(i) Business Scope

1.The Main Content of the Company's Business:

The Company is mainly engaged in R&D, design, manufacturing, sale, maintenance and pre-sales and after-sales services of ball screws (BS), roller screws, linear guideway (GW), industrial robots, wafer robots, precision bearings, various robot arms, lubricating grease, medical equipment, special machines and semiconductor devices.

2.Business Proportion:

The turnover of 2015: GW, BS, industrial robots and others accounted for 59%, 26%, 6% and 9% of the revenue respectively.

3.The Current Product (Service) Items:

Our company provides key components, industrial robots, special machines and after-sales services for machine tools, industrial machinery, bioscience, medical equipment, equipment of electronics industry, photoelectricity, semiconductor devices and automation, etc. Now, the main products of the Company are listed below:

| Product Category | Series |
|-------------------|---|
| GW | Self-lubricating, quiet, roller, overload, microminiature, intelligent, dustproof, high rigidity, light weight |
| BS | Precision grinding, precision rolling, high speed, heavy load, air cleaning, nut rotary, tangent circulating, quiet, cooling, intelligent, economical, precision rotary cut |
| Industrial Robot | Single axis robot, articulated robot arm series, parallel robot arm series, electric gripper, end effector |
| Precision Bearing | Crossed roller bearing, ball screw bearing, bearing block |
| Medical Equipment | Rehabilitation equipment, nursing equipment, equipment of minimally invasive surgery |

4.New products (service) it plans to develop:

- (1)Specification expansion of articulated robot arm series
- (2)Automation application and development of parallel robot arm series
- (3)R&D of automobile ball screws and Electric Power Steering (EPS) System of vehicle
- (4)Development of next-generation intelligent ball screws
- (5)Development of light weight and high speed small linear guideway; specification expansion of new highly productive Super S
- (6)Development of simple Robotic Gait Training System, upper limb rehabilitation robot, surgical navigation system and multi-modeling transfer machine
- (7)Continuous development and volume production of high speed ball screws (Super T)
- (8)Development of new circulating ball screws (Super Z) and small integrated single-axis robot arm series

(9)Development of precision rotary cut ball screws

(10)Development of long-stroke robot modules

(ii) Industry Overview

1.Development and Current Situation of the Industry:

World Economic Outlook 2016 of IMF estimates the global growth is 3.4%, slightly higher than 3.1% in 2015. However, a strong dollar, the oil price collapse, political unrest and weak economies of Russia, Brazil and Middle East may all slow the global economic recovery. Emerging markets are different from developing economies, but many economies are facing challenges. China's economic slowdown and rebalance, price drop of bulk commodity and the pressure faced by some large emerging market economies will continue to negatively affect the global outlook of 2016. Because it's hard for the manufacturing industry to recruit workers and to cope with the diversified production requirements, and the demand of the manufacturing industry for intelligent automation and industrial robot application is increasing, and motivated by salary increase, shortage of labors and the hope to improve product quality, China's automation market grows rapidly to gradually become the main battlefield for industries related to automation and robots, although China's economy slows down.

Though EU economies are recovering slowly, their manufacturing industries are becoming active gradually under the quantitative easing policy; the economic data at the beginning of 2016 show economies of EU improve gradually, with the growth of German industry and mechanical industry being the most obvious; Germany has a large number of high-end potential industrial clusters, so it's not only the best application platform of mechatronics and sub-system modules and modular products of HIWIN, but also the best opportunity to highlight the product differentiation.

The main competitors of HIWIN are in Japan; though the import and export data seem to reveal signs of recovery in Japanese economy, it's harder to expand Japanese market than everywhere else; however, in line with our purpose of sustainable development and localization, our policy of using HIWIN Japan to expand the local manufacturing capacity and operating scale has never stopped, this also lays a solid foundation for HIWIN's marching towards the world's No.1 leading brand.

2. The relevance of the upper stream, midstream and lower stream of the industry:

| Raw Materials (Upper Stream) | Main Products | Main Application (Lower Stream) |
|---------------------------------|------------------|--|
| Steel, Steel Ball | BS GW | Semiconductor, opto-electronics manufacturing and test equipment, automation equipment, medical equipment of bioscience, electronic industry, machine tool, industrial machinery |

3. Product Development Trend:

As it's hard for the manufacturing industry to recruit workers and to cope with the diversified production requirements, and the demand of the manufacturing industry for intelligent automation and industrial robot application is increasing, America proposes "Return

to the Manufacturing Industry” policy to boost its economy, and EU Member States, faced with the increasingly worsening economy, also raise the idea of “Reindustrialization of EU”, so does England, and Germany pushes Industry 4.0; all of these, plus the shortage of labors in mainland China, will start the next wave of the mass use of robots. Therefore, it’s estimated that various robot products of HIWIN will be expanded substantially.

As for the application layer of other products, various medical examination instruments may be needed badly, for example, the demand for blood analyzer and DNA detection instrument rises linearly, which also promotes the importance of precision, shaping the new market of high precision linear drive system module; in terms of medical treatment, HIWIN has achieved ISO13485 quality system certification and GMP certification. In the aspect of rehabilitation, the lower limb rehabilitation robot has been licensed in mainland China, EU and Taiwan, and the upper limb rehabilitation robot is also going to be on the market, indicating that HIWIN is gradually perfecting its product line in rehabilitation equipment. In terms of the minimally invasive surgery, the minimally invasive surgery robot used in abdominal surgery has completed “Animal Clinic” test and safety test and is expected to be on the market in the coming years. In terms of nursing, the robot for bath has completed safety test and is expected to be on the market in the second half of 2106. As for the “mobile intelligent” industry, HIWIN has cooperated with Tier 1 car parts suppliers to develop key parts needed by “Intelligent Drive” Automatic Auto so as to cope with the next-generation automobile industry where cars drive themselves in the future.

4. Product Competition:

Holding on to the management idea of specialization and globalization, our company continues improving the product quality to provide cost-effective products so as to create the maximum value for customers.

As most of the key parts of the Company’s industrial robots and multi-axis robots are made by itself, so they are quite cost-effective and the product efficiency can rival that of major manufacturers in Europe and America, and they’re quite competitive in the market; besides, it can provide customers with complete pre-sales and aftersales one-stop service.

The main competitors of the Company’s drive products are from Germany and Japan, and HIWIN has long been engaged in developing mechatronics, manufacturing robots and making intelligent mechanical components, so the difference between HIWIN and its competitors of general linear drive products and its competitive edge are already clear. In the future intelligent manufacturing trend, the sensor and the robot will play quite important roles, while HIWIN products have been working towards this since years ago and it has been developing intelligent products, including intelligent screws, linear guideways and industrial robots, which are leading and evolutionary products in the market; the rotating table of the direct drive motor CNC it develops independently is mainly applied to the high precision 5-axis processor, whose key parts use products made by HIWIN, such as DD motor and bearing; by extending its core technology, it not only reduces the manufacturing costs dramatically, but also can provide customers with total solutions and price advantages, improving the competitiveness of the innovation value service together.

(iii) Technology and R&D Overview

HIWIN filed a total of 184 patent applications at home and abroad and obtained 179 letters patents in 2015, and owned 1170 valid patents at the end of 2015. It ranked 60th in Invention Patent Certificates and 54th in Invention Patent Applications issued by Intellectual Property Office, MOEA, and was also No.1 in Taiwan's precision machinery field in 2015.

HIWIN sticks in pursuing high-tech invention & innovation; its single axis robot module won iF and Red Dot awards, setting a precedent.

1.R&D Expenses in the Last Year and as of the Publication Date of the Annual Report

Unit: NT\$ 1000

| Item | 2015 | Jan. 1, 2016~March 11, 2016 |
|--------------|---------|-----------------------------|
| R&D expenses | 898,993 | 211,426 |

2. Technologies and Products Developed Successfully in the Last Five Years

| Year | Products |
|------|---|
| 2011 | <ol style="list-style-type: none"> 1. Specification expansion and volume production of quiet heavy load ball screws 2. Specification expansion and volume production of Super T Series 3. Development and volume production of highly dustproof ball screws 4. Development and volume production of quiet wide linear guideway QW series |
| 2012 | <ol style="list-style-type: none"> 1. Development and volume production of high speed ball screws (Super S - E) 2. Specification expansion and volume production of light weight and high speed small linear guideway (TMN) 3. Development and volume production of high tolerance small linear guideway (CMN) 4. Development and volume production of quiet single axis robot SK 5. Specification development of ball screw bearing (BSB) 6. Completed the specification development of the whole series of Crossed Roller Bearing (CRB) 7. Development and test of six-axis articulated robots, spider robots and wafer pick-and-place robots |
| 2013 | <ol style="list-style-type: none"> 1. Development and volume production of high speed ball screws (Super T) 2. Specification expansion and volume production of high speed ball screws (Super S - E) 3. Development of automobile ball screws 4. Development and volume production of light weight and high speed small linear guideway (TMN) 5. Specification expansion and volume production of industrial robot KK series 6. Specification expansion and volume production of quiet wide linear guideway QW series 7. Development of small integrated single axis robot arm KA060 8. Development of Electric Power Steering (EPS) System |
| 2014 | <ol style="list-style-type: none"> 1.Continuous development and volume production of high speed ball screws (Super T) 2. Specification expansion and volume production of Crossed Roller Bearing (CRB) series 3.Development of long-stroke single axis robot modules 4.Development of short-stroke small screws 5.Development of four-row ball DB linear guideway (UG) 6.Development of six-row ball linear guideway (SG) 7.Specification expansion and volume production of light weight and small wide linear guideway (PMW) 8.Specification expansion and volume production of quiet roller linear guideway (QR) 9.Volume production of articulated robot arms and parallel robot arms 10.Development and volume production of Robotic Gait Training System MRG-P100, which has achieved CE 93/42/EEC certification. |

| Year | Products |
|------|--|
| 2015 | 1. Development and volume production of the electric gripper, which has achieved CE2006/42/EC certification and RoHS2011/65/EU certification. 2. The articulated robot arm RA605 has achieved RoHS2011/65/EU certification and IEC60529 Edition 2.2:2013 IP65 certification. 3. Continuous development of and volume production of the whole series of parallel robot arms 4. Continuous development and volume production of Robotic Gait Training System 5. Robotic Endoscope Holder MTG-H100 and robot for bath MHS-B100 achieved ISO13485 certification. 6. Development and volume production of online system- roll-up machine and step platform 7. Specification expansion and volume production of external reflux miniature linear guideway (MG-O) 8. Specification expansion of six-row ball linear guideway (SG) 9. Specification expansion and volume production of low assembly roller linear guideway (RGL) 10. Specification expansion and volume production of single axis robot modules |

(iv) Long and Short-Term Business Development Plan

1. Short-Term Business Development Plan

- (1) Strengthening the products' modular technology integration;
- (2) Deepening and widening intelligent manufacturing;
- (3) Building vertical and horizontal marketing networks.

2. Long-Term Business Development Plan

- (1) Linking local industry pulses based on collaborative design and original service;
- (2) Creating competitive advantages for customers by linking the intelligent service network with intelligent manufacturing;
- (3) Improving the cost performance of electromechanical module products to increase users' additional values.

ii. Market, Production and Sales Status

(i) Market Analysis

1.Sales Regions of Major Commodities:

The Company's home sale and export sales accounted for 15% and 85% respectively; the main regions of export sales are advanced industrial countries, such as Europe, America and Japan, and rapidly developing countries, such as China, India, Turkey, Brazil and ASEAN. Classified by business sites of business units, the Company's revenues from external customers are listed below:

| Business Sites of Business Units | 2014 | 2015 |
|----------------------------------|------------|------------|
| Taiwan | 11,120,482 | 10,020,705 |
| Germany | 2,482,267 | 2,196,474 |
| Japan | 718,547 | 755,369 |
| America | 713,016 | 790,770 |
| Others | 53,024 | 1,117,730 |
| Total | 15,087,336 | 14,881,048 |

2.Future Market Supply, Demand and Growth:

The prospects of 2016 show the global economy is still recovering, although slowly and conservatively; there are still also many opportunities to go alongside the challenges. Mainland China is energetically pushing for "Made in China 2025" and has included robots in the 13th Five Year Plan; the demand for intelligent manufacturing and robots is rising rapidly and there will be an explosive demand for various robots; every research institution defines the robot differently; for example, some institutes incorporate automation equipment into calculation of production value, so the production value estimation of Japan Robot Association (JARA) and International Federation of Robotics (IFR) for future global robots is not the same; however, every institute estimates the production value of robots in 2018 to be about 70 billion dollars, so this is the best opportunity of HIWIN. On the other hand, America's economic growth slows and depreciation effects of yen and euro continue, both of which will intensify the industry competition. Therefore, facing the transformation of the overall environment, HIWIN will respond prudently, continue to invest R&D resources, develop new products, improve manufacturing process and enhance operating efficiency.

3.Niche:

- (1)Elastic application ability of product modularization and mechatronics ability
- (2)Horizontal and vertical manufacturing ability and automation width
- (3)Intelligent service capacity
- (4)The results of long-term continuous development of new products have come out.

4.Advantages and Disadvantages of Development Prospects and the Solutions:

(1)Advantages:

- (1-1)The industry entry barrier is high.
- (1-2)The technology stays ahead.
- (1-3)The trend of automation is obvious.

(1-4)Population aging and the shortage of labors are growing problems.

(1-5)It has built brand recognition and generated word of mouth.

(1-6)It has a complete product line.

(2)Disadvantages:

(2-1)Quantity and quality of human resources;

(2-2)Depreciation of RMB and dollar;

(2-3)Competitors cut prices to steal away the business.

(3)Solutions:

(3-1)Manufacture robots by ourselves to join the production front, improve quality and reduce costs.

(3-2)Accelerate the reengineering of intelligent automation.

(3-3)Continue R&D of next-generation technology.

(3-4)Continue to promote certificate examinations of automation engineers.

(3-5)Continue the cooperative education from vocational high school to university.

(ii) Important Use and Manufacturing Process of Main Products

1.Use of main products:

Currently, the drive control products of the Company are mainly applied to the semiconductor, photoelectric and testing equipment, automation equipment, biochemical and medical equipment, electronic industry, machine tool, solar energy, LED and industrial machinery, etc.

The drive control products of the Company produce low pollution and noise, consume low power, use automatic control and are refined, which corresponds to the rising environmental awareness and the pursuit of high-quality life in the modern society; therefore, the more advanced the industry, the larger the demand.

2.Main Manufacturing Process:

(1) Ball Screw

Tapping →thermal treatment →thread-cutting →shoulder machining →external diameter processing →precision shaping → test →assemble →inspect

(2) Linear Guideway

Thermal treatment→ drill hole→ precision forming→ inspect→ assemble →final inspection

(iii)Supply of Main Raw Materials

| Raw Material Name | Countries or Regions | Supply |
|-------------------|----------------------|--------|
| Steel | Taiwan | Good |
| Steel | Japan | Good |
| Steel | Germany | Good |
| Steel | South Korea | Good |

(iv) Customers with over 10% of gross purchase or gross sales in any year of the last 2 years:

1. List of manufacturers with over 10% of gross purchase

Unit: NT\$ 1000

| 2014 | | | | 2015 | | | | The First Quarter of 2016 | | | |
|--------------|-----------|--------------------|-------------------------------|--------------|-----------|--------------------|-------------------------------|---------------------------|-----------|--------------------|-------------------------------|
| Name | Sum | To Net Purchase s% | Relation ship with the Issuer | Name | Sum | To Net Purchase s% | Relation ship with the Issuer | Name | Sum | To Net Purchase s% | Relation ship with the Issuer |
| None | | | | None | | | | None | | | |
| Net Purchase | 6,402,500 | 100 | | Net Purchase | 7,323,851 | 100 | | Net Purchase | 1,432,514 | 100 | |

Cause of increase or decrease: not applicable.

2. List of customers with over 10% of gross sales

Unit: NT\$ 1000

| 2014 | | | | 2015 | | | | The First Quarter of 2016 | | | |
|---------------|------------|----------------|-------------------------------|-------------|------------|----------------|-------------------------------|---------------------------|-----------|----------------|-------------------------------|
| Name | Sum | To Net Sales % | Relations hip with the Issuer | Name | Sum | To Net Sales % | Relations hip with the Issuer | Name | Sum | To Net Sales % | Relations hip with the Issuer |
| IX Customer | 1,952,129 | 12.9 | None | IX Customer | 2,011,549 | 13.5 | None | Others | 2,984,407 | 100.0 | |
| XIII Customer | 1,503,219 | 10.0 | None | Others | 12,869,499 | 86.5 | | | | | |
| Others | 11,631,988 | 77.1 | | | | | | | | | |
| Net Sales | 15,087,336 | 100.0 | | Net Sales | 14,881,048 | 100.0 | | Net Sales | 2,984,407 | 100.0 | |

Cause of increase or decrease: no major change.

(v) Production Quantity and Value of the Last 2 Years

Unit: NT\$ 1000; 1000

| Production Quantity and Value Major Commodities | Year | 2014 | | | 2015 | | |
|--|------|----------|---------------------|------------------|----------|---------------------|------------------|
| | | Capacity | Production Quantity | Production Value | Capacity | Production Quantity | Production Value |
| Ball Screw | | 1,490 | 1,323 | 4,507,273 | 1,566 | 1,264 | 4,171,048 |
| Linear Guideway | | 16,653 | 14,261 | 9,678,793 | 17,076 | 15,238 | 9,489,487 |

(vi) Sales Quantity and Value of the Last 2 Years

Unit: NT\$ 1000; 1000

| Production Quantity Major Commodities | Year | 2014 | | | | 2015 | | | |
|--|------|-----------|-----------|--------------|------------|-----------|-----------|--------------|------------|
| | | Home Sale | | Export Sales | | Home Sale | | Export Sales | |
| | | Quantity | Value | Quantity | Value | Quantity | Value | Quantity | Value |
| Ball Screw | | 243 | 1,083,540 | 1,054 | 2,929,810 | 225 | 938,700 | 1,104 | 2,973,583 |
| Linear Guideway | | 802 | 938,054 | 13,477 | 8,383,995 | 657 | 730,764 | 14,116 | 8,076,825 |
| Others | | — | 193,937 | — | 1,558,000 | — | 555,465 | — | 1,605,711 |
| Total | | — | 2,215,531 | — | 12,871,805 | — | 2,224,929 | — | 12,656,119 |

iii. Employee Data of the Recent Two Years and Up to the Publication Date

| Year | | 2014 | 2015 | Jan. 1, 2016~March 31, 2016 |
|------------------------------|-------------------------------|-------|-------|-----------------------------|
| Number of Employees (Note 1) | Indirect Employees | 1,513 | 1,918 | 1,908 |
| | Direct Employees | 2,934 | 3,235 | 3,086 |
| | Total | 4,447 | 5,153 | 4,994 |
| Mean Age | | 32.40 | 33.36 | 33.35 |
| Average Length of Service | | 3.91 | 4.40 | 4.64 |
| Education Background (%) | Doctor | 0.50 | 0.58 | 0.58 |
| | Master | 8.42 | 10.21 | 10.79 |
| | Junior College | 53.82 | 55.79 | 54.83 |
| | High School | 31.65 | 29.89 | 29.18 |
| | Without A High School Diploma | 5.62 | 3.53 | 4.63 |

Note 1: including dispatched workers.

Note 2: Information of number of employees, mean age, average length of service and education background include that of the subsidiaries.

iv. Information Regarding Expenditure on Environmental Protection

Information of the Company's environmental safety and health:

(i) Environmental safety and health management performance

1. Passed ISO 14001 environmental management system verification in 1997.
2. Plant I passed OHSAS 18001 Occupational Safety and Health Management System verification in 2002.
3. Plant I passed Taiwan Occupational Safety and Health Management System (CNS15506) verification in 2008.
4. Plant I was awarded Outstanding Unit with No Disasters in Working Hours (no disabling injuries for 7,593,510 hours) by Council of Labor Affairs, Executive Yuan in 2011.
4. Passed BSI ISO14064-1 (Greenhouse Gas) external audit in 2012 and continue to conduct external audit every year.
5. Ball Screw passed PAS 2050 (Product Carbon Footprint) external audit in 2012.
6. The Operational Headquarters, Plant II, Tanzi Plant, Yunke Plant and Yunke Plant II passed TUV OHSAS 18001 and Occupational Safety and Health Management System (CNS15506) verification, and gained Performance Recognition of the Occupational Safety and Health Management System, Ministry of Labor, in 2013.
7. The Operational Headquarters acquired Cleaner Production Evaluation System Certificate from Industrial Development Bureau, MOEA, in 2013.
8. The Operational Headquarters passed TUV ISO 50001 energy management system verification in 2014.
9. Yunke Plant II and Yunke Plant passed TUV ISO 50001 energy management system verification in 2015.

10.The Operational Headquarters, Plant II, Tanzi Plant, Yunke Plant and Yunke Plant II passed annual certificate changing of TUV OHSAS 18001 and Occupational Safety and Health Management System (CNS15506).

(ii) Air pollution control

1. According to the stationary pollution source under environmental regulations, the Company has pollution prevention equipment and maintains them regularly to improve their stability and guarantee the exhaust meets regulatory requirements.
2. The pollutant concentration is detected regularly and below the limits.

(iii) Water resource and waste water management

1. There is waste water treatment equipment in every plant, so waste water is treated and discharged into the sewage system after it meets the effluent standard.
2. Every plant applies for water pollution control measure permission according to law and commissions a testing agency recognized by Environmental Protection Administration to detect sewage discharge so as to monitor the discharged water quality effectively; the waste water met the effluent standard in 2015.
3. It carries out a drill according to the wastewater treatment procedure regularly every year to reduce the impact of improper wastewater treatment on the environment.
4. To implement water resource management, Department of Industrial Safety and Environmental Protection calculate tap water consumption monthly to confirm whether the water consumption is normal.
5. As for sanitary sewage, HIWIN sets gray water recovery system in Operational Headquarters and the sanitary sewage recovered is usually used to flush toilets and water green plants; the waste water from the manufacturing process of Yunke Plant II is used in the scrubbing tower after treatment; over 16,902 tons of waste water were recovered in 2015.

(iv) Waste management

1. Waste of the Company is usually industrial waste and not harmful. The industrial waste is stored in temporary storage area and then cleared by cleaning agency recognized by Environmental Protection Administration; the Company arranges for someone to follow the cleaning vehicle to the treatment plant occasionally to confirm whether there is leakage on the way or in the plant, or violence of environmental regulations; no violence was found in 2015.
2. It continues to promote waste reduction and conducts educational trainings on waste disposal and resource recovery and classification for new employees and on-the-job trainings for old employees regularly, and performs an audit of waste classification in each unit. Meanwhile, the classification of each department is reported in the meetings to implement waste classification and reduction effectively. The recyclable resources and waste were a total of 9,120 tons in 2015, up 26% in 2014.

(v) Energy management and reduction

1. The Operational Headquarters of HIWIN carried out and built ISO 50001 energy management system in 2014; by means of system implementation and energy audit, it managed energy use effectively, made energy management policies, advocated the energy saving policy and set reduction goals; after actual implementation and improvement, 980,000 kilowatt-hours (NT\$ 2.9 million) were saved and 515(tonnes of CO₂e) carbon dioxide emissions were reduced in 2015.
2. Yunke Plant II and Yunke Plant introduced and passed TUV verification in 2015 and set energy-saving goals, so it's estimated 1,469,566 kilowatt-hours will be saved and 766 tonnes of carbon dioxide be reduced in 2016.

Total losses (including compensation) and punishment, and future countermeasures (including improvement measures), and possible expenditures (including the estimated amount of losses, punishment and compensation due to failure to take countermeasures; those not able to be estimated reasonably should be stated clearly) in the last year and as of the publication date of the annual report: not applicable.

v. Labor Relations

(i) Employee welfare measures, further education, trainings, retirement system and implementation, labor agreement and employee equity protection measures:

HIWIN pays great attention to employees; to pursue sustainable operation, create safe, clean and high quality working environment and make employees enjoy work, it joins hands with Taiwan's industry and commerce to promote "Happy Enterprise", paying attention to the balance between employees' work and life. It provides employees with a development platform, cultivates talents positively and offers a good salary and welfare; to make employees have a sound mind and body, it holds activities irregularly, such as mountain climbing and hiking, and holds sports meetings regularly and provides professional health consultation by inviting doctors to plants. It provides employees with diverse communication channels, such as labor meetings, departmental meetings, monthly meetings, opinion boxes and special lines, to listen to their opinions so as to promote harmony between employees and the employer.

Since it's founded, it has listed the employees as the biggest asset, which can show its emphasis on talents; it employs employees fairly and openly, implements gender equality and treats employees equally, regardless of their gender, religion, race, nationality or political party; it respect every talent, and employs the disabled actively to care for them and fulfill corporate social responsibility. To net talents, it provides Research and Development Substitute Services, cooperates with universities and colleges, has internship programs, performs industry-university collaboration and provides opportunities to visit the enterprise.

1. Employee welfare measures:

(1)Parent Company

- Employees are entitled to labor insurance, health insurance and periodic health examination.

- The Company provides employees and their dependents with an extra group insurance covering medical treatment, accidents and serious disease to improve their living security.
- It allocates employee benefits and founds an employee welfare committee according to law, and holds various employee welfare activities, such as gift certificates for 3 main festivals and birthday, weddings and funerals subsidy, leisure tourism subsidy, quarterly dinner party subsidy of each department, barbecue before the Mid-Autumn Festival and appointed stores for employees.
- Employees are entitled to a babysitting subsidy of NT\$ 5000 every month for 2 years.
- It praises model employees annually and provides big bonuses to encourage them.
- Considering the economic burden and traffic safety of colleagues from other places, it provides fully functioning and comfortable dormitories.
- It provides employees with the parking lot, canteen, overtime meals and desserts for free.
- It provides massage to relax and relieve stress for free.
- It holds a sports meeting every May to unite employees.
- It holds a year-end banquet and lottery drawing to appreciate employees' service in the past year.
- It provides employee bonuses based on its business conditions.
- The Articles of Association stipulates that it shall allocate employee bonuses if there is a surplus to make employees and the employer share the operating results.

(2)Subsidiaries

- It carries out employee welfare measures according to local laws and the labor market condition, and hands out performance bonuses based on the business conditions of its subsidiaries.

2. Further education and trainings:

(1)Parent Company

- Excellent talents are the cornerstone of the sustainable operation of an enterprise; to improve employees' ability and quality and maintain the long-term competitive edge, the Company's chairman, general managers and senior managers act as the internal lecturers and it spends tens of millions on employees' educational training every year.
- The Company has a complete training system, including new employee training, core competency training, professional competency training, management competency training and external training, etc. Employees can be trained properly through classroom training, on-the-job training, external training, reading party, lecture, further education, job rotation and project appointment; the training content and methods are diverse and rich.
- For colleagues who want to continue education to take their degrees, it provides tuition subsidy schemes. It has cooperated with schools to open two-year junior college/technical college for colleagues to further their education.

(2)Subsidiaries

- Each subsidiary provides new employee training, core competency training and

professional competency training, and gives colleagues opportunities to further their education depending on the situation.

3. Retirement system:

HIWIN has a sound financial system, and establishes pension plans and retirement programs and allocates stable pension and payments according to Labor Standard Laws and Labor Pension Act. It commissions an actuary to provide pension reports regularly so as to ensure the pension balance and guarantee colleagues will be pensionable in the future.

(1)Parent Company

- According to Labor Standard Laws and Labor Pension Act, it has established defined-benefit and defined-contribution pension plans and retirement programs. As for the former, it allocates 2% of the employee's gross salary every month as the pension fund, which is saved in the special account in Bank of Taiwan in the name of Supervisory Committee of Workers' Retirement Fund; as to the latter, it allocates 6% of the employee's gross salary every month as the pension fund, which is saved in the individual account in Bureau of Labor Insurance.

(2)Subsidiaries

- Each subsidiary implements pension rules according to local laws.

4. Labor agreement and employee equity protection measures

- The Company and its subsidiaries always attaches importance to employee benefits; labor problems are solved through two-way communications; they convene labor meetings regularly to coordinate labor relations, promote employee-employer cooperation and working conditions and plan labor welfare, so the labor relation has been harmonious since the factories were opened and no major labor dispute has occurred.

(ii)Losses Caused by Labor Disputes in the Last Year and as of the Publication Date of the Annual Report:

None

vi. Important Contracts

April 30, 2016

| Contract Nature | Parties | Duration | Main Content | Restrictions |
|---------------------------|---|-----------------------|---------------|--------------|
| Contract of Factory Lease | Junyuan Enterprises Ltd. | 2014.01.01-2017.12.31 | Factory Lease | None |
| | Hequan Mechanical & Electrical Equipment Ltd. | 2014.05.01-2016.04.30 | Factory Lease | None |
| | Yiwei Ltd. | 2014.06.01-2016.05.31 | Factory Lease | None |
| | Jinyoung Industrial Co. Ltd. | 2014.08.01-2016.07.31 | Factory Lease | None |
| | William Tools Co., Ltd. | 2014.11.16-2019.11.15 | Factory Lease | None |
| | Lingdong Development Industrial Co., Ltd. | 2015.04.15-2016.04.14 | Factory Lease | None |
| | Jia Tien Industrial Co., Ltd. | 2015.04.15-2016.04.14 | Factory Lease | None |
| | Taiming Textile Co. Ltd. | 2014.06.01-2017.05.31 | Factory Lease | None |
| | Shengtai Precision Machinery Co. Ltd. | 2014.07.07-2016.07.06 | Factory Lease | None |

| Contract Nature | Parties | Duration | Main Content | Restrictions |
|-------------------------|------------------------------------|-----------------------|----------------|--------------|
| | Ruixing Machinery Ltd. | 2014.12.01-2016.11.30 | Factory Lease | None |
| | Meiju Co. Ltd | 2015.05.21-2016.05.20 | Factory Lease | None |
| | Ruizhen Enterprises Ltd. | 2015.08.01-2018.07.31 | Factory Lease | None |
| Long-Term Loan Contract | Bank of Taiwan | 2011.05.23-2018.05.23 | Secured Loan | None |
| | Bank of Taiwan | 2011.06.16-2026.06.16 | Secured Loan | None |
| | Bank of Taiwan | 2011.12.28-2026.12.28 | Secured Loan | None |
| | Bank of Taiwan | 2012.08.22-2027.08.22 | Secured Loan | None |
| | Bank of Taiwan | 2012.08.22-2019.08.22 | Secured Loan | None |
| | Bank of Taiwan | 2013.10.30-2028.10.30 | Secured Loan | None |
| | Bank of Taiwan | 2014.06.20-2029.06.20 | Secured Loan | None |
| | Bank of Taiwan | 2014.07.21-2029.07.21 | Secured Loan | None |
| | Bank of Taiwan | 2014.07.30-2029.07.30 | Secured Loan | None |
| | Bank of Taiwan | 2015.03.09-2020.03.09 | Secured Loan | None |
| | Bank of Taiwan | 2015.05.04-2022.05.04 | Secured Loan | None |
| | Bank of Taiwan | 2015.05.04-2030.05.04 | Secured Loan | None |
| | Bank of Taiwan | 2015.05.05-2018.05.05 | Secured Loan | None |
| | Bank of Taiwan | 2015.11.24-2020.11.24 | Secured Loan | None |
| | Bank of Taiwan | 2015.11.24-2030.11.24 | Secured Loan | None |
| | Bank of Taiwan | 2015.11.24-2022.11.24 | Secured Loan | None |
| | Bank of Taiwan | 2016.02.04-2031.02.04 | Secured Loan | None |
| | Land Bank of Taiwan | 2007.06.04-2020.06.04 | Secured Loan | None |
| | Taiwan Cooperative Bank | 2004.12.13-2019.12.13 | Secured Loan | None |
| | Mega International Commercial Bank | 2014.11.29-2017.11.26 | Secured Loan | None |
| | The Export-Import Bank of ROC | 2015.08.10-2022.08.10 | Secured Loan | None |
| | Industrial bank of Taiwan | 2016.01.26-2020.01.25 | Unsecured Loan | None |
| | KGI Bank | 2015.11.13-2017.11.13 | Unsecured Loan | None |

VI. Financial Overview

i. Condensed Balance Sheets and Statements of Income for the Past Five Years

(i) Condensed Balance Sheet-International Financial Reporting Standards (Consolidated)

Unit: NT\$ 1000

| Item \ Year | | 2012 | 2013 | 2014 | 2015 | Jan. 1, to March 31, 2016 |
|---|---------------------|------------|------------|------------|------------|---------------------------|
| Liquid Assets | | 9,832,365 | 10,385,388 | 12,964,755 | 13,572,645 | 13,727,767 |
| Immovable Property, Plant and Equipment | | 12,352,628 | 13,902,937 | 15,258,375 | 15,930,786 | 16,335,100 |
| Intangible Assets | | 15,713 | 18,496 | 14,473 | 192,388 | 192,388 |
| Other Assets | | 3,107,292 | 3,304,167 | 2,090,160 | 3,070,400 | 3,147,024 |
| Total Assets | | 25,307,998 | 27,610,988 | 30,327,763 | 32,766,219 | 33,402,279 |
| Liquid Liabilities | Before Distribution | 8,724,560 | 9,818,585 | 9,974,387 | 11,526,855 | 10,668,479 |
| | After Distribution | 9,463,843 | 10,580,047 | 10,889,411 | 11,526,855 | 10,448,479 |
| Non-Current Liabilities | | 6,281,218 | 5,996,805 | 6,681,091 | 6,738,634 | 8,111,349 |
| Total Liabilities | Before Distribution | 15,005,778 | 15,815,390 | 16,655,478 | 18,265,489 | 18,779,828 |
| | After Distribution | 15,671,133 | 16,500,706 | 17,492,071 | 18,265,489 | 18,779,828 |
| Equity Attributable to Owners of | | 9,823,120 | 11,231,756 | 12,928,141 | 13,646,037 | 13,752,477 |
| Capital Stock | | 2,464,280 | 2,538,208 | 2,614,354 | 2,692,785 | 2,692,785 |
| Capital Reserve | | 308,630 | 308,630 | 308,630 | 311,955 | 308,630 |
| Retained Earnings | Before Distribution | 7,100,150 | 8,382,764 | 10,019,718 | 10,732,921 | 10,839,964 |
| | After Distribution | 6,360,867 | 7,621,302 | 9,104,694 | 10,732,921 | 10,839,964 |
| Other Equities | | (49,940) | 2,154 | (14,561) | (91,624) | (88,902) |
| Non-Controlling Equities | | 479,100 | 563,842 | 744,144 | 854,693 | 869,974 |
| Total Equity | Before Distribution | 10,302,220 | 11,795,598 | 13,672,285 | 14,500,730 | 14,622,451 |
| | After Distribution | 9,636,865 | 11,110,282 | 12,835,692 | 14,500,730 | 14,622,451 |

Note: The consolidated balance sheet is based on International Financial Reporting Standards and audited and certified by accountants.

**(ii)Condensed Balance Sheet-International Financial Reporting Standards
(Individual)**

Unit: NT\$ 1000

| Item \ Year | | 2012 | 2013 | 2014 | 2015 |
|---|--------------------|----------------|----------------|----------------|----------------|
| Liquid Assets | | 8,811,267 | 9,199,643 | 10,928,330 | 10,616,368 |
| Immovable Property, Plant and | | 11,991,482 | 13,447,052 | 13,137,766 | 13,147,415 |
| Intangible Assets | | - | - | - | - |
| Other Assets | | 2,819,286 | 3,493,316 | 4,196,536 | 5,990,436 |
| Total Assets | | 23,622,035 | 26,140,011 | 28,262,632 | 29,754,219 |
| Liquid Liabilities | Before | 8,043,436 | 9,300,080 | 9,123,638 | 9,888,427 |
| | After Distribution | 8,708,791 | 9,985,396 | 9,960,231 | 9,888,427 |
| Non-Current Liabilities | | 5,755,479 | 5,608,175 | 6,210,853 | 6,219,755 |
| Total Liabilities | Before | 13,798,915 | 14,908,255 | 15,334,491 | 16,108,182 |
| | After Distribution | 14,464,270 | 15,593,571 | 16,171,084 | 16,108,182 |
| Equity Attributable to Owners of the Parent Company | | Not Applicable | Not Applicable | Not Applicable | Not Applicable |
| Capital Stock | | 2,464,280 | 2,538,208 | 2,614,354 | 2,692,785 |
| Capital Reserve | | 308,630 | 308,630 | 308,630 | 311,955 |
| Retained Earnings | Before | 7,100,150 | 8,382,764 | 10,019,718 | 10,732,921 |
| | After Distribution | 6,360,867 | 7,621,302 | 9,104,694 | 10,732,921 |
| Other Equities | | (49,940) | 2,154 | (14,561) | (91,624) |
| Non-Controlling Equities | | Not Applicable | Not Applicable | Not Applicable | Not Applicable |
| Total Equity | Before | 9,823,120 | 11,231,756 | 12,928,141 | 13,646,037 |
| | After Distribution | 9,157,765 | 10,546,440 | 12,091,548 | 13,646,037 |

Note: The individual balance sheet is based on International Financial Reporting Standards and audited and certified by accountants.

(iii) Condensed Balance Sheet-Taiwan's Financial Accounting Standards (Consolidated)

Unit: NT\$ 1000

Unit: NT\$ 1000

| <div>Year</div> <div>Item</div> | | Financial Information of the Last Five Years | |
|--|--------------------|--|------------|
| | | 2011 | 2012 |
| Liquid Assets | | 7,970,585 | 9,988,454 |
| Fund and Investment | | 702,781 | 448,610 |
| Fixed Assets | | 11,611,507 | 14,556,582 |
| Intangible Assets | | - | 15,713 |
| Other Assets | | 273,294 | 299,862 |
| Total Assets | | 20,558,167 | 25,309,221 |
| Liquid Liabilities | Before | 6,550,784 | 8,736,808 |
| | After Distribution | 7,958,944 | 9,476,091 |
| Long-Term Liabilities | | 4,606,514 | 5,952,021 |
| Other Liabilities | | 161,840 | 242,289 |
| Total Liabilities | Before | 11,319,138 | 14,931,118 |
| | After Distribution | 12,727,298 | 15,670,401 |
| Capital Stock | | 2,346,933 | 2,464,280 |
| Capital Reserve | | 308,630 | 308,630 |
| Retained Earnings | Before | 6,694,506 | 7,289,541 |
| | After Distribution | 5,286,346 | 6,550,258 |
| Unrealized Profit (Loss) of Financial Products | | (8,859) | (4,536) |
| Cumulative Translation | | (36,184) | (81,588) |
| Net Loss Not Recognized as Pension Costs | | (65,997) | (77,324) |
| Total of Shareholders' Equity | Before | 9,239,029 | 10,378,103 |
| | After Distribution | 7,830,869 | 9,638,820 |

Note: The consolidated balance sheet is based on Taiwan's Financial Accounting Standards and audited and certified by accountants.

(iv) Condensed Balance Sheet-Taiwan's Financial Accounting Standards (Individual)

| <div>Year</div> <div>Item</div> | | Financial Information of the Last Five Years | |
|--|--------------------|--|------------|
| | | 2011 | 2012 |
| Liquid Assets | | 7,292,251 | 8,947,156 |
| Fund and Investment | | 1,704,403 | 2,129,112 |
| Fixed Assets | | 11,300,032 | 12,844,910 |
| Intangible Assets-Deferred Pension | | - | - |
| Other Assets | | 251,953 | 197,776 |
| Total Assets | | 20,548,639 | 24,118,954 |
| Liquid Liabilities | Before | 6,559,944 | 8,550,921 |
| | After Distribution | 7,968,104 | 9,290,204 |
| Long-Term Liabilities | | 4,560,787 | 5,430,517 |
| Other Liabilities | | 188,879 | 238,513 |
| Total Liabilities | Before | 11,309,610 | 14,219,951 |
| | After Distribution | 12,717,770 | 14,959,234 |
| Capital Stock | | 2,346,933 | 2,464,280 |
| Capital Reserve | | 308,630 | 308,630 |
| Retained Earnings | Before | 6,694,506 | 7,289,541 |
| | After Distribution | 5,286,346 | 6,550,258 |
| Unrealized Profit (Loss) of Financial Products | | (8,859) | (4,536) |
| Cumulative Translation Adjustment | | (36,184) | (81,588) |
| Net Loss Not Recognized as Pension Costs | | (65,997) | (77,324) |
| Total of Shareholders' Equity | Before | 9,239,029 | 9,899,003 |
| | After Distribution | 7,830,869 | 9,159,720 |

Note: The balance sheet of the parent company is based on Taiwan's Financial Accounting Standards and audited and certified by accountants.

(v) Condensed Consolidated Income Statement -International Financial Reporting Standards (Consolidated)

Unit: NT\$ 1000

| Item \ Year | 2012 | 2013 | 2014 | 2015 | Jan. 1, to March 31, 2016 |
|---|------------|------------|------------|------------|---------------------------|
| Operating Revenue | 12,371,951 | 12,442,866 | 15,087,336 | 14,881,048 | 2,984,407 |
| Operating Margin | 4,732,581 | 4,608,062 | 5,790,752 | 5,333,619 | 1,014,889 |
| Operating Profit and Loss | 2,779,700 | 2,368,870 | 2,847,835 | 1,902,617 | 149,169 |
| Non-Operating Income and Expenses | (185,537) | 135,440 | 63,107 | (68,431) | (45,532) |
| Net Profit Before Tax | 2,594,163 | 2,504,310 | 2,910,942 | 1,834,186 | 103,637 |
| Net Profit of the Term | 1,932,134 | 1,912,824 | 2,267,350 | 1,394,559 | 71,347 |
| Other Consolidated Profit and Loss of the Term (Net of Tax) | (62,301) | 52,406 | (22,356) | (91,926) | 2,767 |
| Total Consolidated Profit and Loss of the Term | 1,869,833 | 1,965,230 | 2,244,994 | 1,302,633 | 74,114 |
| Net Profits Attributable to Owners of the Parent Company | 2,008,971 | 2,021,585 | 2,404,906 | 1,642,238 | 143,751 |
| Net Profit Attributable to Non-Controlling Equities | (76,837) | (108,761) | (137,556) | (247,679) | (72,404) |
| Total Consolidated Profit and Loss Attributable to Owners of | 1,946,670 | 2,073,991 | 2,382,550 | 1,551,550 | 146,473 |
| Total Consolidated Profit and Loss Attributable to Non-Controlling Equities | (76,837) | (108,761) | (137,556) | (248,917) | (72,359) |
| Earnings per Share | 7.46 | 7.51 | 8.93 | 6.10 | 0.53 |

Note: The consolidated income statement is based on International Financial Reporting Standards and audited and certified by accountants.

(vi) Condensed Consolidated Income Statement-International Financial Reporting Standards (Individual)

Unit: NT\$ 1000

| Item \ Year | 2012 | 2013 | 2014 | 2015 |
|---|----------------|----------------|----------------|----------------|
| Operating Revenue | 10,904,360 | 10,315,847 | 12,924,054 | 12,489,325 |
| Operating Margin | 3,768,747 | 3,474,254 | 4,517,573 | 4,242,859 |
| Operating Profit and Loss | 2,586,931 | 2,370,399 | 2,987,335 | 2,500,500 |
| Non-Operating Income and Expenses | (907) | 138,945 | (55,165) | (479,752) |
| Net Profit Before Tax | 2,586,024 | 2,509,344 | 2,932,170 | 2,020,748 |
| Net Profit (Loss) of the Term | 2,008,971 | 2,021,585 | 2,404,906 | 1,642,238 |
| Other Consolidated Profit and Loss of the Term (Net of Tax) | (62,301) | 52,406 | (22,356) | (90,688) |
| Total Consolidated Profit and Loss of the Term | 1,946,670 | 2,073,991 | 2,382,550 | 1,551,550 |
| Net Profits Attributable to Owners of the Parent Company | Not Applicable | Not Applicable | Not Applicable | Not Applicable |
| Net Profit Attributable to Non-Controlling Equities | Not Applicable | Not Applicable | Not Applicable | Not Applicable |
| Total Consolidated Profit and Loss Attributable to Owners of | Not Applicable | Not Applicable | Not Applicable | Not Applicable |
| Total Consolidated Profit and Loss Attributable to Non-Controlling Equities | Not Applicable | Not Applicable | Not Applicable | Not Applicable |
| Earnings per Share | 7.46 | 7.51 | 8.93 | 6.10 |

Note: The individual income statement is based on International Financial Reporting Standards and audited and certified by accountants.

(vii) Condensed Income Statement-Taiwan's Financial Accounting Standards (Consolidated)

| Item \ Year | Financial Information of the Last Five Years (Note) | |
|---------------------------------|---|------------|
| | 2011 | 2012 |
| Net Operating Revenue | 15,819,232 | 12,371,951 |
| Realized Operating Margin | 6,496,680 | 4,732,581 |
| Operating Profit | 4,565,904 | 2,773,924 |
| Non-Operating Income and Profit | 144,435 | 82,857 |
| Non-Operating Income and Loss | 180,726 | 268,394 |
| Consolidated Profit Before Tax | 4,529,613 | 2,588,387 |
| Total Consolidated Net Profit | 3,808,547 | 2,003,195 |
| Basic EPS (NT\$) | 14.14 | 7.44 |

Note: The consolidated income statement is based on International Financial Reporting Standards and audited and certified by accountants.

(viii) Condensed Income Statement-Taiwan's Financial Accounting Standards (Individual)

| Item \ Year | Financial Information of the Last Five Years (Note) | |
|--|---|------------|
| | 2011 | 2012 |
| Net Operating Revenue | 14,134,259 | 10,904,360 |
| Realized Operating Margin | 5,314,913 | 3,668,397 |
| Operating Profit | 4,110,446 | 2,581,155 |
| Non-Operating Income and Profit | 496,284 | 258,002 |
| Non-Operating Income and Loss | 173,611 | 258,909 |
| Profit before Tax from Continuing Operations | 4,433,119 | 2,580,248 |
| Current Net Profit after Tax | 3,808,547 | 2,003,195 |
| Basic EPS (NT\$) | 16.23 | 8.13 |
| Earnings per Share (NT\$) after Retroactive Adjustment | 14.14 | 7.44 |

Note: The income statement of the parent company is based on Taiwan's Financial Accounting Standards and audited and certified by accountants.

(ix) CPA Name and Audit Opinions of the Last 5 Years

| Year | CPA | Name | Audit Opinions |
|------|-------------------|----------------------------|----------------|
| 2011 | Deloitte & Touche | Cheng Derui, Wu Lidong | Clean Opinion |
| 2012 | Deloitte & Touche | Yan Xiaofang, Cheng Derui | Clean Opinion |
| 2013 | Deloitte & Touche | Yan Xiaofang, Cheng Derui | Clean Opinion |
| 2014 | Deloitte & Touche | Yan Xiaofang, Cheng Derui | Clean Opinion |
| 2015 | Deloitte & Touche | Yan Xiaofang, Zeng Dongyun | Clean Opinion |

ii. Financial Analyses for the Last Five Years

(i) International Financial Reporting Standards (Consolidated)

| Item \ Year | | 2012 | 2013 | 2014 | 2015 年 | Jan. 1 to March 31, 2016 |
|--|---|--------|--------|--------|--------|--------------------------|
| Financial Structure (%) | Debt Asset Ratio | 59.29 | 57.28 | 54.97 | 55.74 | 56.22 |
| | Ratio of Long Term Capital to Immovable Property, Plant and Equipment | 134.25 | 127.98 | 133.39 | 133.32 | 139.17 |
| Debt-Paying Ability | Liquidity Ratio (%) | 112.70 | 105.77 | 129.87 | 117.75 | 128.68 |
| | Quick Ratio (%) | 69.05 | 64.59 | 88.42 | 68.81 | 72.89 |
| | Interest Protection Multiples | 25.51 | 17.80 | 17.91 | 11.74 | 3.52 |
| Operating Ability | Receivables Turnover Ratio | 2.87 | 2.57 | 2.83 | 2.61 | 2.18 |
| | Average Collection Period | 127 | 142 | 129 | 140 | 167 |
| | Inventory Turnover Ratio | 2.18 | 1.93 | 2.20 | 1.88 | 1.32 |
| | Payables Turnover Ratio | 3.36 | 4.17 | 4.38 | 4.18 | 3.66 |
| | Inventory Conversion Period | 167 | 189 | 166 | 194 | 277 |
| | Immovable Property, Plant and Equipment Turnover Ratio | 1.07 | 0.95 | 1.03 | 0.95 | 0.74 |
| | Total Assets Turnover Ratio | 0.54 | 0.47 | 0.52 | 0.47 | 0.36 |
| Profitability | Return on Assets (%) | 8.80 | 7.70 | 8.31 | 4.87 | 1.28 |
| | Return on Equity (%) | 19.85 | 17.31 | 17.81 | 9.90 | 1.96 |
| | Net Profit Before Tax to Paid-up Capital Ratio (%) | 105.27 | 98.66 | 111.34 | 68.11 | 15.39 |
| | Net Profit Ratio (%) | 15.62 | 15.37 | 15.03 | 9.37 | 2.39 |
| | Earnings per Share (NT\$) | 7.46 | 7.51 | 8.93 | 6.10 | 0.53 |
| Cash Flow (%) | Cash Flow Ratio | (1.46) | 26.67 | 32.15 | 9.07 | (0.73) |
| | Cash Flow Adequacy Ratio (Note 1) | 46.59 | 54.46 | 63.54 | 43.02 | 37.45 |
| | Cash Reinvestment Ratio | (8.55) | 10.98 | 12.45 | 0.99 | (0.09) |
| Degree of Leverage | Degree of Operating Leverage | 1.77 | 2.04 | 2.03 | 2.84 | 7.00 |
| | Degree of Financial Leverage | 1.04 | 1.07 | 1.06 | 1.10 | 1.38 |
| Reasons why each financial ratio has changed by 20% in the last two years: 1.The quick ratio reduced due to an increase in the short-term borrowing this year. 2.The financial ratios of Interest Protection Multiples and Profitability reduced because the profits this year were less than that of last year. 3.Cash Flow Ratio and Cash Reinvestment Ratio reduced because the operating net cash flow of this year reduced. 4.Degree of Operating Leverage increased because the operating profit of this year reduced. | | | | | | |

Note: The consolidated financial statement is based on International Financial Reporting Standards and audited and certified by accountants.

(ii) International Financial Reporting Standards (Individual)

| Item \ Year | | 2012 | 2013 | 2014 | 2015 |
|--|---|--------|--------|--------|--------|
| Financial Structure (%) | Debt Asset Ratio | 58.42 | 57.03 | 54.26 | 54.14 |
| | Ratio of Long Term Capital to Immovable Property, Plant and Equipment | 129.91 | 125.23 | 145.68 | 151.1 |
| Debt-Paying Ability | Liquidity Ratio (%) | 109.55 | 98.92 | 119.78 | 107.36 |
| | Quick Ratio (%) | 84.32 | 64.18 | 85.45 | 69.12 |
| | Interest Protection Multiples | 28.57 | 19.40 | 20.54 | 14.72 |
| Operating Ability | Receivables Turnover Ratio | 2.39 | 2.03 | 2.29 | 2.15 |
| | Average Collection Period | 153 | 180 | 159 | 170 |
| | Inventory Turnover Ratio | 2.82 | 2.24 | 2.63 | 2.35 |
| | Payables Turnover Ratio | 3.28 | 3.86 | 4.22 | 4.01 |
| | Inventory Conversion Period | 130 | 163 | 139 | 155 |
| | Immovable Property, Plant and Equipment Turnover Ratio | 0.98 | 0.81 | 0.97 | 0.95 |
| | Total Assets Turnover Ratio | 0.50 | 0.41 | 0.48 | 0.43 |
| Profitability | Return on Assets (%) | 9.53 | 8.58 | 9.30 | 6.08 |
| | Return on Equity (%) | 21.16 | 19.20 | 19.91 | 12.36 |
| | Net Profit Before Tax to Paid-up Capital Ratio (%) | 104.94 | 98.86 | 112.16 | 75.04 |
| | Net Profit Ratio (%) | 18.42 | 19.60 | 18.61 | 13.15 |
| | Earnings per Share (NT\$) | 7.46 | 7.51 | 8.93 | 6.10 |
| Cash Flow (%) | Cash Flow Ratio | 1.53 | 26.59 | 36.07 | 24.60 |
| | Cash Flow Adequacy Ratio(Note 1) | 46.75 | 51.33 | 58.13 | 52.28 |
| | Cash Reinvestment Ratio | (7.50) | 10.73 | 13.61 | 8.04 |
| Degree of Leverage | Degree of Operating Leverage | 1.70 | 1.78 | 1.73 | 1.98 |
| | Degree of Financial Leverage | 1.04 | 1.06 | 1.05 | 1.06 |
| Reasons why each financial ratio has changed by 20% in the last two years: 1.The financial ratios of Interest Protection Multiples and Profitability reduced because the profits this year were less than that of last year. 2.Cash Reinvestment Ratio reduced because the operating net cash flow of this year reduced. | | | | | |

Note: The individual financial statement is based on International Financial Reporting Standards and audited and certified by accountants.

1. Financial Structure

(1)Debt Asset Ratio=Total Liabilities/Total Assets

(2)Ratio of Long Term Capital to Immovable Property, Plant and Equipment = (Total Equity + Non-Current Liabilities) / Net Amount of Immovable Property, Plant and Equipment

2. Debt-Paying Ability

- (1) Liquid Ratio = Liquid Assets / Liquid Liabilities
- (2) Quick Ratio = (Liquid Assets - Inventory - Upfront Fees) / Liquid Liabilities
- (3) Interest Protection Multiples = Profit before Income Tax and Interest Expense / Interest Expense of This Period

3. Operating Ability

- (1) Receivables (Including Receivables and Notes Receivable from Operating Activities) Turnover Ratio = Net Sales / Balance of Average Receivables of Each Period (Including Receivables and Notes Receivable from Operating Activities)
- (2) Average Collection Period = 365 / Receivables Turnover Ratio
- (3) Inventory Turnover Ratio = Cost of Sales / Average Inventory
- (4) Payables (Including Payables and Notes Payable from Operating Activities) Turnover Ratio = Cost of Sales / Balance of Average Payables of Each Period (Including Payables and Notes Payable from Operating Activities)
- (5) Inventory Conversion Period = 365 / Inventory Turnover Ratio
- (6) Ratio of Long Term Capital to Immovable Property, Plant and Equipment = (Total Equity + Non-Current Liabilities) / Net amount of Immovable Property, Plant and Equipment
- (7) Total Assets Turnover Ratio = Net Sales / Total Assets

4. Profitability

- (1) Return on Assets = [Profit and Loss After Tax + Interest Expense * (1 - Tax Rate)] / Average Total Assets
- (2) Return on Equity = Profit and Loss After Tax / Average Net Shareholders' Equity
- (3) Net Profit Ratio = Profit and Loss After Tax / Net Sales
- (4) Earnings per Share = (Profit And Loss Attributable to the owners of the parent company - Dividend on Preferred Stock) / Weighted Average Outstanding Shares

5. Cash Flow

- (1) Cash Flow Ratio = Cash Flow from Operating Activities / Liquid Liabilities
- (2) Cash Flow Adequacy Ratio = Cash Flow from Operating Activities of the last 5 years / (Capital Expenditure + Inventory Increase + Cash Dividend) of the last 5 years
- (3) Cash Reinvestment Ratio = (Cash Flow from Operating Activities - Cash Dividend) / (Gross Amount of Immovable Property, Plant and Equipment + Permanent Investment + Other Non-liquid Assets + Working Capital)

6. Degree of Leverage

- (1) Degree of Operating Leverage = (Net Operating Revenue - Variable Operating Costs and Expenses) / Operating Profit
- (2) Degree of Financial Leverage = Operating Profit / (Operating Profit - Interest Expense)

(iii) Taiwan's Financial Accounting Standards (Consolidated)

| Item | | Year | Financial Information of the Last Five Years (Note) | |
|-------------------------|--|-------------------|---|--------|
| | | | 2011 | 2012 |
| Financial Structure (%) | Debt Asset Ratio | | 55.04 | 58.99 |
| | Permanent Capital to Fixed Assets | | 119.24 | 112.18 |
| Debt-Paying Ability | Liquidity Ratio (%) | | 121.70 | 114.33 |
| | Quick Ratio (%) | | 75.73 | 70.74 |
| | Interest Protection Multiples | | 88.43 | 25.45 |
| Operating Ability | Receivables Turnover Ratio | | 5.41 | 3.00 |
| | Average Collection Period | | 68 | 122 |
| | Inventory Turnover Ratio | | 3.61 | 1.97 |
| | Payables Turnover Ratio | | 3.68 | 3.36 |
| | Inventory Conversion Period | | 101 | 185 |
| | Fixed Assets Turnover Ratio | | 1.36 | 0.85 |
| | Total Assets Turnover Ratio | | 0.77 | 0.49 |
| Profitability | Return on Assets (%) | | 22.35 | 9.12 |
| | Return on Equity (%) | | 49.68 | 20.42 |
| | To Paid-up Capital Ratio (%) | Operating Profit | 194.55 | 112.57 |
| | | Profit Before Tax | 193.00 | 105.04 |
| | Net Profit Ratio (%) | | 24.08 | 16.19 |
| | Basic EPS (NT\$) | | 14.14 | 7.44 |
| | Earnings per Share (NT\$) after Retroactive Adjustment | | 14.57 | 7.66 |
| Cash Flow (%) | Cash Flow Ratio | | 50.08 | (2.73) |
| | Cash Flow Adequacy Ratio | | 60.93 | 42.42 |
| | Cash Reinvestment Ratio | | 15.57 | (7.62) |
| Degree of Leverage | Degree of Operating Leverage | | 1.40 | 1.78 |
| | Degree of Financial Leverage | | 1.01 | 1.04 |

Note: The consolidated financial statement is based on Taiwan's Financial Accounting Standards and audited and certified by accountants.

(iv) Taiwan's Financial Accounting Standards (Individual)

| Item \ Year | | Financial Information of the Last Five Years (Note) | |
|-------------------------|--|---|--------|
| | | 2011 | 2012 |
| Financial Structure (%) | Debt Asset Ratio | 55.04 | 58.96 |
| | Permanent Capital to Fixed Assets | 122.12 | 119.34 |
| Debt-Paying Ability | Liquidity Ratio (%) | 111.16 | 104.63 |
| | Quick Ratio (%) | 76.89 | 71.14 |
| | Interest Protection Multiples | 98.02 | 28.50 |
| Operating Ability | Receivables Turnover Ratio | 4.52 | 2.37 |
| | Average Collection Period | 81 | 154 |
| | Inventory Turnover Ratio | 4.44 | 2.78 |
| | Payables Turnover Ratio | 3.55 | 3.28 |
| | Inventory Conversion Period | 82 | 131 |
| | Fixed Assets Turnover Ratio | 1.25 | 0.85 |
| | Total Assets Turnover Ratio | 0.69 | 0.45 |
| Profitability | Return on Assets (%) | 22.55 | 9.32 |
| | Return on Equity (%) | 49.68 | 20.93 |
| | To Paid-up Capital Ratio (%) | Operating Profit | 175.14 |
| | | Profit Before Tax | 188.89 |
| | Net Profit Ratio (%) | 26.95 | 18.37 |
| | Basic EPS (NT\$) | 14.14 | 7.44 |
| | Earnings per Share (NT\$) after Retroactive Adjustment | 14.57 | 7.66 |
| Cash Flow (%) | Cash Flow Ratio | 48.20 | 1.13 |
| | Cash Flow Adequacy Ratio | 62.16 | 47.62 |
| | Cash Reinvestment Ratio | 15.11 | (6.34) |
| Degree of Leverage | Degree of Operating Leverage | 1.44 | 1.70 |
| | Degree of Financial Leverage | 1.01 | 1.04 |

Note: The financial statement of the parent company is based on Taiwan's Financial Accounting Standards and audited and certified by accountants.

1. Financial Structure

(1) Debt Asset Ratio = Total Liabilities / Total Assets

(2) Permanent Capital to Fixed Assets = (Net Shareholders' Equity + Long-Term Liabilities) / Net Fixed Assets

2. Debt-Paying Ability

(1) Liquid Ratio = Liquid Assets / Liquid Liabilities

(2) Quick Ratio = (Liquid Assets - Inventory - Upfront Fees) / Liquid Liabilities

(3) Interest Protection Multiples = $\frac{\text{Net Profit before Income Tax and Interest Expense}}{\text{Interest Expense of This Period}}$

3. Operating Ability

(1) Receivables (Including Receivables and Notes Receivable from Operating Activities) Turnover Ratio = $\frac{\text{Net Sales}}{\text{Balance of Average Receivables of Each Period (Including Receivables and Notes Receivable from Operating Activities)}}$

(2) Average Collection Period = $\frac{365}{\text{Receivables Turnover Ratio}}$

(3) Inventory Turnover Ratio = $\frac{\text{Cost of Sales}}{\text{Average Inventory}}$

(4) Payables (Including Payables and Notes Payable from Operating Activities) Turnover Ratio = $\frac{\text{Cost of Sales}}{\text{Balance of Average Payables of Each Period (Including Payables and Notes Payable from Operating Activities)}}$

(5) Inventory Conversion Period = $\frac{365}{\text{Inventory Turnover Ratio}}$

(6) Fixed Assets Turnover Ratio = $\frac{\text{Net Sales}}{\text{Net Fixed Assets}}$

(7) Total Assets Turnover Ratio = $\frac{\text{Net Sales}}{\text{Total Assets}}$

4. Profitability

(1) Return on Assets = $\frac{[\text{Profit and Loss After Tax} + \text{Interest Expense} \times (1 - \text{Tax Rate})]}{\text{Average Total Assets}}$

(2) Return on Equity = $\frac{\text{Profit and Loss After Tax}}{\text{Average Net Shareholders' Equity}}$

(3) Net Profit Ratio = $\frac{\text{Profit and Loss After Tax}}{\text{Net Sales}}$

(4) Earnings per Share = $\frac{(\text{Net profit after Tax} - \text{Dividend on Preferred Stock})}{\text{Weighted Average Outstanding Shares}}$

5. Cash Flow

(1) Cash Flow Ratio = $\frac{\text{Cash Flow from Operating Activities}}{\text{Liquid Liabilities}}$

(2) Cash Flow Adequacy Ratio = $\frac{\text{Cash Flow from Operating Activities of the Last 5 Years}}{(\text{Capital Expenditure} + \text{Inventory Increase} + \text{Cash Dividend}) \text{ of the Last 5 Years}}$

(3) Cash Reinvestment Ratio = $\frac{(\text{Cash Flow from Operating Activities} - \text{Cash Dividend})}{(\text{Gross Fixed Assets} + \text{Permanent Investment} + \text{Other Capitals} + \text{Working Capital})}$

6. Degree of Leverage

(1) Degree of Operating Leverage = $\frac{(\text{Net Operating Revenue} - \text{Variable Operating Costs and Expenses})}{\text{Operating Profit}}$

(2) Degree of Financial Leverage = $\frac{\text{Operating Profit}}{(\text{Operating Profit} - \text{Interest Expense})}$

iii. Supervisors' Audit Report of the Financial Report for the Past Year

HIWIN Technologies Corp. Supervisors' Audit Report

We have checked the Financial Statements (audited by Yan Xiaofang and Zeng Dongyun from Deloitte & Touche, who issued an audit report with clean opinions on the record), Business Report and Earning Distribution Plan of 2015 prepared by the Board of Directors. In our opinion, all statements and reports referred to above are prepared according to law. This report is submitted in accordance with Article 219 of the Company Law.

HIWIN Technologies Corp.

Supervisor: Zhang Liangji

Supervisor: Sanko Investments Limited
Representative: Huang Yousan

March 26, 2016

iv. The Financial Report and the Accountant's Audit Report for the Past Year

Please refer to Appendix i.

v. Consolidated Financial Statements Audited by CPA for the Past Year

Please refer to Appendix ii.

vi. The Impacts of Any Financial Difficulties Encountered by the Company or Its Affiliates in the Past Year and up to the Annual Report Publication Date on the Company's Financial Status: none.

VII. Review and Analysis of Financial Status, Financial Performance, and Risk Management

i. Financial Status

(i) Financial Position Analysis

Unit: NT\$ 1000

| Item \ Year | 2014 | 2015 | Difference | |
|---|------------|------------|------------|--------|
| | | | Sum | % |
| Liquid Assets | 12,964,755 | 13,572,645 | 607,890 | 4.69 |
| Fund and Investment | 460,018 | 492,654 | 32,636 | 7.09 |
| Immovable Property, Plant and Equipment | 15,258,375 | 15,930,786 | 672,411 | 4.41 |
| Other Assets | 1,644,615 | 2,770,134 | 1,125,519 | 68.44 |
| Total Assets | 30,327,763 | 32,766,219 | 2,438,456 | 8.04 |
| Liquid Liabilities | 9,974,387 | 11,526,855 | 1,552,468 | 15.56 |
| Long-Term Liabilities | 6,280,655 | 6,270,302 | (10,353) | (0.16) |
| Other Liabilities | 400,436 | 468,332 | 67,896 | 16.96 |
| Total Liabilities | 16,655,478 | 18,265,489 | 1,610,011 | 9.67 |
| Equity Attributable to Owners of the Parent Company | 12,928,141 | 13,646,037 | 717,896 | 5.55 |
| Equity | 2,614,354 | 2,692,785 | 78,431 | 3.00 |
| Capital Reserve | 308,630 | 311,955 | 3,325 | 1.08 |
| Retained Earnings | 10,019,718 | 10,732,921 | 713,203 | 7.12 |
| Other Equities | (14,561) | (91,624) | (77,063) | 529.24 |
| Non-Controlling Equities | 744,144 | 854,693 | 110,549 | 14.86 |
| Total Equity | 13,672,285 | 14,500,730 | 828,445 | 6.06 |

Note: The consolidated financial statement is based on International Financial Reporting Standards and audited and certified by accountants.

(ii) Analysis for the Change over 20%:

1. Other Assets increased mainly because of capacity expansion and an increase in prepayment of equipment.
2. Other Equities reduced because the exchange differences relating to translation of foreign financial statements reduced due to the change in exchange rate in this period.

ii. Financial Performance

(i) Operating Results Analysis

Unit: NT\$ 1000

| Item \ Year | 2014 | 2015 | Increased (Decreased) Amount | Rate of Change (%) |
|---|------------|------------|------------------------------|--------------------|
| Net Operating Revenue | 15,087,336 | 14,881,048 | (206,288) | (1.37) |
| Operating Costs | 9,296,584 | 9,547,429 | 250,845 | 2.70 |
| Operating Margin | 5,790,752 | 5,333,619 | (457,133) | (7.89) |
| Operating Expenses | 2,942,917 | 3,431,002 | 488,085 | 16.59 |
| Operating Profit | 2,847,835 | 1,902,617 | (945,218) | (33.19) |
| Non-Operating Income and Expenses | 63,107 | (68,431) | (131,538) | (208.44) |
| Profit Before Tax | 2,910,942 | 1,834,186 | (1,076,756) | (36.99) |
| Income Tax Expense | 643,592 | 439,627 | (203,965) | (31.69) |
| Net Profit of This Year | 2,267,350 | 1,394,559 | (872,791) | (38.49) |
| Other Consolidated Profit and Loss of the Term (Net of Tax) | (22,356) | (91,926) | (69,570) | 311.19 |
| Total Consolidated Profit and Loss of the Term | 2,244,994 | 1,302,633 | (942,361) | (41.98) |
| Net Profits Attributable to Owners of the Parent Company | 2,404,906 | 1,642,238 | (762,668) | (31.71) |
| Net Profit Attributable to Non-Controlling Equities | (137,556) | (247,679) | (110,123) | 80.06 |
| Total Consolidated Profit and Loss Attributable to Owners of the Parent Company | 2,382,550 | 1,551,550 | (831,000) | (34.88) |
| Total Consolidated Profit and Loss Attributable to Non-Controlling Equities | (137,556) | (248,917) | (111,361) | 80.96 |

Note: The consolidated financial statement is based on International Financial Reporting Standards and audited and certified by accountants.

(ii) Analysis for the Change over 20%:

1. Operating Profit, Profit Before Tax, Net Profit of This Year, Total Consolidated Profit and Loss of the Term, Net Profits Attributable to Owners of the Parent Company, Total Consolidated Profit and Loss Attributable to the owners of the parent company: the revenue of this period reduced due to economic depression; the corresponding personnel expenditure and business expense increased due to continuous expansion of the Company; R&D expenditure of new products also increased.
2. Non-Operating Income and Expenses: loss on exchange increased.
3. Income Tax Expense: the net profit before tax of this period decreased, so the estimated income tax expense also decreased.
4. Other comprehensive income of this period: Euro and RMB depreciated this year, resulting in loss on exchange relating to translation of foreign financial statements.
5. Net Profit Attributable to Non-Controlling Equities and Total Consolidated Profit and Loss Attributable to Non-Controlling Equities: the losses on investments of Non-Controlling Equities increased this year.

(iii) Possible Effects of Expected Sales Quantity and Its Basis on the Company's Future Financial Business and the Company's Counterplan:

Please refer to "Letter to Shareholders".

iii. Cash Flow

(i) Liquidity Analysis of the Last 2 Years

| Item \ Year | 2014 | 2015 | Increase (Decrease) Percentage (%) |
|--|-------|-------|------------------------------------|
| Cash Flow Ratio (%) | 32.15 | 9.07 | (71.79) |
| Cash Flow Adequacy Ratio (%) | 63.54 | 43.02 | (32.29) |
| Cash Reinvestment Ratio (%) | 12.45 | 0.99 | (92.04) |
| Analysis for the Change over 20%: | | | |
| Cash Flow Ratio, Cash Flow Adequacy Ratio and Cash Reinvestment Ratio reduced mainly because the operating net cash flow of this year reduced. | | | |

Note: The consolidated financial statement is based on International Financial Reporting Standards.

(ii) Improvement Plan for Liquidity Shortage: Not Applicable.

(iii) Cash Flow Analysis for the Coming Year:

Unit: NT\$ 1000

| Cash Balance at the Beginning of the Year (A) | Estimated Yearly Net Cash Flow from Operating Activities (B) | Estimated Yearly Cash Outflow (C) | Estimated Cash Surplus (Shortage) (A) + (B) - (C) | Remedies for Estimated Cash Shortage | |
|---|--|-----------------------------------|---|--------------------------------------|----------------|
| | | | | Investment Plan | Financial Plan |
| 1,609,363 | 2,442,692 | 6,212,470 | (2,160,415) | — | Financing |

iv. Effects of Major Capital Expenditure on Financial Business of the Past Year

(i) Major Capital Expenditure and Capital Source

Unit: NT\$ 1000

| Projects | Actual or Expected Capital Source | Actual or Expected Completion Date | Total Capital Required in 2015 and 2016 | Actual Capital Expenditure in 2015 and Planned Capital Expenditure in 2016 | |
|------------------------------------|-----------------------------------|------------------------------------|---|--|-----------|
| | | | | 2015 | 2016 |
| Building factories | Own funds, financing | | 2,125,300 | 633,791 | 1,491,509 |
| Purchasing land to build factories | Own funds, financing | 2016.12 | 1,190,609 | 304,522 | 886,087 |
| Increasing production equipment | Own funds, financing | 2016.12 | 2,326,723 | 1,146,016 | 1,180,707 |

(ii) Estimated Benefits

The capital expenditure is mainly for capacity expansion for future business growth and vertical integration of the manufacturing process so as to strengthen the quality, the elasticity of the delivery time and the optimum cost competitiveness continuously.

v. Investment Policy of the Past Year, Main Causes for Profits or Losses, Improvement Plan and Investment Plan for the Coming Year

The Company's investment strategy is to strengthen its all-round development in technology, capacity, marketing and customer service and conduct global layout and investment with the goal of mastering key technology, parts and marketing channels, reducing production costs and serving customers nearby. It acquired Luren Precision Co., Ltd., a manufacturer of high precision gear cutter and gear machine tool in Taiwan, in April 2015, whose software and hardware technology related to gear and gear cutter is a great help to our company in building the global competitiveness of various robots, completing the puzzle in HIWIN's key manufacturing process filed of robots.

HIWIN America and Mega Fabs profited in 2015. As HIWIN Germany, HIWIN Japan and HIWIN Italy were expanding, their revenue growth benefits in the short term were reflected in 2015. HIWIN Singapore, HIWIN South Korea and HIWIN China were developing their markets gradually and their business showed obvious growth, but there was a small operating loss due to an increase in related personnel expenditure and management and marketing costs caused by operation expansion; their revenues are expected to be gradually on the mend in the future. HULKet equipment has been installed and adjusted and is in volume production, and it's now expanding the market energetically, and the business status is expected to improve. Acquired by HIWIN, apart from integrating the company resources, Luren Precision is expected to do well by means of HIWIN's extensive distribution channels and the supply of machine tool parts in 2016.

It's also planning to build subordinate units in other overseas markets to match up the increasing sales of the product group and support agents in various regions.

vi. Risk Analysis

(i) Risk Factors: analyze and evaluate the following items in the last year and as of the publication date of the annual report.

1. Impact of interest rate, change in exchange rate and inflation on company profit and loss, the Company's countermeasures

(1) Interest Rate:

The Company evaluates the bank lending rate regularly and compares it with the market rate; it keeps close contact with the bank to get a favorable rate, so the interest rate change has no major effects on it.

(2) Exchange Rate:

Its revenue in 2015 mainly came from RMB, followed by dollar; its main raw materials and machinery equipment were paid for in dollars, euro and yen; it has been implementing foreign exchange risk management policies of "Assets and Liabilities Management" over the years and also used the forward foreign exchange contract to reduce the exchange rate risk produced by assets and liabilities. To cope with exchange rate change risk, it collects information regarding to exchange rate changes at any time to know and analyze the exchange movements, interact with the bank well and take proper countermeasures

against exchange rate movement to avoid exchange rate risk.

(3) Inflation and Deflation:

It reduces costs through raw materials inventory management, procurement strategy, product design and research innovation of the manufacturing process so that it can cope with environmental changes so as to reduce effects of the external environment.

2. Policies of Engagement in High-Risk and High Leveraged Investment, Lending Funds to Other Parties, Endorsements and Guarantees and Derivatives Transaction, Main Causes for Profits or Losses and Future Countermeasures

- (1) The Company has never been engaged in high-risk and high leveraged investment deals.
- (2) As of the publication date of the annual report, it has never lent funds to other parties but Luren Precision Japan and HULKet for operation needs (according to Procedures for Lending Funds to Other Parties and with approval of the Board).
- (3) It made endorsements and guarantees according to Procedures for Endorsements and Guarantees, which was also approved by the Board; it has only done this for its subsidiaries holding 100% of the shares; the balance at the end of 2015 was NT\$ 300,480,000 (9,154,000 dollars); this endorsement and guarantee can effectively reduce subsidiaries' capital increase demand for the parent company and is also beneficial to tax planning.
- (4) The Company performs the financial derivatives transaction steadily and conservatively to avoid risks (using actual foreign exchange receipts and payments to avoid actual exchange rate fluctuation risk produced by purchases and sales), and hasn't been engaged in speculative transaction.

3. Future R&D Plan and Estimated R & D Costs

R & D costs in 2015 were NT\$ 898,993,000, accounting for 6% of the revenue. It'll be engaged in R & D positively in the future to lay a solid foundation for a long-term development potential; it develops new products, such as medical robot and various multi-axis robots, and its key items of R&D are listed below:

| Plan Title | Current progress | Important factors that decide the success of future R&D |
|---|---|--|
| Walking Training Machine | In development | It is people oriented, user friendly and highly practical and applicable in communities or homes, so it should be able to be developed smoothly. |
| Upper Limb Rehabilitation Robot | The first version has been developed and now the design of the second version is being changed based on the feedback. | It's patent portfolio and meets clinic rehabilitation requirements, so it should be able to be developed smoothly. |
| Robot for Bath | Achieving certification | It should be able to be developed smoothly. |
| Robotic Endoscope Holder | Achieving certification | It should be able to be developed smoothly. |
| 50kg Articulated Robot Arm | In development | It should be able to be developed smoothly. |
| Motion Controller based on All Software | In development | It should be able to be developed smoothly. |
| Electric Power Steering (EPS) System | Sample submitted for test | Volume production can begin after it passes the factory test, so it should be able to be developed smoothly. |

| | | |
|--|--|--|
| Development of New Structured Ball Linear Guideway | Products of two specifications have been in volume production. | Tool and die technology, plastic injection technology; It should be able to be developed smoothly. |
| Intelligent Linear Guideway | Conceptual Design | Market acceptance, industry applicability |
| Development of Track Protection Accessories | In development; estimated to be in volume production this year | Manufacturing equipment development, market acceptance |
| Specification Expansion of External Circulation | In development | It should be able to be developed smoothly. |
| Intelligent Screw Development | In development | It should be able to be developed smoothly. |

It's estimated the Company's R&D costs in 2016 will be about NT\$ 980,000,000~NT\$ 1,080,000, 000, up 10%~20% from 2015; with the goal of R&D costs accounting for 10% of the revenue, its R&D marches towards Industry 4.0 and the future environmental, green and intelligent automation industry; besides meeting customer requirements, it will continue to integrate the manufacturing processes, reengineer the internal process and reduce costs to expand its competitive advantage in the marketplace.

4. Effects of Changes in Major Policies and Laws at Home and Abroad on the Company's Business and Finance and Its Countermeasures

The Company is a professional maker of drive control and system products, which are key parts and also necessities in the economic development; Changes in major policies and laws at home and abroad have little effects on its business and finance and no such changes have affected its business and finance in the last year and as of the publication date of the annual report. The Company's management team always pays attention to changes in major policies and laws at home and abroad, know the development status and cope with market conditions change to reduce possible adverse effects in the future.

5. Effects of Technology and Industry Changes on the Company's Business and Finance and Its Countermeasures

Technology innovation contributes a great share in the continuously expanded application area of the Company's products, such as precision machining of iPhone and iPad, because 3D Printing equipment regarded by President Obama as a tool to reinvigorate American manufacturing capacity needs to use products of the Company in large amounts. Now, industrial robots are widely used in different industrial production fields, such as feeding, spraying, welding and assembling, and mainly used in the manufacturing industry, such as car, electronics, machinery, chemical engineering and food. To cope with requirements of population aging, baby bust for home automation and production automation, it also launches diverse medical robots, such as rehabilitation equipment, nursing equipment and minimally invasive surgery equipment; besides, the development of wind power, solar energy and green energy guided by the wave of energy saving and low carbon emissions also expands the industry category of Company's customer base.

The technology and industry evolution aims at promoting human well-being, which coincides with the Company's management ideas. Therefore, it will continue to improve the R&D ability, increase the variety and the added value of the products, combine the long-term development trends of technology and industry and adjust its short-term, mid-term and long-term development strategies in due time to realize the sustainable operation.

6. Effects of Corporate Image Change on Corporate Crisis Management and Its countermeasures

The Company has a long term commitment to corporate social responsibility, public benefits and educational activities (please refer to iii (v) for details); it has won many awards over the years; it won the 23rd “Taiwan Excellence Gold Award”, the 24th “Taiwan Excellence Silver Award” in 2015 and 2016, and was in Top 20 Most Innovative Taiwanese Companies selected by Ministry of Economic Affairs, and was awarded the “Taiwan Corporate Sustainability Awards (TCSA)” and honored with “Social Inclusion Award”, and ranked No.37 of “The World’s Most Innovative Growth Companies 2015” by Forbes; all these show the Company has a good corporate image; in case of situations that will change the corporate image, the crisis response team will take necessary countermeasures.

7. Anticipated Benefits, Possible Risks and Countermeasures of Mergers

The Company only acquired Luren Precision Co., Ltd., a manufacturer of high precision gear cutter and gear machine tool in Taiwan, in April 2015 and has acquired no others up to the publication date of the annual report.

8. Anticipated Benefits, Possible Risks and Countermeasures of Plant Expansion

Please refer to VII. iv of the annual report. The Company has been laying a solid foundation over the years and built a deep and broad global market network and a good reputation for its brand. In the future, the application area of its products will extend in the trend of computerization, automation, labor-saving technology, energy conservation and environmental protection. It will continue to improve and innovate on its manufacturing process and extend such process forward to reduce the purchasing costs; it’s estimated this will improve the gross profit rate and self-sufficiency of raw materials and there will be limited risks.

9. Risks and Countermeasures of Centralized Purchases or Sales

The Company didn’t purchase over 10% of its materials from any manufacturer in 2015 or 2016, so centralized purchases didn’t exist; the net sales of its largest customer accounted for 13.5% and 12.9% of the annual net sales respectively in 2014 and 2015, which show little change, so centralized sales didn’t exist, either.

10. Effects of Huge Transfer or Change of Stock Rights of Directors, Supervisors or Shareholders Holding over 10% of the Shares on the Company, the Risks and Countermeasures

They haven’t transferred or changed their stock rights in large quantities in the last year and as of the publication date of the annual report.

11. Effects of the Change of Management Right on the Company, Risks and Countermeasures

The Company’s management right hasn’t changed in the last year and as of the publication date of the annual report.

12. Litigation & Non Litigation

The Company’s dealer Tianjin Ace Pillar Co. Ltd. found an excuse to stop paying back due payment for goods (NT\$6,984,000); after the Company applied for property preservation and filed civil litigation to the local court, Tianjin High People’s Court ordered Tianjin Ace Pillar Co. Ltd. to pay 7,596,000 dollars and the delay interest (calculated at the rate 1.5 times the related interest rate of People’s Bank of China) on Dec. 23, 2014, and rejected all of its counterclaims. Tianjin Ace Pillar Co. Ltd. took a civil appeal on Jan. 6, 2015 to Tianjin High People’s Court, and the court hasn’t tried the case as of the publication date of the annual report.

13. Other Important Risks and Countermeasures

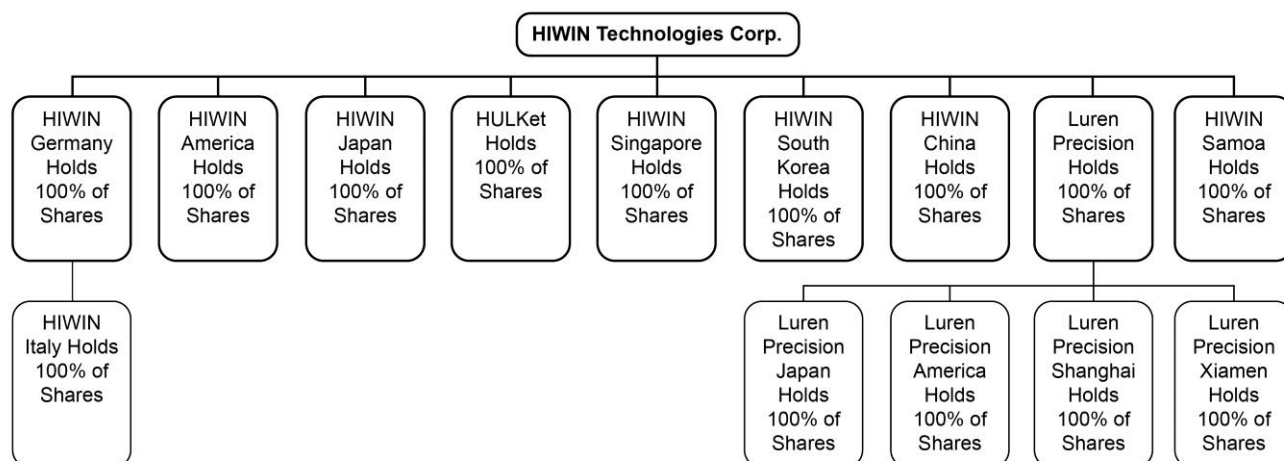
There have been no such risks in the last year and as of the publication date of the annual report.

vii. Other Important Matters: None.

VIII. Special Disclosures

i. Information on Affiliates

(i) Organizational Structure of Affiliates



(ii) Basic Information of Affiliates

| Company Name | Establishment Date | Address | Paid-in Capital (Note) | Major Business or Production Items |
|---------------------------|--------------------|---|------------------------|---|
| Hiwin Germany GmbH | April 1, 1993 | Brücklesbünd 2 D-77654 Offenburg, Germany | EUR12,135,000 | Manufacturing and sale of Precision drive parts, ball screws, linear guideways and industrial robots |
| Hiwin Corporation, U.S.A | Sep. 15, 1992 | 1400 Madeline Ln. Elgin, IL 60124, U.S.A. | USD10,740,000 | Manufacturing and sale of Precision drive parts, ball screws, linear guideways and industrial robots |
| Hiwin Corporation, Japan | Nov. 1, 1999 | 3F, Sannomiya-Chuo Bldg., 4-2-20 Goko-dori, Chuo-ku, Kobe-shi, Hyogo, 651-0087, Japan | JPY440,000,000 | Manufacturing and sale of Precision drive parts, ball screws, linear guideways and industrial robots |
| HULKet | Dec. 1, 2010 | No. 442-1, Zhonghua Road, Toufen Township, Miaoli County | NTD2,653,220,000 | Research, development, design, manufacturing and sale of solar cells, electronic components, and power generation, transmission and distribution machines |
| Hiwin Singapore Pte. Ltd. | Aug. 7, 2013 | Block 203 Woodlands Avenue 9 #06-51 Woodlands Spectrum II Singapore 738956 | SGD5,000,000 | Manufacturing and sale of Precision drive parts, ball screws, linear guideways and industrial robots |

| Company Name | Establishment Date | Address | Paid-in Capital (Note) | Major Business or Production Items |
|----------------------------------|--------------------|---|------------------------|---|
| Hiwin Corporation, South Korea | Oct. 8, 2013 | 125-25 Saneop-ro, 156beon-gil, Gwonseon-gu, Suwon-si, Gyeonggi-do 441-811, Korea | KRW5,000,000,000 | Manufacturing and sale of Precision drive parts, ball screws, linear guideways and industrial robots |
| HIWIN Italy | March 29, 2013 | RHO (MI) VIA DE GASPERI 85 cap 20017 | EUR6,500,000 | Manufacturing and sale of Precision drive parts, ball screws, linear guideways and industrial robots |
| HIWIN Shanghai | April 8, 2014 | No. 59, Weixin Road, Suzhou Industrial Park | CNY300,000,000 | Manufacturing and sale of Precision drive parts, ball screws, linear guideways and industrial robots |
| Luren Precision | May 2, 1994 | No. 1-1, Li Hsin 1st Rd., Hsinchu Science Park, Hsinchu City | NTD241,470,520 | Development, design, manufacturing and sale of high precision gear cutter and gear lapping machine tool |
| Hiwin Healthcare Corp., Samoa | April 21, 2015 | Portcullis TrustNet Chambers, P.O. Box 1225, Apia, Samoa | USD100,000 | Sale of medical robots |
| Luren Precision, Japan | Oct. 23, 2003 | O' s 520 ATC Bldg North Wing 5F 2-1-10,Nanko-Kita, Suminoe-KU, OSAKA5590034 JAPAN | JPY10,000,000 | Sale of high precision gear cutter and gear lapping machine tool |
| Luren Precision Chicago Co., Ltd | April 22, 2010 | 707 REMINGTON ROAD,UNIT1 SCHAUMBURG IL 60173 | USD460,000 | Sale of high precision gear cutter and gear lapping machine tool |
| Luren Precision Shanghai | Oct. 4, 2009 | A, Floor 6, Building 2, No.401, Caobao Road, Xuhui District, Shanghai | CNY1,010,000 | Sale of high precision gear cutter and gear lapping machine tool |
| Luren Precision Xiamen | May 10, 2013 | Room 505, Qiangye Building, Xiangan Road, Torch High-Tech Industrial District, Xiamen | CNY3,080,835 | Sale of high precision gear cutter and gear lapping machine tool |

Note: the base date of paid-in capital is April 30, 2016.

(iii) Information of the Same Shareholders of Affiliates Deemed to Be Controlling Corporates and Subsidiary Corporates: None.

(iv) The Industries Covered by Business of Affiliates; If Business of Affiliates Is Connected, State the Division of Work:

The industries covered by business of the Company's affiliates are mainly "Drive Control and System Technology Products Manufacturing Service"; as a whole, the affiliates create the maximum comprehensive benefits through mutual support in technology, capacity, marketing and service, and provide customers with "Global Innovative Value-Added Service" to ensure HIWIN's leading position in the global market.

(v) Information of Directors, Supervisors and General Managers of Affiliates

Unit: Shares; %

| Company Name | Title | Name or Representative | Number of Shares Held | Shareholding Ratio |
|--------------------------------|-----------------|---|-----------------------|--------------------|
| Hiwin CorpORation, U.S.A | Chairman | Representative of HIWIN Technologies Corp.: Eric Y. T. Chuo | 2,148,000 | 100% |
| | Directors | Hui-Chin Tsai, Zhuo Wenheng, Qiu Shirong | - | - |
| | General Manager | Qiu Shirong | - | - |
| Hiwin Germany GmbH | Chairman | Representative of HIWIN Technologies Corp.: Eric Y. T. Chuo | Note 1 | 100% |
| | General Manager | Werner Mäurer | - | - |
| Luren Precision, Japan | Chairman | Representative of HIWIN Technologies Corp.: Eric Y. T. Chuo | 38,200 | 100% |
| | Directors | Zhuo Wenheng, Nakada, Huang Lihong | - | - |
| | Supervisor | Lin Yifeng | - | - |
| | General Manager | Huang Lihong | - | - |
| HULKet | Chairman | Representative of HIWIN Investment Corp.: Eric Y. T. Chuo | 45,887,413 | 17.29% |
| | General Manager | Huang Tinghui | 1,700,000 | 0.64% |
| | Directors | | | |
| | Directors | Song Shenxiu | 2,705,912 | 1.02% |
| | Directors | Zhuo Wenheng | 2,826,381 | 1.07% |
| | Directors | Chen Shaowei | 599,712 | 0.23% |
| | Supervisor | Representative of HIWIN Technologies Corp.: Wu Yueqin | 136,632,735 | 51.50% |
| | Supervisor | Zhuo Xiuyu | 1,916,367 | 0.72% |
| HIWIN Italy | Chairman | Representative of HIWIN Germany: Werner | Note 1 | 100% |
| Hiwin Singapore Pte. Ltd. | Chairman | Representative of HIWIN Technologies Corp.: Eric Y. T. Chuo | 5,000,000 | 100% |
| | Directors | Zhuo Wenheng, You Kaisheng, Chen Yongxiang | - | - |
| | General Manager | Chen Yongxiang | - | - |
| Hiwin CorpORation, South Korea | Chairman | Representative of HIWIN Technologies Corp.: Eric Y. T. Chuo | 1,000,000 | 100% |
| | Directors | Zhuo Wenheng, You Kaisheng | - | - |
| | Supervisor | Lin Yifeng | - | - |
| | General Manager | Yang Shengzhi | - | - |
| Hiwin China | Chairman | Representative of HIWIN Technologies Corp.: Eric Y. T. Chuo | Note 1 | 100% |
| | Directors | Hui-Chin Tsai, You Kaisheng | - | - |
| | Supervisor | Lin Yifeng | - | - |

| | | | | |
|-------------------------------|-----------------|---|------------|--------|
| | General Manager | Peng Yanqi | - | - |
| Luren Precision | Chairman | Representative of HIWIN Technologies Corp.: Eric Y. T. Chuo | 11,352,373 | 47.01% |
| | Directors | Representative of HIWIN Technologies Corp.: Song Xiande | | |
| | Directors | Taiwan Gong Ji Chang Co., Ltd. | 329,504 | 1.36% |
| | Directors | All Horng Gear Industry Co., LTD. | 1,386,066 | 5.74% |
| | Directors | Chen Shirui | 642,000 | 2.66% |
| | Supervisor | Zengda Investment Co., Ltd. | 1,413,498 | 5.85% |
| | Supervisor | Xu Yujun | 286,233 | 1.19% |
| | General Manager | Chen Shirui | 642,000 | 2.66% |
| Hiwin Healthcare Corp., Samoa | Chairman | Hui-Chin Tsai | 100,000 | 100% |
| Luren Precision, Japan | President | Chen Shirui | - | - |
| | Vice | Lin Tianfa | | |
| Luren Precision Shanghai | Chairman | Chen Shirui | - | - |
| | General Manager | Guo Zhiwei | | |
| Luren Precision Shanghai | Chairman | Chen Shirui | - | - |
| | General Manager | Hong Qixiong | | |
| Luren Precision Xiamen | Chairman | Chen Shirui | - | - |
| | General Manager | Hong Qixiong | | |

Note 1: unissued shares.

Note 2: data as of April 30, 2016

(vi) Business Status of Affiliates

Unit: NT\$ 1000

| Company Name | Paid-in Capital | Total Assets | Total Liabilities | Net Value | Operating Revenue | Operating Profit (Loss) | Profit (Loss) of the Current Period | Earnings per Share (NT\$) |
|--------------------------------|-----------------|--------------|-------------------|-----------|-------------------|-------------------------|-------------------------------------|---------------------------|
| Hiwin CorpORation, U.S.A | 303,495 | 641,734 | 175,318 | 466,416 | 750,767 | 21,586 | 17,037 | 7.93 |
| Hiwin Germany GmbH | 452,797 | 2,284,136 | 1,001,461 | 1,282,675 | 2,265,663 | 122,202 | 33,395 | Note 1 |
| Luren Precision, Japan | 117,929 | 344,028 | 408,368 | (64,340) | 743,843 | (118,909) | (138,383) | (4,582.2) |
| HULKet | 2,393,220 | 2,436,765 | 1,153,236 | 1,283,529 | 34,232 | (438,876) | (452,210) | (1.97) |
| HIWIN Italy | 241,214 | 310,666 | 206,957 | 517,623 | 134,050 | (99,891) | (86,783) | Note 1 |
| Hiwin Singapore Pte. Ltd. | 117,550 | 70,935 | 16,669 | 54,266 | 56,505 | (36,017) | (34,315) | (6.86) |
| Hiwin CorpORation, South Korea | 140,665 | 105,113 | 29,898 | 75,215 | 63,776 | (40,599) | (38,502) | (38.50) |

| | | | | | | | | |
|-------------------------------|-----------|-----------|---------|-----------|---------|----------|----------|---------|
| Hiwin China | 1,105,539 | 1,379,111 | 265,802 | 1,113,309 | 809,504 | 24,816 | 26,568 | Note 1 |
| Luren Precision | 241,471 | 726,261 | 367,550 | 358,711 | 428,152 | (26,669) | (25,338) | (1.08) |
| Hiwin Healthcare Corp., Samoa | 3,108 | 4,419 | 1,137 | 3,282 | 1,099 | - | - | - |
| Luren Precision, Japan | 3,571 | 11,871 | 10,901 | 970 | 16,476 | 506 | 506 | 2,530.0 |
| Luren Precision Shanghai | 14,721 | 53,506 | 42,668 | 10,838 | 42,195 | (23) | 187 | 0.77 |
| Luren Precision Shanghai | 4,871 | 17,471 | 26,956 | (9,485) | 14,804 | (4,266) | (4,146) | Note 1 |
| Luren Precision Xiamen | 15,104 | 7,765 | 4,452 | 3,313 | 8,930 | (2,482) | (2,188) | Note 1 |

Note 1: unissued shares.

Note 2: If the Affiliates are foreign companies, convert the related figures to NT\$ at the rate on the report day:

| | Closing Rate | Average Rate |
|--------|--------------|--------------|
| 1 USD: | NT\$ 32.825 | 31.739 |
| 1 EUR: | NT\$ 35.88 | 35.24 |
| 1 JPY: | NT\$ 0.2727 | 0.2624 |
| 1 SDG: | NT\$ 23.25 | 23.10 |
| 1 KRW: | NT\$ 0.02811 | 0.02828 |
| 1 CNY: | NT\$ 4.995 | 5.033 |

Note 3: the base date of the financial information of Affiliates' business status is Dec. 31, 2015.

(vii)Consolidated Financial Statements of Affiliates: Please refer to Appendix i.

(viii)Related Reports: None.

ii. Private Placement of Securities during the Past Year and up to the Annual Report Publication Date: None.

iii. Holding or Disposal of Stocks of the Company by Subsidiaries in the Past Year and up to the Annual Report Publication Date: None.

iv. Other Necessary Supplemental Information: None.

v. Events Having Significant Impacts on Shareholders' Equity or Security Price According to Article 36.2.2 of Securities Exchange Act in the Past Year and up to the Issuance of Annual Report: None.

Appendix :

The Financial Report and the Accountant's Audit Report for the Past Year

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2015 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

HIWIN TECHNOLOGIES CORPORATION

By:

Eric Y. T. Chuo
President

March 26, 2016

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hiwin Technologies Corporation

We have audited the accompanying consolidated balance sheets of Hiwin Technologies Corporation (“the Corporation”) and its subsidiaries (collectively referred to as the “Group”) 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 Corporation’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 the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated 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 the Group as of December 31, 2015 and 2014, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2015 and 2014, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed by the Financial Supervisory Commission of the Republic of China.

We have also audited the parent company only financial statements of Hiwin Technologies Corporation as of and for the years ended December 31, 2015 and 2014 on which we have issued an unqualified report.

March 26, 2016

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

| ASSETS | 2015 | | 2014 | |
|---|----------------------|------------|----------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | \$ 1,609,363 | 5 | \$ 2,460,006 | 8 |
| Financial assets at fair value through profit or loss - current (Notes 4, 5 and 7) | 877 | - | 104 | - |
| Notes receivable from unrelated parties, net (Notes 4, 5 and 9) | 563,054 | 1 | 203,939 | 1 |
| Notes receivable from related parties, net (Notes 4, 5 and 28) | 1,709 | - | 7,177 | - |
| Trade receivables from unrelated parties, net (Notes 4, 5 and 9) | 4,889,818 | 15 | 5,450,013 | 18 |
| Trade receivables from related parties, net (Notes 4, 5 and 28) | 24,969 | - | 12,802 | - |
| Inventories (Notes 4, 5 and 10) | 5,524,282 | 17 | 4,066,870 | 13 |
| Other current assets (Notes 6, 14, 28 and 29) | <u>958,573</u> | <u>3</u> | <u>763,844</u> | <u>3</u> |
| Total current assets | <u>13,572,645</u> | <u>41</u> | <u>12,964,755</u> | <u>43</u> |
| NON-CURRENT ASSETS | | | | |
| Available-for-sale financial assets - non-current (Note 4) | - | - | 16 | - |
| Held-to-maturity financial assets - non-current (Note 4) | 3,146 | - | 3,258 | - |
| Financial assets measured at cost - non-current (Notes 4 and 8) | 363,264 | 1 | 351,754 | 1 |
| Investments accounted for using equity method (Notes 4 and 12) | 126,244 | - | 104,990 | - |
| Property, plant and equipment (Notes 4, 13, 28 and 29) | 15,930,786 | 49 | 15,258,375 | 50 |
| Goodwill (Notes 4, 5 and 23) | 192,388 | 1 | 14,473 | - |
| Deferred tax assets (Notes 4, 5 and 21) | 199,095 | 1 | 153,991 | 1 |
| Prepayments for machinery and equipment | 1,920,195 | 6 | 1,144,092 | 4 |
| Refundable deposits | 108,712 | - | 35,994 | - |
| Long-term prepayments for lease (Note 14) | 94,279 | - | 98,207 | - |
| Other non-current assets (Notes 4, 6, 9, 14, 16 and 29) | <u>255,465</u> | <u>1</u> | <u>197,858</u> | <u>1</u> |
| Total non-current assets | <u>19,193,574</u> | <u>59</u> | <u>17,363,008</u> | <u>57</u> |
| TOTAL | <u>\$ 32,766,219</u> | <u>100</u> | <u>\$ 30,327,763</u> | <u>100</u> |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Notes 15 and 29) | \$ 6,129,603 | 19 | \$ 4,360,411 | 14 |
| Financial liabilities at fair value through profit or loss - current (Notes 4, 5 and 7) | 2,741 | - | 13,667 | - |
| Notes payable | 6,042 | - | 10,060 | - |
| Trade payables to unrelated parties | 2,099,543 | 6 | 2,146,987 | 7 |
| Trade payables to related parties (Note 28) | 191,766 | - | 110,862 | - |
| Other payables (Note 17) | 1,209,703 | 4 | 1,355,434 | 5 |
| Current tax liabilities (Notes 4 and 21) | 213,440 | 1 | 480,707 | 2 |
| Current portion of long-term borrowings (Notes 15, 16 and 29) | 1,512,253 | 5 | 1,360,209 | 5 |
| Other current liabilities (Note 4) | <u>161,764</u> | <u>-</u> | <u>136,050</u> | <u>-</u> |
| Total current liabilities | <u>11,526,855</u> | <u>35</u> | <u>9,974,387</u> | <u>33</u> |
| NON-CURRENT LIABILITIES | | | | |
| Long-term borrowings (Notes 15 and 29) | 6,127,847 | 19 | 5,887,161 | 19 |
| Deferred tax liabilities (Notes 4 and 21) | 183,975 | 1 | 180,389 | 1 |
| Finance lease payables - non-current (Notes 4, 16 and 29) | 142,455 | - | 393,494 | 1 |
| Net defined benefit liabilities - non-current (Notes 4, 5 and 18) | 276,925 | 1 | 219,747 | 1 |
| Other non-current liabilities | <u>7,432</u> | <u>-</u> | <u>300</u> | <u>-</u> |
| Total non-current liabilities | <u>6,738,634</u> | <u>21</u> | <u>6,681,091</u> | <u>22</u> |
| Total liabilities | <u>18,265,489</u> | <u>56</u> | <u>16,655,478</u> | <u>55</u> |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION | | | | |
| Common stock | 2,692,785 | 8 | 2,614,354 | 9 |
| Capital surplus | 311,955 | 1 | 308,630 | 1 |
| Retained earnings | | | | |
| Legal reserve | 1,596,118 | 5 | 1,355,627 | 4 |
| Special reserve | 14,561 | - | - | - |
| Unappropriated earnings | 9,122,242 | 28 | 8,664,091 | 29 |
| Other equity | <u>(91,624)</u> | <u>-</u> | <u>(14,561)</u> | <u>-</u> |
| Total equity attributable to owners of the Corporation | 13,646,037 | 42 | 12,928,141 | 43 |
| NON-CONTROLLING INTERESTS | <u>854,693</u> | <u>2</u> | <u>744,144</u> | <u>2</u> |
| Total equity | <u>14,500,730</u> | <u>44</u> | <u>13,672,285</u> | <u>45</u> |
| TOTAL | <u>\$ 32,766,219</u> | <u>100</u> | <u>\$ 30,327,763</u> | <u>100</u> |

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

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2015 | | 2014 | |
|---|------------------|------------|------------------|-----------|
| | Amount | % | Amount | % |
| SALES (Notes 4 and 28) | \$ 14,881,048 | 100 | \$ 15,087,336 | 100 |
| COST OF GOODS SOLD (Notes 10, 20 and 28) | <u>9,547,429</u> | <u>64</u> | <u>9,296,584</u> | <u>62</u> |
| GROSS PROFIT | <u>5,333,619</u> | <u>36</u> | <u>5,790,752</u> | <u>38</u> |
| OPERATING EXPENSES (Notes 20 and 28) | | | | |
| Selling and marketing expenses | 1,303,754 | 9 | 1,126,186 | 7 |
| General and administrative expenses | 1,228,255 | 8 | 1,009,279 | 7 |
| Research and development expenses | <u>898,993</u> | <u>6</u> | <u>807,452</u> | <u>5</u> |
| Total operating expenses | <u>3,431,002</u> | <u>23</u> | <u>2,942,917</u> | <u>19</u> |
| PROFIT FROM OPERATIONS | <u>1,902,617</u> | <u>13</u> | <u>2,847,835</u> | <u>19</u> |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Subsidy revenue (Note 4) | 61,282 | - | 8,324 | - |
| Finance costs (Notes 4 and 20) | (170,793) | (1) | (172,112) | (1) |
| Share of profit of associates accounted for using equity method (Notes 4 and 12) | 23,087 | - | 10,055 | - |
| Interest income (Note 4) | 18,728 | - | 14,401 | - |
| Rental income (Notes 4 and 28) | 376 | - | 6,380 | - |
| Other income (Notes 4 and 28) | 85,923 | - | 37,570 | - |
| Net foreign exchange gain (loss) (Note 4) | (45,065) | - | 211,439 | 1 |
| Other expenses | (4,114) | - | (8,210) | - |
| Impairment loss on property, plant and equipment (Note 4) | (18,684) | - | (12,454) | - |
| Valuation loss on financial liabilities at fair value through profit or loss (Note 4) | (5,163) | - | (23,086) | - |
| Impairment loss on financial assets (Note 4) | <u>(14,008)</u> | <u>-</u> | <u>(9,200)</u> | <u>-</u> |
| Total non-operating income and expenses | <u>(68,431)</u> | <u>(1)</u> | <u>63,107</u> | <u>-</u> |
| PROFIT BEFORE INCOME TAX | 1,834,186 | 12 | 2,910,942 | 19 |
| INCOME TAX EXPENSE (Notes 4, 5 and 21) | <u>439,627</u> | <u>3</u> | <u>643,592</u> | <u>4</u> |
| NET PROFIT FOR THE YEAR | <u>1,394,559</u> | <u>9</u> | <u>2,267,350</u> | <u>15</u> |

(Continued)

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2015 | | 2014 | |
|--|---------------------|------------|---------------------|------------|
| | Amount | % | Amount | % |
| OTHER COMPREHENSIVE INCOME | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans (Note 18) | \$ (14,723) | - | \$ (5,641) | - |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating foreign operations | (92,958) | - | (19,698) | - |
| Unrealized gain on available-for-sale financial assets | (3) | - | - | - |
| Income tax relating to items that may be reclassified subsequently to profit or loss (Note 21) | <u>15,758</u> | <u>-</u> | <u>2,983</u> | <u>-</u> |
| Other comprehensive income (loss) for the year, net of income tax | <u>(91,926)</u> | <u>-</u> | <u>(22,356)</u> | <u>-</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>\$ 1,302,633</u> | <u>9</u> | <u>\$ 2,244,994</u> | <u>15</u> |
| NET PROFIT ATTRIBUTABLE TO: | | | | |
| Owners of the Corporation | \$ 1,642,238 | 11 | \$ 2,404,906 | 16 |
| Non-controlling interests | <u>(247,679)</u> | <u>(2)</u> | <u>(137,556)</u> | <u>(1)</u> |
| | <u>\$ 1,394,559</u> | <u>9</u> | <u>\$ 2,267,350</u> | <u>15</u> |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | | |
| Owners of the Corporation | \$ 1,551,550 | 11 | \$ 2,382,550 | 16 |
| Non-controlling interests | <u>(248,917)</u> | <u>(2)</u> | <u>(137,556)</u> | <u>(1)</u> |
| | <u>\$ 1,302,633</u> | <u>9</u> | <u>\$ 2,244,994</u> | <u>15</u> |
| EARNINGS PER SHARE (Note 22) | | | | |
| Basic | <u>\$ 6.10</u> | | <u>\$ 8.93</u> | |
| Diluted | <u>\$ 6.07</u> | | <u>\$ 8.90</u> | |

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

(Concluded)

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Except Dividends Per Share)

| | Equity Attributable to Owners of the Corporation (Notes 19 and 21) | | | | | | | | | | |
|---|--|----------------------------|---|-------------------|-----------------|-------------------------|--|--|---------------|--|---------------|
| | Capital Surplus | | | Retained Earnings | | | Other Equity | | | Non-controlling Interests (Notes 11 and 24) | Total Equity |
| | Common Stock | Additional Paid-in Capital | Changes in Percentage of Ownership Interest in Subsidiaries | Legal Reserve | Special Reserve | Unappropriated Earnings | Exchange Differences on Translating Foreign Operations | Unrealized Gain on Available-for-sale Financial Assets | Total | | |
| BALANCE AT JANUARY 1, 2014 | \$ 2,538,208 | \$ 308,630 | \$ - | \$ 1,153,469 | \$ 163,449 | \$ 7,065,846 | \$ 2,151 | \$ 3 | \$ 11,231,756 | \$ 563,842 | \$ 11,795,598 |
| Appropriation of 2013 earnings | | | | | | | | | | | |
| Legal reserve | - | - | - | 202,158 | - | (202,158) | - | - | - | - | - |
| Cash dividends - NT\$2.7 per share | - | - | - | - | - | (685,316) | - | - | (685,316) | - | (685,316) |
| Share dividends - NT\$0.3 per share | 76,146 | - | - | - | - | (76,146) | - | - | - | - | - |
| Reversal of special reserve | - | - | - | - | (163,449) | 163,449 | - | - | - | - | - |
| | 76,146 | - | - | 202,158 | (163,449) | (800,171) | - | - | (685,316) | - | (685,316) |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | 317,009 | 317,009 |
| Difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition | - | - | - | - | - | (849) | - | - | (849) | 849 | - |
| Net profit for the year ended December 31, 2014 | - | - | - | - | - | 2,404,906 | - | - | 2,404,906 | (137,556) | 2,267,350 |
| Other comprehensive income (loss) for the year ended December 31, 2014, net of income tax | - | - | - | - | - | (5,641) | (16,715) | - | (22,356) | - | (22,356) |
| Total comprehensive income (loss) for the year ended December 31, 2014 | - | - | - | - | - | 2,399,265 | (16,715) | - | 2,382,550 | (137,556) | 2,244,994 |
| BALANCE AT DECEMBER 31, 2014 | 2,614,354 | 308,630 | - | 1,355,627 | - | 8,664,091 | (14,564) | 3 | 12,928,141 | 744,144 | 13,672,285 |
| Appropriation of 2014 earnings | | | | | | | | | | | |
| Legal reserve | - | - | - | 240,491 | - | (240,491) | - | - | - | - | - |
| Special reserve | - | - | - | - | 14,561 | (14,561) | - | - | - | - | - |
| Cash dividends - NT\$3.2 per share | - | - | - | - | - | (836,593) | - | - | (836,593) | - | (836,593) |
| Share dividends - NT\$0.3 per share | 78,431 | - | - | - | - | (78,431) | - | - | - | - | - |
| | 78,431 | - | - | 240,491 | 14,561 | (1,170,076) | - | - | (836,593) | - | (836,593) |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | 362,405 | 362,405 |
| Difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition | - | - | 3,325 | - | - | (386) | - | - | 2,939 | (2,939) | - |
| Net profit for the year ended December 31, 2015 | - | - | - | - | - | 1,642,238 | - | - | 1,642,238 | (247,679) | 1,394,559 |
| Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax | - | - | - | - | - | (13,625) | (77,060) | (3) | (90,688) | (1,238) | (91,926) |
| Total comprehensive income (loss) for the year ended December 31, 2015 | - | - | - | - | - | 1,628,613 | (77,060) | (3) | 1,551,550 | (248,917) | 1,302,633 |
| BALANCE AT DECEMBER 31, 2015 | \$ 2,692,785 | \$ 308,630 | \$ 3,325 | \$ 1,596,118 | \$ 14,561 | \$ 9,122,242 | \$ (91,624) | \$ - | \$ 13,646,037 | \$ 854,693 | \$ 14,500,730 |

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

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

| | 2015 | 2014 |
|---|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | \$ 1,834,186 | \$ 2,910,942 |
| Adjustments for : | | |
| Depreciation expenses | 1,353,268 | 1,091,917 |
| Amortization expenses | 21,756 | 14,587 |
| Impairment loss recognized (reversal of impairment loss) on receivables | 11,230 | (1,272) |
| Net loss on fair value change of financial liabilities at fair value through profit or loss | 1,864 | 13,563 |
| Finance costs | 170,793 | 172,112 |
| Interest income | (18,728) | (14,401) |
| Write-down of inventories | 112,964 | 4,287 |
| Share of profit of associates accounted for using equity method | (23,087) | (10,055) |
| Loss on disposal of property, plant and equipment | 2,425 | 820 |
| Impairment loss recognized on financial assets | 14,008 | 9,200 |
| Impairment loss recognized on property, plant and equipment | 18,684 | 12,454 |
| Unrealized foreign currency exchange gain, net | (58,883) | (164,532) |
| Other | 205 | 111 |
| Changes in operating assets and liabilities | | |
| Financial instruments held for trading | (13,563) | (2,792) |
| Notes receivable | (344,374) | (1,396) |
| Trade receivables | 684,534 | (698,485) |
| Inventories | (1,315,007) | (86,133) |
| Other current assets | (185,390) | 29,584 |
| Notes payable | (7,012) | (10,458) |
| Trade payables | (35,137) | 333,689 |
| Other payables | (295,420) | 300,888 |
| Other current liabilities | (42,340) | 19,434 |
| Net defined benefit liabilities | (4,348) | 256 |
| Cash generated from operations | 1,882,628 | 3,924,320 |
| Interest received | 19,633 | 6,516 |
| Interest paid | (165,986) | (173,214) |
| Income taxes paid | (690,354) | (527,065) |
| Net cash generated from operating activities | <u>1,045,921</u> | <u>3,230,557</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds on sale of available-for-sale financial assets | 22 | - |
| Purchase of financial assets measured at cost | (25,518) | - |
| Net cash outflow on acquisition of subsidiaries (Note 23) | (240,853) | - |
| Payments for property, plant and equipment | (1,444,577) | (733,419) |
| Proceeds from disposal of property, plant and equipment | 2,040 | 1,731 |
| Decrease (increase) in refundable deposits | (72,593) | 185,481 |
| Increase in other financial assets | (10,104) | (346,922) |
| Increase in other non-current assets | (70,127) | (60,385) |
| Increase in prepayments for machinery and equipment | (1,421,718) | (589,636) |
| | | (Continued) |

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Increase in prepayments for lease | \$ - | \$ (97,102) |
| Dividend received from associates | <u>3,263</u> | <u>-</u> |
| Net cash used in investing activities | <u>(3,280,165)</u> | <u>(1,640,252)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from (repayments of) short-term borrowings | 1,638,854 | (715,111) |
| Proceeds from long-term borrowings | 2,081,710 | 2,226,380 |
| Repayments of long-term borrowings | (1,667,240) | (1,429,649) |
| Repayments of finance lease payable | (17,195) | (21,279) |
| Increase in other non-current liabilities | 5,584 | - |
| Dividends paid | (836,593) | (685,316) |
| Changes in non-controlling interests | <u>239,502</u> | <u>321,032</u> |
| Net cash generated from (used in) financing activities | <u>1,444,622</u> | <u>(303,943)</u> |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES | <u>(61,021)</u> | <u>(12,029)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (850,643) | 1,274,333 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | <u>2,460,006</u> | <u>1,185,673</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | <u>\$ 1,609,363</u> | <u>\$ 2,460,006</u> |

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

(Concluded)

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Hiwin Technologies Corporation (the “Corporation”) was incorporated on October 11, 1989. It manufactures and sells ballscrews, linear guideways, industrial robots, aerospace automation equipment parts, CNC (computer numerical control) milling machines and medical equipment.

The Corporation was approved by the Securities and Futures Commission (renamed “Securities and Futures Bureau (SFB)”) to become a public corporation on April 16, 1997. The shares of the Corporation have been listed on the Taiwan Stock Exchange (“TSE”) since June 26, 2009.

The consolidated financial statements are presented in the Corporation’s functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors on March 26, 2016.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the Financial Supervisory Commission (FSC)

Rule No. 1030029342 and Rule No. 1030010325 issued by the FSC on April 3, 2014, stipulated that the Corporation and entities controlled by the Corporation (collectively, the “Group”) should apply the 2013 version of IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) endorsed by the FSC and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers starting January 1, 2015.

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 IFRSs version did not have any material impact on the Group’s accounting policies:

- 1) IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than in past standards. Please refer to Notes 11 and 12 for related disclosure.

- 2) IFRS 13 “Fair Value Measurement”

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than in past standards;

for example, quantitative and qualitative disclosures based on the three-level fair value hierarchy previously required only for financial instruments are extended by IFRS 13 to cover all assets and liabilities within its scope.

The fair value measurements under IFRS 13 are applied prospectively from January 1, 2015. Refer to Note 27 for related disclosures.

3) Amendments to IAS 1 “Presentation of Items of Other Comprehensive Income”

The amendments to IAS 1 require items of other comprehensive income to be grouped into those items that (1) will not be reclassified subsequently to profit or loss; and (2) may be reclassified subsequently to profit or loss. Income taxes on related items of other comprehensive income are grouped on the same basis. Under previous IAS 1, there were no such requirements.

The Group retrospectively applied the above amendments starting in 2015. Items not expected to be reclassified to profit or loss are remeasurements of the defined benefit plans. Items expected to be reclassified to profit or loss are the exchange differences on translating foreign operations and unrealized gain on available-for-sale financial assets. The application of the above amendments will not have any impact on the net profit for the year, other comprehensive income for the year (net of income tax), and total comprehensive income for the year.

4) Revision to IAS 19 “Employee Benefits”

The interest cost and expected return on plan assets used in previous IAS 19 are replaced with a “net interest” amount, which is calculated by applying the discount rate to the net defined benefit liability. In addition, the revised IAS 19 introduces certain changes in the presentation of the defined benefit cost, and also includes more extensive disclosures.

b. New IFRSs in issue but not yet endorsed by the FSC

On March 10, 2016, the FSC announced the scope of IFRSs to be endorsed and will take effect from January 1, 2017. The scope includes all IFRSs that were issued by the IASB before January 1, 2016 and have effective dates on or before January 1, 2017, which means the scope excludes those that are not yet effective as of January 1, 2017 such as IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” and those with undetermined effective date. In addition, the FSC announced that the Group should apply IFRS 15 starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new, amended and revised standards and interpretations.

The Group has not applied the following New IFRSs issued by the IASB but not yet endorsed by the FSC.

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|--|--|
| Annual Improvements to IFRSs 2010-2012 Cycle | July 1, 2014 (Note 2) |
| Annual Improvements to IFRSs 2011-2013 Cycle | July 1, 2014 |
| Annual Improvements to IFRSs 2012-2014 Cycle | January 1, 2016 (Note 3) |
| IFRS 9 “Financial Instruments” | January 1, 2018 |
| Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures” | January 1, 2018 |
| Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” | To be determined by IASB |
| Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception” | January 1, 2016 |

(Continued)

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|--|--|
| Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations” | January 1, 2016 |
| IFRS 14 “Regulatory Deferral Accounts” | January 1, 2016 |
| IFRS 15 “Revenue from Contracts with Customers” | January 1, 2018 |
| IFRS 16 “Leases” | January 1, 2019 |
| Amendment to IAS 1 “Disclosure Initiative” | January 1, 2016 |
| Amendment to IAS 7 “Disclosure Initiative” | January 1, 2017 |
| Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses” | January 1, 2017 |
| Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization” | January 1, 2016 |
| Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants” | January 1, 2016 |
| Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions” | July 1, 2014 |
| Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets” | January 1, 2014 |
| Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting” | January 1, 2014 |
| IFRIC 21 “Levies” | January 1, 2014 |
| (Concluded) | |

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Group’s accounting policies, except for the following:

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows :

- a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
- b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment loss and reversal of impairment loss and foreign exchange gains and losses. When the debt instrument is derecognized or reclassified, the cumulative gain or loss previously recognized, in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

2) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards including IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments” were amended in this annual improvement.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9. Changes in fair value should be recognized in profit or loss.

The amended IFRS 8 requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have ‘similar economic characteristics’. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker.

IFRS 13 was amended to clarify that the issuance of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Group is a related party of the Group. Consequently, the Group is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

3) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue” and a number of revenue-related interpretations from January 1, 2017.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 is effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within twelve months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (i.e. its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Corporation.

See Note 11, tables 9 and 10 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including of the subsidiaries or associates in other countries or currencies used are different with the Corporation) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income and attributed to the owners of the Corporation and non-controlling interests as appropriate.

f. Inventories

Inventories consist of raw materials, supplies, work-in-process, finished goods and merchandise and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

g. Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of equity of associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of equity of associates. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Impairment loss does not form part of carrying amount. Impairment loss is deducted from carrying amount. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

h. Property, plant, and equipment

Property, plant and equipment are stated at cost, less recognized accumulated depreciation and recognized accumulated impairment loss.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Freehold land is not depreciated.

Depreciation on property, plant and equipment (including assets held under finance leases) is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized

directly in profit or loss. An impairment loss recognized on goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal, and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

j. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

2) Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

- a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b) The intention to complete the intangible asset and use or sell it;
- c) The ability to use or sell the intangible asset;
- d) How the intangible asset will generate probable future economic benefits;
- e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

k. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets (excluding goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate

the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount (less amortization and depreciation) that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

1. Financial instruments

Financial assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a settlement date basis.

a) Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables.

i. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial assets are held for trading.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 27.

ii. Held-to-maturity investments

Investment in government bonds in which the Group has positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

iii. Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

iv. Loans and receivables

Loans and receivables (including cash and cash equivalents, notes receivable and trade receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Financial assets carried at amortized cost, such as notes receivable, trade receivables and held-to-maturity financial assets, are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables, and other situation.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it is becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

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

2) Financial liabilities

a) Subsequent measurement

Except the following situation, all the financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is held for trading.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 27.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

3) Derivative financial instruments

The Group enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

m. Provision

Provisions, are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Provisions for the expected cost of warranty obligations are recognized at the date of sale of the relevant products, at the best estimate of the expenditure required to settle the Group's obligation by the management of the Group.

n. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale provided the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 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 Group; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

2) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

o. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation.

Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

p. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

r. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

s. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is calculated on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a

suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, an impairment loss may arise.

b. Income taxes

As of December 31, 2015 and 2014, no deferred tax asset has been recognized on tax losses of \$2,216,767 thousand and \$1,279,091 thousand, respectively, due to the unpredictability of future profit streams. The realizability of deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

c. Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

d. Fair value measurements and valuation processes

If some of the Group's assets and liabilities measured at fair value have no quoted prices in active markets, the Group determines whether to engage third party qualified valuers or to self-determine the appropriate valuation techniques for fair value measurements.

Where Level 1 inputs are not available, the Group would determine appropriate inputs by referring to market prices or rates and specific features of derivatives. If the actual changes of inputs in the future differ from expectation, fair value might vary accordingly.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities is disclosed in note 27.

e. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

f. Recognition and measurement of defined benefit plans

Net defined benefit liabilities and the resulting defined benefit costs under defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|--|---------------------|---------------------|
| | 2015 | 2014 |
| Cash on hand | \$ 2,558 | \$ 1,907 |
| Checking accounts and demand deposits | 1,568,993 | 2,191,389 |
| Pledged time deposits | 415,875 | 400,845 |
| Cash equivalents | | |
| Time deposits | <u>37,812</u> | <u>266,710</u> |
| | 2,025,238 | 2,860,851 |
| Less: Pledged time deposits | | |
| Current (classified as other current assets) | (409,667) | (389,269) |
| Non-current (classified as other non-current assets) | <u>(6,208)</u> | <u>(11,576)</u> |
| | <u>\$ 1,609,363</u> | <u>\$ 2,460,006</u> |
| <u>Deposit interest rate per annum (%)</u> | | |
| Cash in bank | 0.00-5.25 | 0.00-3.80 |
| Pledged time deposits | 0.13-3.35 | 0.17-3.35 |

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets and liabilities at fair value through profit or loss were derivative financial instruments of foreign exchange forward contracts. At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

| | Currency | Maturity Date | Notional Amount |
|--------------------------|-----------------|----------------------|------------------------|
| <u>December 31, 2015</u> | | | |
| Sell | EUR/NTD | 2016.1.22-2016.4.20 | EUR4,600/NTD163,682 |
| Sell | USD/NTD | 2016.1.4-2016.4.8 | USD5,100/NTD166,566 |
| Sell | CNY/NTD | 2016.1.4-2016.4.27 | CNY49,800/NTD247,762 |
| Buy | JPY/NTD | 2016.1.22-2016.3.3 | JPY48,000/NTD13,104 |
| <u>December 31, 2014</u> | | | |
| Sell | EUR/NTD | 2015.1.9-2015.4.8 | EUR5,700/NTD219,611 |
| Sell | USD/NTD | 2015.1.6-2015.3.13 | USD12,800/NTD397,372 |
| Sell | GBP/NTD | 2015.1.16-2015.3.10 | GBP265/NTD12,883 |
| Sell | CNY/NTD | 2015.1.6-2015.3.31 | CNY35,000/NTD172,353 |
| Sell | JPY/NTD | 2015.1.6-2015.3.17 | JPY90,000/NTD24,424 |
| Buy | JPY/NTD | 2015.3.30 | JPY23,000/NTD6,523 |

The Group entered into foreign exchange forward contracts to manage exposures due to exchange rate fluctuations of foreign currency denominated assets and liabilities.

8. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

| Investee | December 31 | |
|---|-------------------|-------------------|
| | 2015 | 2014 |
| <u>Domestic unlisted common shares</u> | | |
| Hiwin Mikrosystem Corp. (Hiwin Mikrosystem) | \$ 63,440 | \$ 37,922 |
| Sunengine Corporation Ltd. (Sunengine) | 58,138 | 72,146 |
| Taichung International Country Club | 2,100 | 2,100 |
| King Kong Iron Work Ltd. | - | - |
| | <u>123,678</u> | <u>112,168</u> |
| <u>Overseas unlisted common shares</u> | | |
| Kaland Holdings Corp. (Kaland) | 236,266 | 236,266 |
| Hiwin (Schweiz) GmbH | <u>3,320</u> | <u>3,320</u> |
| | <u>\$ 363,264</u> | <u>\$ 351,754</u> |

The Investment Commission of Ministry of Economic Affairs (MOEA) approved the Corporation's investment in Suzhou YIFU Finance Leasing Co., Ltd. (YIFU Finance). The investment in the amount of USD8,168 thousand was made through investing Kaland and Cheer Tone Group Limited in British Virgin Islands (BVI). YIFU Finance mainly engages in finance leasing services.

Management believed that the fair value of the above unlisted equity investments held by the Group cannot be reliably measured due to the very significant range of reasonable fair value estimates; therefore, they were measured at cost less impairment at the end of reporting period.

9. NOTES RECEIVABLE AND TRADE RECEIVABLES

| | December 31 | |
|---|---------------------|---------------------|
| | 2015 | 2014 |
| <u>Notes receivable from unrelated parties</u> | | |
| Notes receivable | \$ 610,042 | \$ 243,589 |
| Less: Allowance for impairment loss | (1,208) | (1,973) |
| Notes receivable discounted | <u>(45,780)</u> | <u>(37,677)</u> |
| | <u>\$ 563,054</u> | <u>\$ 203,939</u> |
| <u>Trade receivables from unrelated parties</u> | | |
| Trade receivables | \$ 4,979,039 | \$ 5,515,544 |
| Less: Allowance for impairment loss | <u>(89,221)</u> | <u>(65,531)</u> |
| | <u>\$ 4,889,818</u> | <u>\$ 5,450,013</u> |

The Group determines the credit period of sales of goods based on the counterparty's credit rating, location and transaction terms. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for impairment loss was recognized based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

The aging of receivables from unrelated parties was as follows:

| | December 31 | |
|--------------------|---------------------|---------------------|
| | 2015 | 2014 |
| Not past due | \$ 3,597,947 | \$ 4,711,847 |
| 1-30 days | 364,264 | 249,365 |
| 31- 60 days | 155,424 | 178,865 |
| 61-120 days | 617,909 | 344,142 |
| 121-180 days | 159,510 | 30,521 |
| More than 180 days | <u>83,985</u> | <u>804</u> |
| | <u>\$ 4,979,039</u> | <u>\$ 5,515,544</u> |

The above aging schedule was based on the past due date.

Movements in the allowance for impairment loss recognized on notes receivable and trade receivables were as follows (other receivables are classified as other non-current assets):

| | For the Year Ended December 31 | | | | | |
|---|---------------------------------------|------------------------------|------------------------------|-----------------------------|------------------------------|------------------------------|
| | 2015 | | | 2014 | | |
| | Notes Receivable | Trade Receivables | Other Receivables | Notes Receivable | Trade Receivables | Other Receivables |
| Balance at January 1 | \$ 1,973 | \$ 65,531 | \$ 77,367 | \$ 1,350 | \$ 44,689 | \$ 101,579 |
| Acquisitions through business combination | - | 4,309 | - | - | - | - |
| Add: Impairment loss recognized (reversed) on receivables | (765) | 11,995 | - | 623 | 22,317 | (24,212) |
| Less: Amounts written off as uncollectible | - | (1,387) | - | - | (1,720) | - |
| Amounts reclassified | - | 8,591 | (8,591) | - | - | - |
| Effect of exchange rate changes | - | <u>182</u> | - | - | <u>245</u> | - |
| Balance at December 31 | <u>\$ 1,208</u> | <u>\$ 89,221</u> | <u>\$ 68,776</u> | <u>\$ 1,973</u> | <u>\$ 65,531</u> | <u>\$ 77,367</u> |

Trade receivables include amounts that are past due but for which the Group has not recognized a specific allowance for doubtful receivables after the assessment since there has not been a significant change in the credit quality of its customers and the amounts are still considered recoverable.

Past due but not impaired

| | December 31 | |
|------------|--------------------|-------------------|
| | 2015 | 2014 |
| 1-30 days | \$ 329,364 | \$ 211,023 |
| 31-60 days | <u>141,588</u> | <u>-</u> |
| | <u>\$ 470,952</u> | <u>\$ 211,023</u> |

The aging of trade receivables that were impaired was as follows:

| | December 31 | |
|--------------------|--------------------|-------------------|
| | 2015 | 2014 |
| 1-30 days | \$ 34,900 | \$ 38,342 |
| 31-60 days | 13,836 | 178,865 |
| 61-120 days | 617,909 | 344,142 |
| 121-180 days | 159,510 | 30,521 |
| More than 180 days | <u>83,985</u> | <u>804</u> |
| | <u>\$ 910,140</u> | <u>\$ 592,674</u> |

The above aging of trade receivables before deducting the allowance for impairment loss was based on the past due date.

10. INVENTORIES

| | December 31 | |
|----------------------------|---------------------|---------------------|
| | 2015 | 2014 |
| Merchandise | \$ 1,781 | \$ 1,709 |
| Finished goods | 2,712,651 | 1,521,657 |
| Work in process | 1,099,802 | 1,366,059 |
| Raw materials and supplies | 1,443,385 | 993,135 |
| Inventory in transit | <u>266,663</u> | <u>184,310</u> |
| | <u>\$ 5,524,282</u> | <u>\$ 4,066,870</u> |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2015 and 2014 was \$9,547,429 thousand and \$9,296,584 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2015 and 2014 included inventory write-downs of \$112,964 thousand and \$4,287 thousand, and unallocated fixed overhead of \$164,519 thousand and \$297,171 thousand, respectively.

11. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

| Investor | Investee | Main Business | % of Ownership | |
|-----------------|---|---|-----------------------|-------------|
| | | | December 31 | |
| | | | 2015 | 2014 |
| The Corporation | Hiwin Corporation, U.S.A. ("Hiwin USA") | Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots | 100 | 100 |
| | Hiwin Corporation, Japan ("Hiwin Japan") | Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots | 100 | 100 |
| | Hiwin GmbH ("Hiwin Germany") | Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots | 100 | 100 |

(Continued)

| Investor | Investee | Main Business | % of Ownership | |
|-----------------|---|--|----------------|------|
| | | | December 31 | |
| | | | 2015 | 2014 |
| The Corporation | Hulk Energy Technology Co., Ltd. ("Hulk") | Research, development, design, manufacture and sale of solar cell, electronic components, electric power supply, electric transmission and power distribution machinery products | 48 | 48 |
| | Hiwin Singapore Pte. Ltd. ("Hiwin Singapore") | Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots | 100 | 100 |
| | Hiwin Corporation Co., Ltd. ("Hiwin Korea") | Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots | 100 | 100 |
| | Hiwin Technologies (China) Corporation ("Hiwin China") | Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots | 100 | 100 |
| | Luren Precision Co., LTD ("Luren") | Research, development, produce, manufacture and sale of gear cutting tools and machinery | 47 | - |
| Hiwin Germany | Hiwin Healthcare Corp. | Sale of medical robot | 100 | - |
| | HIWIN S.R.L. | Sale of aerospace parts, ballscrews, linear guideways and industrial robots | 100 | 100 |
| Luren | Luren Precision (Japan) Inc. ("Luren Japan") | Sale of gear cutting tools and machinery | 100 | - |
| | Luren Precision Machinery (Shanghai) Co., Ltd. ("Luren Shanghai") | Sale of gear cutting tools and machinery | 100 | - |
| | Luren Precision Chicago Co., Ltd. ("Luren USA") | Sale of gear cutting tools and machinery | 100 | - |
| | Luren Precision (Xiamen) Co., Ltd. ("Luren Xiamen") | Sale of gear cutting tools | 100 | - |

(Concluded)

Luren Japan and Luren USA are not major subsidiaries; their financial statements have not been audited. The management believes that an audit of the financial statements of Luren Japan and Luren USA would not result in significant impact on the Group's consolidated financial statements.

The Corporation has taken practical control over Luren since May 1, 2015 and included it in the consolidated financial statements.

b. Details of subsidiaries that have material non-controlling interests

| Name of Subsidiary | Proportion of Ownership and Voting Rights Held by Non-controlling Interests | |
|--------------------|---|------|
| | December 31 | |
| | 2015 | 2014 |
| Hulk | 52% | 52% |
| Luren | 53% | - |

See Tables 9 and 10 for the information on place of incorporation and principal place of business.

| Name of Subsidiary | Loss and Comprehensive Loss Allocated to Non-controlling Interests | | Accumulated Non-controlling Interests | |
|--------------------|--|---------------------|--|-------------------|
| | For the Year Ended December 31 | | December 31 | |
| | 2015 | 2014 | 2015 | 2014 |
| Hulk | \$ (234,231) | \$ (137,556) | \$ 664,612 | \$ 744,144 |
| Luren | <u>(14,686)</u> | <u>-</u> | <u>190,081</u> | <u>-</u> |
| | <u>\$ (248,917)</u> | <u>\$ (137,556)</u> | <u>\$ 854,693</u> | <u>\$ 744,144</u> |

Summarized financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Hulk

| | December 31 | |
|--|--------------------------------|---------------------|
| | 2015 | 2014 |
| Current assets | \$ 483,174 | \$ 208,953 |
| Non-current assets | 1,953,591 | 1,863,719 |
| Current liabilities | (882,484) | (428,729) |
| Non-current liabilities | <u>(270,752)</u> | <u>(208,204)</u> |
| Equity | <u>\$ 1,283,529</u> | <u>\$ 1,435,739</u> |
| Equity attributable to: | | |
| Owners of Hulk | \$ 618,917 | \$ 691,595 |
| Non-controlling interests of Hulk | <u>664,612</u> | <u>744,144</u> |
| | <u>\$ 1,283,529</u> | <u>\$ 1,435,739</u> |
| | For the Year Ended December 31 | |
| | 2015 | 2014 |
| Revenue | <u>\$ 34,232</u> | <u>\$ -</u> |
| Net loss for the year | \$ (452,210) | \$ (265,717) |
| Other comprehensive income (loss) for the year | <u>-</u> | <u>-</u> |
| Total comprehensive loss for the year | <u>\$ (452,210)</u> | <u>\$ (265,717)</u> |
| Loss and total comprehensive loss attributable to: | | |
| Owners of Hulk | \$ (217,979) | \$ (128,161) |
| Non-controlling interests of Hulk | <u>(234,231)</u> | <u>(137,556)</u> |
| | <u>\$ (452,210)</u> | <u>\$ (265,717)</u> |

| | For the Year Ended December 31 | |
|---|---------------------------------------|------------------|
| | 2015 | 2014 |
| Net cash inflow (outflow) from: | | |
| Operating activities | \$ (468,188) | \$ (247,794) |
| Investing activities | (146,300) | (318,555) |
| Financing activities | <u>631,252</u> | <u>616,294</u> |
| Net cash inflow | <u>\$ 16,764</u> | <u>\$ 49,945</u> |
| Dividends paid to non-controlling interests | <u>\$ -</u> | <u>\$ -</u> |

Luren and Luren's subsidiaries

| | December 31, 2015 |
|------------------------------------|------------------------------|
| Current assets | \$ 530,089 |
| Non-current assets | 203,677 |
| Current liabilities | (324,370) |
| Non-current liabilities | <u>(50,685)</u> |
| Equity | <u>\$ 358,711</u> |
| Equity attributable to : | |
| Owners of Luren | \$ 168,630 |
| Non-controlling interests of Luren | <u>190,081</u> |
| | <u>\$ 358,711</u> |

| | For the Eight Months Ended December 31, 2015 |
|---|---|
| Revenue | <u>\$ 445,960</u> |
| Net loss for the period | \$ (25,338) |
| Other comprehensive loss for the period | <u>(2,337)</u> |
| Total comprehensive loss for the period | <u>\$ (27,675)</u> |
| Loss attributable to: | |
| Owners of Luren | \$ (11,890) |
| Non-controlling interests of Luren | <u>(13,448)</u> |
| | <u>\$ (25,338)</u> |
| Total comprehensive loss attributable to: | |
| Owners of Luren | \$ (12,989) |
| Non-controlling interests of Luren | <u>(14,686)</u> |
| | <u>\$ (27,675)</u> |

**For the Eight
Months Ended
December 31,
2015**

| | |
|---|------------------|
| Net cash inflow (outflow) from: | |
| Operating activities | \$ (99,706) |
| Investing activities | (20,856) |
| Financing activities | <u>153,021</u> |
| Net cash inflow | <u>\$ 32,459</u> |
| Dividends paid to non-controlling interests | <u>\$ -</u> |

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | December 31 | |
|--|---|-------------------|
| | 2015 | 2014 |
| Associates that are not individually materials | <u>\$ 126,244</u> | <u>\$ 104,990</u> |
| | For the Year Ended December 31 | |
| | 2015 | 2014 |
| The Group's share of: | | |
| Profit for the year | \$ 23,087 | \$ 10,055 |
| Other comprehensive income (loss) for the year | <u>-</u> | <u>-</u> |
| Total comprehensive income for the year | <u>\$ 23,087</u> | <u>\$ 10,055</u> |

Except for Hiwin S.R.O., investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have been audited. Management believes there is no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income, from the financial statements of Hiwin S.R.O. that have not been audited.

13. PROPERTY, PLANT AND EQUIPMENT

| | Year Ended December 31, 2015 | | | | | | |
|----------------------------|-------------------------------------|--|---------------------|---------------------|--------------------------------|------------------------------------|---------------------------|
| | Beginning Balance | Acquisitions Through Business Combination | Additions | Disposals | Reclassified Amount | Translation Adjustments | Ending Balance |
| <u>Cost</u> | | | | | | | |
| Land | \$ 3,157,976 | \$ - | \$ 37,576 | \$ - | \$ 348,793 | \$ (3,159) | \$ 3,541,186 |
| Buildings and improvements | 5,805,178 | 89,560 | 39,674 | (2,357) | 177,054 | (13,966) | 6,095,143 |
| Machinery and equipment | 9,014,785 | 573,970 | 423,482 | (268,618) | 600,977 | (7,253) | 10,337,343 |
| Transportation equipment | 119,045 | 4,778 | 45,795 | (9,118) | 8,410 | (2,577) | 166,333 |
| Leased assets | 530,607 | - | - | - | (348,793) | 50 | 181,864 |
| Leasehold improvements | 57,717 | 17,797 | 5,390 | - | 35,196 | 173 | 116,273 |
| Miscellaneous equipment | 1,335,900 | 68,990 | 151,660 | (38,662) | 12,876 | (2,467) | 1,528,297 |
| Construction in progress | 211,700 | 27,143 | 590,559 | - | (189,092) | (4,997) | 635,313 |
| Prepayments for land | - | - | 13,084 | - | - | - | 13,084 |
| | <u>20,232,908</u> | <u>\$ 782,238</u> | <u>\$ 1,307,220</u> | <u>\$ (318,755)</u> | <u>\$ 645,421</u> | <u>\$ (34,196)</u> | <u>22,614,836</u> |

(Continued)

| Year Ended December 31, 2015 | | | | | | | |
|--|----------------------|--|---------------------|---------------------|------------------------|----------------------------|-------------------------------------|
| | Beginning Balance | Acquisitions Through Business Combination | Additions | Disposals | Reclassified Amount | Translation Adjustments | Ending Balance |
| <u>Accumulated depreciation and impairment</u> | | | | | | | |
| Buildings and improvements | 784,276 | \$ 47,297 | \$ 145,944 | \$ (2,357) | \$ - | \$ (4,931) | 970,229 |
| Machinery and equipment | 3,678,298 | 459,476 | 1,067,402 | (267,140) | (22) | (2,984) | 4,935,030 |
| Transportation equipment | 60,235 | 3,852 | 25,954 | (8,643) | 148 | (1,164) | 80,382 |
| Leased assets | 1,341 | - | - | - | - | 50 | 1,391 |
| Leasehold improvements | 24,959 | 16,570 | 19,315 | - | - | 552 | 61,396 |
| Miscellaneous equipment | 425,424 | 60,213 | 187,214 | (36,150) | (126) | (953) | 635,622 |
| | <u>4,974,533</u> | <u>\$ 587,408</u> | <u>\$ 1,445,829</u> | <u>\$ (314,290)</u> | <u>\$ -</u> | <u>\$ (9,430)</u> | <u>6,684,050</u> |
| | <u>\$ 15,258,375</u> | | | | | | <u>\$ 15,930,786</u> (Concluded) |

| Year Ended December 31, 2014 | | | | | | |
|--|----------------------|---------------------|---------------------|------------------------|----------------------------|----------------------|
| | Beginning Balance | Additions | Disposals | Reclassified Amount | Translation Adjustments | Ending Balance |
| <u>Cost</u> | | | | | | |
| Land | \$ 2,476,839 | \$ 25,807 | \$ - | \$ 658,527 | \$ (3,197) | \$ 3,157,976 |
| Buildings and improvements | 5,676,072 | 20,076 | (13,359) | 137,173 | (14,784) | 5,805,178 |
| Machinery and equipment | 7,714,402 | 211,698 | (376,916) | 1,473,372 | (7,771) | 9,014,785 |
| Transportation equipment | 104,841 | 19,488 | (8,459) | 6,083 | (2,908) | 119,045 |
| Leased assets | 530,529 | - | - | - | 78 | 530,607 |
| Leasehold improvements | 51,866 | 6,304 | (102) | - | (351) | 57,717 |
| Miscellaneous equipment | 910,278 | 163,506 | (39,561) | 304,052 | (2,375) | 1,335,900 |
| Construction in progress | 38,206 | 317,830 | - | (137,568) | (6,768) | 211,700 |
| Prepayments for land and buildings | <u>658,527</u> | <u>-</u> | <u>-</u> | <u>(658,527)</u> | <u>-</u> | <u>-</u> |
| | <u>18,161,560</u> | <u>\$ 764,709</u> | <u>\$ (438,397)</u> | <u>\$ 1,783,112</u> | <u>\$ (38,076)</u> | <u>20,232,908</u> |
| <u>Accumulated depreciation and impairment</u> | | | | | | |
| Buildings and improvements | 669,742 | \$ 133,551 | \$ (13,359) | \$ - | \$ (5,658) | 784,276 |
| Machinery and equipment | 3,192,932 | 866,470 | (375,216) | (1,212) | (4,676) | 3,678,298 |
| Transportation equipment | 49,539 | 19,974 | (8,137) | - | (1,141) | 60,235 |
| Leased assets | 1,263 | - | - | - | 78 | 1,341 |
| Leasehold improvements | 15,918 | 9,707 | (101) | - | (565) | 24,959 |
| Miscellaneous equipment | <u>329,229</u> | <u>135,862</u> | <u>(39,033)</u> | <u>1,212</u> | <u>(1,846)</u> | <u>425,424</u> |
| | <u>4,258,623</u> | <u>\$ 1,165,564</u> | <u>\$ (435,846)</u> | <u>\$ -</u> | <u>\$ (13,808)</u> | <u>4,974,533</u> |
| | <u>\$ 13,902,937</u> | | | | | <u>\$ 15,258,375</u> |

The above items of property, plant and equipment, except leased land which is not depreciated, are depreciated on a straight-line basis over the estimated useful life of the asset:

| | |
|----------------------------|-------------|
| Buildings and improvements | |
| Main buildings | 25-55 years |
| Electrical power equipment | 35 years |
| Engineering system | 8-55 years |
| Others | 5-15 years |
| Machinery and equipment | |
| Machinery equipment | 3-20 years |
| Inspection equipment | 3-10 years |
| Transportation equipment | 2-10 years |
| Miscellaneous equipment | 2-15 years |
| Leasehold improvements | 2-15 years |

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 29.

14. PREPAYMENTS FOR LEASE

| | December 31 | |
|---|------------------|-------------------|
| | 2015 | 2014 |
| Current (classified as other current asset) | \$ 1,978 | \$ 2,016 |
| Non-current | <u>94,279</u> | <u>98,207</u> |
| | <u>\$ 96,257</u> | <u>\$ 100,223</u> |

The prepayment for lease is land use right of Hiwin China. Within the land use right usage period, the holder of right has the right of usufruct, ownership transfer and sublease and is responsible for paying taxes and dues levied on the holding and use of the land use right. The leased land is utilized to build manufacturing facilities, research and development center and office buildings.

15. BORROWINGS

a. Short-term borrowings

| | December 31 | |
|---------------------------------------|---------------------|---------------------|
| | 2015 | 2014 |
| <u>Secured borrowings</u> | | |
| Loans for export sales | \$ 1,010,000 | \$ 975,000 |
| Usance letters of credit | 142,747 | 32,448 |
| Working capital loans | <u>525,834</u> | <u>182,963</u> |
| | 1,678,581 | 1,190,411 |
| <u>Unsecured borrowings</u> | | |
| Line of credit borrowings | <u>4,451,022</u> | <u>3,170,000</u> |
| | <u>\$ 6,129,603</u> | <u>\$ 4,360,411</u> |
| <u>Rate of interest per annum (%)</u> | | |
| Loans for export sales | 0.93-1.03 | 0.76-1.29 |
| Usance letters of credit | 0.61-1.06 | 0.83-1.21 |
| Working capital loans | 0.80-2.00 | 1.22-1.87 |
| Line of credit borrowings | 0.96-1.89 | 1.06-1.59 |

b. Long-term borrowings

| | December 31 | |
|---------------------------|--------------|--------------|
| | 2015 | 2014 |
| <u>Secured borrowings</u> | | |
| Secured loans | \$ 7,029,996 | \$ 6,097,699 |
| Syndicated loans | - | 543,000 |

(Continued)

| | December 31 | |
|---------------------------------------|---------------------|---------------------|
| | 2015 | 2014 |
| <u>Unsecured borrowings</u> | | |
| Unsecured loans | \$ 600,000 | \$ 580,000 |
| | 7,629,996 | 7,220,699 |
| Less: Current portion | <u>(1,502,149)</u> | <u>(1,333,538)</u> |
| Long-term borrowings | <u>\$ 6,127,847</u> | <u>\$ 5,887,161</u> |
| <u>Rate of interest per annum (%)</u> | | |
| Secured loans | 1.37-4.45 | 0.90-6.24 |
| Syndicated loans | - | 1.58 |
| Unsecured loans | 1.06-1.14 | 1.28 |
| | | (Concluded) |

To meet the requirements of long-term financial plans, working capital needs, and capital project expenditures, the Corporation entered into a \$4.3 billion syndicated loan agreement with 13 banks, led by Taiwan Bank, in October 2006. The loan period was from 3 to 10 years, depending on the loan type, starting from the first loan drawdown.

Under the loan agreement, the Corporation commits: (a) current ratio no lower than 100%, debt ratio no higher than 150%, interest coverage ratio at least 150% and tangible net equity ratio at certain level, based on the Corporation's annual unconsolidated financial statements; and (b) not dispose of important assets and rights, buy back treasury stocks, decrease issued capital, merge with other companies, split off or reduce the collaterals unless there is written approval from a majority of the syndicated banks. According to the terms of the loan agreement, in case the Corporation fails to meet the above requirements regarding financial ratios, the Corporation should seek improvement within 6 months based on semiannual unconsolidated financial statements. If the situation did not improve after the evaluation, the Corporation should pay extra interest of 0.25% for the unpaid principal retroactive from the start date of default to the date the deficiency has been resolved. Also, the banks have the rights to call the loan from the Corporation.

The Corporation had repaid in advance the syndicated loans in May, 2015 due to business requirement and capital management.

16. FINANCE LEASE PAYABLES

| | December 31 | |
|---|--------------------|-------------------|
| | 2015 | 2014 |
| <u>Minimum lease payments</u> | | |
| Not later than one year | \$ 12,412 | \$ 33,869 |
| Later than one year and not later than five years | 49,649 | 135,477 |
| Later than five years | <u>115,903</u> | <u>329,893</u> |
| | 177,964 | 499,239 |
| Less: Future finance charges | <u>(25,405)</u> | <u>(79,074)</u> |
| Present value of minimum lease payments | <u>\$ 152,559</u> | <u>\$ 420,165</u> |
| | | (Continued) |

| | December 31 | |
|---|--------------------|----------------------------------|
| | 2015 | 2014 |
| <u>Present value of minimum lease payments</u> | | |
| Not later than one year | \$ 10,104 | \$ 26,671 |
| Later than one year and not later than five years | 43,553 | 114,852 |
| Later than five years | <u>98,902</u> | <u>278,642</u> |
| | <u>\$ 152,559</u> | <u>\$ 420,165</u> (Concluded) |

In September 2003, January 2006 and September 2007, the Corporation signed land lease contract with Industrial Development Bureau (IDB), Ministry of Economic Affairs. The parcels of land, measuring 50,683, 18,004 and 5,602 square meters, are located in Yunlin Technology Industrial Park.

Rentals were calculated by annual rental rate based on land market price. The market price was \$9,408, \$10,517 and \$11,409 per square meter on the contract date. The annual rental rates are subject to adjustment twice a year on January 1 and July 1 according to long-term loan interest rate promulgated by the Executive Yuan. The adjustment also takes consumer price index into account annually. The annual rental rate was 4.2% since December 2012.

The aforementioned land lease contract concluded and signed by the Corporation and IDB provides that the first two years' rental would be free, and 60% of the rental for third and fourth years, and 80% for fifth and sixth years will be payable. Moreover, according to the regulations of land leasing in Yunlin Technology Industrial Park, the lease period should be at least for 6 years and should not be longer than 20 years. The Corporation has an option to buy the land from IDB during the period of the lease. Price to be paid will be based on the market price at the contract date and on the Industry Development Fund of this area. However, the rentals paid would be deductible. The Corporation provided time deposits in the amount of \$6,208 thousand as collaterals, recorded as other non-current assets, which should be returned by IDB without interest at the end of the land lease contract. The implied rates of the three lease contracts are 2.91%, 3.054% and 2.71%, respectively.

On June 2, 2015, the Corporation's board of directors had approved the application to purchase from the Ministry of Economic Affairs the leased land located in Yunlin Technology Industrial Park as described above. The land has an area of 50,863 square meters and the total purchase price was \$481,592 thousand. The Corporation had paid the remaining amount after deduction of the paid rentals in August, 2015.

On December 25, 2015, the Corporation's board of directors had approved the application to purchase from the Ministry of Economic Affairs the leased land located in the Yunlin Technology Industrial Park as described above. The parcels of land are 18,004 square meters and 5,602 square meters and total purchase price was \$255,793 thousand. After the paid rentals were deducted, the remaining amount was \$185,286 thousand. The Corporation will pay the remaining amount to complete the acquisition of the land.

17. OTHER PAYABLES

| | December 31 | |
|---|---------------------|---------------------|
| | 2015 | 2014 |
| Payable for salaries and bonus | \$ 481,776 | \$ 619,084 |
| Payable for compensation or bonus to employees | 130,788 | 204,303 |
| Payable for remuneration to directors and supervisors | 62,334 | 100,216 |
| Payable for annual leave | 80,824 | 75,220 |
| Payable for purchase of land, building and equipment | 171,999 | 58,945 |
| Others | <u>281,982</u> | <u>297,666</u> |
| | <u>\$ 1,209,703</u> | <u>\$ 1,355,434</u> |

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Corporation, Hulk and Luren adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

Hiwin Germany, Hiwin Japan, Hiwin Singapore, Hiwin Korea, Hiwin China, HIWIN S.R.L., Luren Japan, Luren Shanghai, and Luren Xiamen have pension plans which pay for an annuity and certain types of insurance under the local regulations.

Hiwin USA and Luren USA have defined contribution pension plans, which are independently administered.

b. Defined benefit plans

The defined benefit plan adopted by the Corporation and Luren of the Group in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation and Luren contribute amounts equal to 2% and 4%, respectively of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group’s defined benefit plans were as follows:

| | December 31 | |
|---|--------------------|-------------------|
| | 2015 | 2014 |
| Present value of defined benefit obligation | \$ 404,466 | \$ 304,734 |
| Fair value of plan assets | <u>(127,541)</u> | <u>(84,987)</u> |
| Net defined benefit liability | <u>\$ 276,925</u> | <u>\$ 219,747</u> |

Movements in net defined benefit liability were as follows:

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability |
|---|--|--|--|
| Balance at January 1, 2014 | \$ 292,824 | \$ (78,974) | \$ 213,850 |
| Service cost | | | |
| Current service cost | 4,218 | - | 4,218 |
| Net interest expense (income) | 5,830 | (1,605) | 4,225 |
| Recognized in profit or loss | 10,048 | (1,605) | 8,443 |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (243) | (243) |
| Actuarial loss - changes in demographic assumptions | 261 | - | 261 |
| Actuarial loss - experience adjustments | 5,623 | - | 5,623 |
| Recognized in other comprehensive income | 5,884 | (243) | 5,641 |
| Contributions from the employer | - | (8,187) | (8,187) |
| Benefits paid | (4,022) | 4,022 | - |
| Balance at December 31, 2014 | 304,734 | (84,987) | 219,747 |
| Acquisitions through business combination | 83,014 | (36,331) | 46,683 |
| Service cost | | | |
| Current service cost | 5,397 | - | 5,397 |
| Net interest expense (income) | 7,911 | (2,519) | 5,392 |
| Recognized in profit or loss | 13,308 | (2,519) | 10,789 |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | 25,357 | (664) | 24,693 |
| Actuarial loss - changes in demographic assumptions | 2,255 | - | 2,255 |
| Actuarial gain - experience adjustments | (12,225) | - | (12,225) |
| Recognized in other comprehensive income | 15,387 | (664) | 14,723 |
| Contributions from the employer | - | (15,017) | (15,017) |
| Benefits paid | (11,977) | 11,977 | - |
| Balance at December 31, 2015 | \$ 404,466 | \$ (127,541) | \$ 276,925 |

(Concluded)

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

| | December 31 | |
|-----------------------------------|--------------------|-------------|
| | 2015 | 2014 |
| Discount rates | 1.50%, 1.75% | 2.00% |
| Expected rates of salary increase | 2.00%, 3.00% | 2.00% |
| Turnover rate | 1.57% | 2.04% |

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

The Corporation

| | December 31 | |
|----------------------------------|--------------------|-------------|
| | 2015 | 2014 |
| Discount rate | | |
| 0.25% increase | \$ (9,783) | \$ (9,504) |
| 0.25% decrease | \$ 10,212 | \$ 9,928 |
| Expected rate of salary increase | | |
| 0.25% increase | \$ 10,136 | \$ 9,904 |
| 0.25% decrease | \$ (9,760) | \$ (9,527) |
| Turnover rate | | |
| 10% increase | \$ (1,118) | \$ (1,577) |
| 10% decrease | \$ 1,129 | \$ 1,598 |

Luren

| | December 31, 2015 |
|----------------------------------|------------------------------|
| Discount rate | |
| 0.50% increase | \$ (6,373) |
| 0.50% decrease | \$ 7,124 |
| Expected rate of salary increase | |
| 0.50% increase | \$ 6,996 |
| 0.50% decrease | \$ (6,329) |

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

| | December 31 | |
|--|-----------------------|-------------|
| | 2015 | 2014 |
| The expected contributions to the plan for the next year | \$ 11,501 | \$ 5,340 |
| The average duration of the defined benefit obligation | 12 years, 16 years | 13 years |

19. EQUITY

a. Common stock

| | December 31 | |
|---|---------------------|---------------------|
| | 2015 | 2014 |
| Number of shares authorized (in thousands) | 300,000 | 300,000 |
| Shares authorized | <u>\$ 3,000,000</u> | <u>\$ 3,000,000</u> |
| Number of shares issued and fully paid (in thousands) | 269,278 | 261,435 |
| Shares issued | <u>\$ 2,692,785</u> | <u>\$ 2,614,354</u> |

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right to dividends.

b. Capital surplus

The capital surplus arising from shares issued in excess of par may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and once a year).

Capital surplus arising from changes in percentage of ownership interest in subsidiaries is used to offset a deficit only.

c. Retained earnings and dividend policy

The Corporation's Articles of Incorporation provide that the annual net income, less any deficit and taxes, should be appropriated as follows:

- 1) 10% as legal reserve;
- 2) For special reserve;
- 3) At most 6% as dividends;
- 4) Of the remainder, at most 5% as remuneration to directors and supervisors and at most 10% as bonus to employees; however, it should not be lower than 1%.

The Corporation needs to evaluate its cash position and take capital expenditure and working capital requirements into account in determining the type of dividend (cash or stock). Cash dividends will be paid when working capital requirements are fulfilled; otherwise, stock dividends will be distributed.

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The consequential amendments to the Corporation's Articles of Incorporation had been proposed by the Corporation's board of directors on November 10, 2015 and are subject to the resolution of the shareholders in their meeting to be held on June 28, 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to b. Employee benefits expense, depreciation and amortization expenses in Note 20.

Based on a directive issued by the Securities and Futures Bureau, an amount equal to the net debit balance of certain shareholders' equity accounts shall be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.

Legal reserve may be used to offset deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation.

The appropriations of earnings for 2014 and 2013 which have been approved in the shareholders' meetings on June 25, 2015 and June 27, 2014, respectively, were as follows:

| | Appropriation of Earnings | | Dividends Per Share (NT\$) | |
|------------------------------|----------------------------------|-------------|-----------------------------------|-------------|
| | For the Year Ended | | For the Year Ended | |
| | December 31 | | December 31 | |
| | 2014 | 2013 | 2014 | 2013 |
| Legal reserve | \$ 240,491 | \$ 202,158 | | |
| Appropriation (reversal of) | | | | |
| special reserve | 14,561 | (163,449) | | |
| Cash dividends | 836,593 | 685,316 | \$ 3.2 | \$ 2.7 |
| Share dividends | 78,431 | 76,146 | 0.3 | 0.3 |

The appropriations of earnings for 2015 had been proposed by the Corporation's board of directors on March 26, 2016. The appropriations were as follows:

| | Appropriation of Earnings | Dividends Per Share (NT\$) |
|-------------------------------|--------------------------------------|---------------------------------------|
| Legal reserve | \$ 164,224 | |
| Appropriation special reserve | 77,063 | |
| Cash dividends | 565,485 | \$ 2.1 |
| Share dividends | 53,855 | 0.2 |

The appropriations of earnings for 2015 are subject to the resolution in the shareholders' meeting to be held on June 28, 2016.

20. NET PROFIT FROM CONTINUING OPERATIONS

a. Information about capitalized interest

| | For the Year Ended December 31 | |
|----------------------|---------------------------------------|-------------|
| | 2015 | 2014 |
| Capitalized interest | \$ 18,735 | \$ 17,683 |
| Capitalization rates | 1.51%-1.65% | 1.58%-2.00% |

b. Employee benefits expense, depreciation and amortization expenses

| | Operating Costs | Operating Expenses | Total |
|--|----------------------------|-------------------------------|--------------|
| <u>For the Year Ended December 31, 2015</u> | | | |
| Short-term employee benefits | \$ 2,312,920 | \$ 1,453,224 | \$ 3,766,144 |
| Post-employment benefits | | | |
| Defined contribution plans | 93,782 | 28,586 | 122,368 |
| Defined benefit plans | 8,259 | 1,778 | 10,037 |
| Other employee benefits | 115,689 | 36,292 | 151,981 |
| Depreciation expenses | 1,176,857 | 176,411 | 1,353,268 |
| Amortization expenses | 6,075 | 15,681 | 21,756 |

| | Operating Costs | Operating Expenses | Total |
|---|----------------------------|-------------------------------|--------------|
| <u>For the Year Ended December 31, 2014</u> | | | |
| Short-term employee benefits | \$ 2,295,038 | \$ 1,320,608 | \$ 3,615,646 |
| Post-employment benefits | | | |
| Defined contribution plans | 74,376 | 21,037 | 95,413 |
| Defined benefit plans | 7,144 | 1,299 | 8,443 |
| Other employee benefits | 104,819 | 30,463 | 135,282 |
| Depreciation expenses | 929,119 | 162,798 | 1,091,917 |
| Amortization expenses | 2,437 | 12,150 | 14,587 |

The existing (2014) Articles of Incorporation of the Corporation stipulate to distribute bonus to employees and remuneration to directors and supervisors at 10% and 5%, respectively, of net income (net of the bonus and remuneration) after deducting 10% for legal reserve and 6% for dividends. For the year ended December 31, 2014, the bonus to employees and the remuneration to directors and supervisors were \$199,299 thousand and \$99,650 thousand, respectively.

In compliance with the Company Act as amended in May 2015, the Corporation proposed amendments to its Articles of Incorporation to distribute employees' compensation and remuneration to directors and supervisors at the rates no less than 1% and no higher than 4%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. For the year ended December 31, 2015, the employees' compensation and the remuneration to directors and supervisors were \$123,951 thousand and \$61,975 thousand, respectively, representing 5.6% and 2.8%, respectively, of the base net profit. The employees' compensation and remuneration to directors and supervisors in cash for the year ended December 31, 2015 have been approved by the Corporation's board of directors on March 26, 2016 and are subject to the resolution and adoption of the amendments to the Corporation's Articles of Incorporation by the shareholders in their meeting to be held on June 28, 2016, and in addition thereto, a report of such distribution shall be submitted to the shareholders' meeting.

Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date the annual consolidated financial statements are authorized for issue are adjusted in the year the bonus and remuneration were recognized. If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

Cash bonuses to employees and remuneration to directors and supervisors for 2014 and 2013 which have been approved in the shareholders' meetings on June 25, 2015 and June 27, 2014, respectively, were as follows:

| | <u>For the Year Ended December 31</u> | |
|---|---------------------------------------|-------------|
| | 2014 | 2013 |
| Bonus to employees | \$ 199,299 | \$ 166,713 |
| Remuneration of directors and supervisors | 99,650 | 83,357 |

There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the shareholder's meetings above and the amounts recognized in the consolidated financial statements for the years ended December 31, 2014 and 2013, respectively.

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Corporation's board of directors in 2016 and bonus to employees, directors and supervisors resolved in the shareholders' meetings in 2015 and 2014 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

21. TAXES

a. Major components of tax expense recognized in profit or loss

| | For the Year Ended December 31 | |
|---|---------------------------------------|-------------------|
| | 2015 | 2014 |
| Current tax | | |
| In respect of the current year | \$ 346,737 | \$ 499,522 |
| Income tax of unappropriated earnings | 122,919 | 119,990 |
| Adjustments for prior years | <u>(4,269)</u> | <u>10,064</u> |
| | 465,387 | 629,576 |
| Deferred tax | | |
| In respect of the current year | <u>(25,760)</u> | <u>14,016</u> |
| Income tax expense recognized in profit or loss | <u>\$ 439,627</u> | <u>\$ 643,592</u> |

A reconciliation of accounting profit and income tax expenses is as follows:

| | For the Year Ended December 31 | |
|--|---------------------------------------|-------------------|
| | 2015 | 2014 |
| Income tax expense calculated at the statutory rate | \$ 409,731 | \$ 621,096 |
| Nondeductible expenses in determining taxable income | 479 | 460 |
| Tax-exempt income | (68,117) | (81,132) |
| Others | (394) | 1,555 |
| Income tax on unappropriated earnings | 122,919 | 119,990 |
| Investment tax credits used | (56,296) | (42,252) |
| Loss carryforward used | <u>(5,582)</u> | <u>-</u> |
| Current tax | 402,740 | 619,717 |
| Unrecognized deductible temporary differences | 41,156 | 13,811 |
| Adjustments for prior years' tax | <u>(4,269)</u> | <u>10,064</u> |
| Income tax expense recognized in profit or loss | <u>\$ 439,627</u> | <u>\$ 643,592</u> |

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in ROC, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other Group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of 2016 appropriations of earnings is uncertain, the potential income tax consequences of 2015 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

| | For the Year Ended December 31 | |
|-----------------------------------|---------------------------------------|-------------------|
| | 2015 | 2014 |
| <u>Deferred tax</u> | | |
| In respect of the current year: | | |
| Translation of foreign operations | <u>\$ (15,758)</u> | <u>\$ (2,983)</u> |

c. Deferred tax assets and liabilities

| For the Year Ended December 31, 2015 | | | | |
|--|--------------------|---------------------------------|---|--------------------|
| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
| <u>Deferred tax assets</u> | | | | |
| Temporary differences | | | | |
| Unrealized intercompany profit | \$ 74,008 | \$ 15,716 | \$ - | \$ 89,724 |
| Doubtful debts | 15,298 | 3,490 | - | 18,788 |
| Allowance for inventory devaluation | 16,092 | 11,695 | - | 27,787 |
| Payable for annual leave | 10,603 | 812 | - | 11,415 |
| Defined benefit obligation | 10,406 | (70) | - | 10,336 |
| Impairment loss on financial assets | 1,564 | (902) | - | 662 |
| Provisions | 5,896 | (2,435) | - | 3,461 |
| FVTPL financial liabilities | 3,925 | (3,608) | - | 317 |
| Exchange difference on foreign operations | 2,983 | - | 15,758 | 18,741 |
| Capitalized expenses | 6,172 | 1,017 | - | 7,189 |
| Deferred expenses | - | 4,294 | - | 4,294 |
| Others | <u>7,044</u> | <u>(663)</u> | <u>-</u> | <u>6,381</u> |
| | <u>\$ 153,991</u> | <u>\$ 29,346</u> | <u>\$ 15,758</u> | <u>\$ 199,095</u> |
| <u>Deferred tax liabilities</u> | | | | |
| Temporary differences | | | | |
| Unappropriated earnings of subsidiaries | \$ 139,700 | \$ 4,410 | \$ - | \$ 144,110 |
| Unrealized cost of goods sold | 7,974 | 3,094 | - | 11,068 |
| Unrealized foreign currency exchange gain | 27,033 | (16,686) | - | 10,347 |
| Depreciation expenses | 2,754 | (292) | - | 2,462 |
| Intangible assets | - | 6,694 | - | 6,694 |
| Others | <u>2,928</u> | <u>6,366</u> | <u>-</u> | <u>9,294</u> |
| | <u>\$ 180,389</u> | <u>\$ 3,586</u> | <u>\$ -</u> | <u>\$ 183,975</u> |

For the Year Ended December 31, 2014

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|----------------------------|---|---|----------------------------|
| <u>Deferred tax assets</u> | | | | |
| Temporary differences | | | | |
| Unrealized intercompany profit | \$ 76,613 | \$ (2,605) | \$ - | \$ 74,008 |
| Doubtful debts | 16,226 | (928) | - | 15,298 |
| Allowance for inventory devaluation | 9,994 | 6,098 | - | 16,092 |
| Payable for annual leave | 8,790 | 1,813 | - | 10,603 |
| Defined benefit obligation | 10,362 | 44 | - | 10,406 |
| Impairment loss on financial assets | - | 1,564 | - | 1,564 |
| Provisions | 3,260 | 2,636 | - | 5,896 |
| FVTPL financial liabilities | 475 | 3,450 | - | 3,925 |
| Exchange difference on foreign operations | - | - | 2,983 | 2,983 |
| Capitalized expenses | 298 | 5,874 | - | 6,172 |
| Others | <u>10,371</u> | <u>(3,327)</u> | <u>-</u> | <u>7,044</u> |
| | <u>\$ 136,389</u> | <u>\$ 14,619</u> | <u>\$ 2,983</u> | <u>\$ 153,991</u> |

Deferred tax liabilities

| | | | | |
|---|-------------------|------------------|-------------|-------------------|
| Temporary differences | | | | |
| Unappropriated earnings of subsidiaries | \$ 133,573 | \$ 6,127 | \$ - | \$ 139,700 |
| Unrealized foreign currency exchange gain | 5,179 | 21,854 | - | 27,033 |
| Depreciation expenses | 626 | 2,128 | - | 2,754 |
| Unrealized cost of goods sold | 8,528 | (554) | - | 7,974 |
| Others | <u>3,848</u> | <u>(920)</u> | <u>-</u> | <u>2,928</u> |
| | <u>\$ 151,754</u> | <u>\$ 28,635</u> | <u>\$ -</u> | <u>\$ 180,389</u> |

- d. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

| | December 31 | |
|---------------------------------|--------------------|--------------------|
| | 2015 | 2014 |
| Investment loss | \$ 519,309 | \$ 301,330 |
| Deductible temporary difference | 135,003 | 46,375 |
| Loss carryforwards | <u>1,562,455</u> | <u>931,386</u> |
| | <u>\$2,216,767</u> | <u>\$1,279,091</u> |

e. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2015 comprised of:

| Investee | Unused Amount | Expiry Year |
|-----------------|---------------------------|--------------------|
| Hulk | \$1,027,193 | 2021-2025 |
| Hiwin Japan | 334,908 | 2018-2024 |
| Luren | 83,987 | 2023-2025 |
| Hiwin Korea | 62,281 | 2023-2025 |
| Hiwin Singapore | <u>54,086</u> | Unlimited duration |
| | <u><u>\$1,562,455</u></u> | |

f. Information about tax-exemption

As of December 31, 2015, profits attributable to the following expansion projects were exempted from income tax for a five-year period:

| Expansion of Construction Project | Tax-exemption Period |
|---|-------------------------------|
| Distribution of earnings to capital (stock dividend) in 2005 | January 2011 to December 2015 |
| Cash injection in 2009 | January 2016 to December 2020 |

g. Integrated income tax

| | December 31 | |
|--|---------------------|---------------------|
| | 2015 | 2014 |
| Unappropriated earnings | | |
| Generated before January 1, 1998 | \$ - | \$ - |
| Generated on and after January 1, 1998 | <u>9,122,242</u> | <u>8,664,091</u> |
| | <u>\$ 9,122,242</u> | <u>\$ 8,664,091</u> |
| Imputation credits account | <u>\$ 1,752,486</u> | <u>\$ 1,421,553</u> |

The creditable ratio for distribution of earnings of 2015 and 2014 was 21.03% (expected ratio) and 20.57%, respectively.

h. Income tax assessments

The tax returns of the Corporation, Hulk and Luren through 2013, 2013 and 2012, have been assessed by the tax authorities respectively.

22. EARNINGS PER SHARE

| | Net profit Attributable to Owners of the Corporation | Number of Shares (In Thousands) | Earnings Per Share (NT\$) |
|--|---|---------------------------------------|---------------------------------|
| <u>For the Year Ended December 31, 2015</u> | | | |
| Basic earnings per share | | | |
| Profit for the year attributable to owners of the Corporation | \$ 1,642,238 | 269,278 | <u>\$6.10</u> |
| Effect of potentially dilutive ordinary shares: | | | |
| Employees' compensation | <u>-</u> | <u>1,404</u> | |
| Diluted earnings per share | | | |
| Profit for the year attributable to owners of the Corporation plus effect of potentially dilutive common stock | <u>\$ 1,642,238</u> | <u>270,682</u> | <u>\$6.07</u> |
| <u>For the Year Ended December 31, 2014</u> | | | |
| Basic earnings per share | | | |
| Profit for the year attributable to owners of the Corporation | \$ 2,404,906 | 269,278 | <u>\$8.93</u> |
| Effect of potentially dilutive ordinary shares: | | | |
| Bonus issue to employees | <u>-</u> | <u>1,054</u> | |
| Diluted earnings per share | | | |
| Profit for the year attributable to owners of the Corporation plus effect of potentially dilutive common stock | <u>\$ 2,404,906</u> | <u>270,332</u> | <u>\$8.90</u> |

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares on August 15, 2015. This adjustment caused the basic and diluted earnings per share for the year ended December 31, 2014 to decrease from NT\$9.20 to NT\$8.93 and from NT\$9.16 to NT\$8.90, respectively.

If the Group offered to settle compensation or bonuses paid to employees in cash or shares, the Group assumed the entire amount of the compensation or bonus will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

23. BUSINESS COMBINATIONS

a. Subsidiaries acquired

| Name of Subsidiary | Principal Activity | Date of Acquisition | Proportion of Voting Equity Interests Acquired (%) | Consideration Transferred (Cash) |
|-----------------------|---|---------------------|---|--|
| Luren | Research, development, produce, manufacture and sale of gear cutting tools and machinery | April 30, 2015 | 48 | <u>\$ 294,145</u> |

Luren was acquired in order to obtain the key technique of products.

b. Assets acquired and liabilities assumed at the date of acquisition

| | |
|-------------------------------|-------------------|
| Current assets | |
| Cash and cash equivalents | \$ 53,292 |
| Trade and other receivables | 114,248 |
| Inventories | 221,899 |
| Other current assets | 18,797 |
| Non-current assets | |
| Plant and equipment | 194,830 |
| Deferred tax assets | 6,877 |
| Other non-current assets | 5,776 |
| Current liabilities | |
| Short-term borrowings | (126,325) |
| Trade and other payables | (117,941) |
| Other current liabilities | (78,546) |
| Non-current liabilities | |
| Long-term borrowings | (8,325) |
| Deferred tax liabilities | (148) |
| Other non-current liabilities | <u>(48,048)</u> |
| | <u>\$ 236,386</u> |

c. Goodwill arising on acquisition

| | |
|--|-------------------|
| Consideration transferred | \$ 294,145 |
| Less: Fair value of identifiable net assets acquired | <u>(116,230)</u> |
| Goodwill recognized on acquisition | <u>\$ 177,915</u> |

Goodwill is the control premium obtained when Luren was acquired. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

d. Net cash outflow on acquisition of subsidiaries

| | |
|--|-------------------|
| Consideration paid in cash | \$ 294,145 |
| Less: Cash and cash equivalent balances acquired | <u>(53,292)</u> |
| | <u>\$ 240,853</u> |

e. Impact of acquisitions on the results of the Group

The results of the acquirees since the acquisition date included in the consolidated statements of comprehensive income were as follows:

| | |
|---------|--------------------|
| Revenue | <u>\$ 445,960</u> |
| Loss | <u>\$ (25,338)</u> |

24. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On May 4, 2015, the Corporation subscribed for additional new shares of Hulk at a percentage different from its existing ownership percentage, increasing its continuing interest from 48.17% to 48.22%.

On June 17, 2015, the Corporation subscribed for additional new shares of Luren at a percentage different from its existing ownership percentage, reducing its continuing interest from 48% to 47%.

On March 28 and November 26, 2014, the Corporation subscribed for additional new shares of Hulk at a percentage different from its existing ownership percentage, reducing its continuing interest from 49 % to 48%.

The above transactions were accounted for as equity transactions, since the Group did not cease to have control over the subsidiaries.

25. OPERATING LEASE ARRANGEMENTS

The Group's future minimum lease payments on factory building, inventory warehouse and employee dormitory based on operating lease agreements are as follows:

| Year | Amount |
|------|-------------------|
| 2016 | \$ 136,250 |
| 2017 | 67,258 |
| 2018 | 45,917 |
| 2019 | 35,605 |
| 2020 | <u>26,763</u> |
| | <u>\$ 311,793</u> |

26. CAPITAL MANAGEMENT

To support the need to expand and enhance the plant and equipment, the Group has to maintain appropriate amount of capital. Therefore, the capital management of the Group focuses on ensuring that it has the necessary financial resources and operation plans to support operating funds, capital expenditure, research and development, repayment of debt and dividend payment in the future 12 months.

Key management personnel of the Group review the capital structure periodically. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders and the amount of new debt issued or existing debt redeemed.

27. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

The Group's available-for-sale financial assets are measured at fair value using Level 1 inputs. The Group's financial assets and liabilities at fair value through profit or loss are measured at fair value using Level 2 inputs.

There were no transfers between Level 1 and 2 in the current and prior periods.

2) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

| <u>Financial Instruments</u> | <u>Valuation Techniques and Inputs</u> |
|--|--|
| Derivatives - foreign currency forward contracts | Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. |

b. Categories of financial instruments

| | <u>December 31</u> | |
|-------------------------------------|--------------------|-------------|
| | <u>2015</u> | <u>2014</u> |
| <u>Financial assets</u> | | |
| Fair value through profit or loss | \$ 877 | \$ 104 |
| Loans and receivables | 7,197,625 | 8,169,931 |
| Available-for-sale financial assets | - | 16 |
| Held-to-maturity financial assets | 3,146 | 3,258 |
| Financial assets measured at cost | 363,264 | 351,754 |
| <u>Financial liabilities</u> | | |
| Fair value through profit or loss | 2,741 | 13,667 |
| Amortized cost | 17,419,212 | 15,624,618 |

The balance included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables (including from related parties) and refundable deposits.

The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, notes payable, trade payables (including from related parties), other payables, long-term borrowings, and finance lease payables.

c. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, trade receivables, trade payables and borrowings. The Group's Corporate Treasury function provides services to the business, monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The plans for material treasury activities are reviewed by the supervisors and the board of directors in accordance with procedures required by relevant regulations and internal controls.

1) Market risk

The Group entered into some derivative financial instruments, mainly forward foreign exchange contracts, to manage its exposure to foreign currency risk on translation of sales and receivables that arise from export of precision component to USA, Germany, Japan and China.

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Group's operating activities and net investment in foreign operations are denominated in foreign currencies. Consequently, the Group is exposed to foreign currency risk. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, the Group utilizes foreign exchange forward contracts to hedge its currency exposure. These instruments help to reduce, but do not eliminate, the impact of foreign currency exchange rate movements.

Net investment in foreign operations is a strategic investment. Therefore, the Group does not hedge its investment in foreign operations.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities and derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 31.

Sensitivity analysis

The Group was mainly exposed to the USD, EUR, JPY and CNY.

The sensitivity analysis of foreign currency risk used in reporting foreign currency risk internally to key management personnel mainly focuses on the foreign currency monetary items at the end of the reporting period. Assuming a 1% increase movement in the levels of the NTD against the relevant foreign currency, the post-tax losses for the years ended December 31, 2015 and 2014 would have decreased by \$46,263 thousand and \$48,419 thousand, respectively.

b) Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings.

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

| | December 31 | |
|-------------------------------|--------------------|-------------|
| | 2015 | 2014 |
| Fair value interest rate risk | | |
| Deposits in bank | \$ 453,687 | \$ 667,555 |
| Finance lease payables | 152,559 | 420,165 |
| Short-term borrowings | 284,311 | - |
| Long-term borrowings | - | 347,007 |
| Cash flow interest rate risk | | |
| Deposits in bank | 1,427,508 | 1,887,256 |
| Short-term borrowings | 5,845,292 | 4,360,411 |
| Long-term borrowings | 7,629,996 | 6,873,692 |

Sensitivity analysis

For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher and all other variables were held constant, the Group's post-tax profit for the years ended December 31, 2015 and 2014 would decrease by \$99,997 thousand and \$77,579 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the counterparties are reputable organizations; thus, the Group is not expected to have a significant credit risk.

In order to minimize credit risk, management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The credit risk on liquid funds and derivatives was limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Trade receivables consisted of a large number of customers, spread across diverse industries. On-going credit evaluation is performed on the financial condition of trade receivables.

The Group's concentration of credit risk by geographical locations was mainly in Asia, which accounted for 86% and 84% of the total trade receivables as of December 31, 2015 and 2014, respectively.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition,

management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2015 and 2014, the Group had available unutilized bank loan facilities of \$4,805,654 thousand and \$3,919,153 thousand, respectively.

The following table details the Group's remaining contractual obligations for its financial liabilities with agreed repayment periods. The tables below had been drawn up based on the undiscounted contractual maturities of the financial liabilities.

| | Less Than 1 Year | 1-5 Years | 5+ Years |
|--------------------------------------|-----------------------------|---------------------|---------------------|
| <u>December 31, 2015</u> | | | |
| Non-derivative financial liabilities | | | |
| Non-interest bearing | \$ 3,507,054 | \$ - | \$ - |
| Finance lease liabilities | 10,104 | 43,553 | 98,902 |
| Fixed interest rate liabilities | 284,311 | - | - |
| Variable interest rate liabilities | <u>7,347,441</u> | <u>3,820,783</u> | <u>2,307,064</u> |
| | <u>\$ 11,148,910</u> | <u>\$ 3,864,336</u> | <u>\$ 2,405,966</u> |
| Derivative financial liabilities | | | |
| Foreign exchange forward contracts | <u>\$ 2,741</u> | <u>\$ -</u> | <u>\$ -</u> |
| <u>December 31, 2014</u> | | | |
| Non-derivative financial liabilities | | | |
| Non-interest bearing | \$ 3,623,343 | \$ - | \$ - |
| Finance lease liabilities | 26,671 | 114,852 | 278,642 |
| Fixed interest rate liabilities | 138,803 | 208,204 | - |
| Variable interest rate liabilities | <u>5,555,146</u> | <u>3,619,928</u> | <u>2,059,029</u> |
| | <u>\$ 9,343,963</u> | <u>\$ 3,942,984</u> | <u>\$ 2,337,671</u> |
| Derivative financial liabilities | | | |
| Foreign exchange forward contracts | <u>\$ 13,667</u> | <u>\$ -</u> | <u>\$ -</u> |

28. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of significant transactions between the Group and other related parties are disclosed below.

a. Operating transactions

| | <u>For the Year Ended December 31</u> | |
|-------------------|---------------------------------------|-------------------|
| | 2015 | 2014 |
| 1) Sales of goods | | |
| Associates | \$ 146,206 | \$ 146,437 |
| Others | <u>88,315</u> | <u>71,497</u> |
| | <u>\$ 234,521</u> | <u>\$ 217,934</u> |

Due to the specific differences of the products, the selling prices for related parties and those for third parties are not comparable. The selling price is primarily quoted at cost plus a reasonable margin according to the market price.

| | For the Year Ended December 31 | |
|-----------------------|---------------------------------------|-------------------|
| | 2015 | 2014 |
| 2) Purchases of goods | | |
| Others | \$ 584,357 | \$ 475,814 |
| Associates | <u>47</u> | <u>14</u> |
| | <u>\$ 584,404</u> | <u>\$ 475,828</u> |

The products purchased from related parties and those from third parties are not the same, therefore, their prices are not comparable.

3) Other operating transactions

| | For the Year Ended December 31 | |
|---------------|---------------------------------------|-----------------|
| | 2015 | 2014 |
| Rental income | | |
| Others | \$ <u>141</u> | \$ <u>6,081</u> |

The Group leased a portion of its manufacturing facility and office to related parties. The rental is negotiated based on the quoted rate in the neighborhood leased properties. The rental is collected monthly.

| | For the Year Ended December 31 | |
|--|---------------------------------------|------------------|
| | 2015 | 2014 |
| Non-operating income-dividend income (classified as other revenue) | | |
| Others | \$ <u>1,468</u> | \$ <u>720</u> |
| Manufacturing and operating expenses | | |
| Others | \$ 5,980 | \$ 10,180 |
| Associates | <u>3,245</u> | <u>3,019</u> |
| | <u>\$ 9,225</u> | <u>\$ 13,199</u> |
| Operating expenses - donations | | |
| Others | \$ <u>15,710</u> | \$ <u>15,600</u> |

| | December 31 | |
|---------------------|--------------------|-----------------|
| | 2015 | 2014 |
| 4) Notes receivable | | |
| Others | \$ <u>1,709</u> | \$ <u>7,177</u> |

| | | December 31 | |
|---|----|--------------------|-------------------|
| | | 2015 | 2014 |
| 5) Trade receivables | | | |
| Associates | \$ | 13,525 | \$ 12,779 |
| Others | | <u>11,444</u> | <u>23</u> |
| | \$ | <u>24,969</u> | <u>\$ 12,802</u> |
| 6) Other receivables (classified as other current assets) | | | |
| Others | \$ | <u>205</u> | <u>\$ 1,052</u> |
| 7) Trade payables | | | |
| Others | \$ | <u>191,766</u> | <u>\$ 110,862</u> |

b. Property, plant and equipment acquired

| | | Price | |
|--------|----|---------------------------------------|-------------|
| | | For the Year Ended December 31 | |
| | | 2015 | 2014 |
| Others | \$ | <u>3,750</u> | <u>\$ -</u> |

c. Compensation of key management personnel

| | | For the Year Ended December 31 | |
|-----------------------------------|----|---------------------------------------|-------------------|
| | | 2015 | 2014 |
| Short-term employee benefits | \$ | 212,686 | \$ 269,055 |
| Post-employment benefits | | 1,007 | 861 |
| Other long-term employee benefits | | <u>2,122</u> | <u>1,091</u> |
| | \$ | <u>215,815</u> | <u>\$ 271,007</u> |

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets had been pledged or mortgaged as collateral for capital lease of land, short-term and long-term bank loans, lawsuit and guarantee of customs duties:

| | | December 31 | |
|-------------------------------|----|--------------------|----------------------|
| | | 2015 | 2014 |
| Property, plant and equipment | \$ | 12,385,799 | \$ 12,655,988 |
| Pledge deposits | | <u>415,875</u> | <u>400,845</u> |
| | \$ | <u>12,801,674</u> | <u>\$ 13,056,833</u> |

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

- a. As of December 31, 2015 and 2014, unused letters of credit for purchases of raw materials and machinery and equipment amounted to \$129,736 thousand and \$103,564 thousand, respectively.
- b. As of December 31, 2015 and 2014, the Group had a commitment to buy property, plant and equipment for \$2,863,966 thousand and \$386,407 thousand, respectively.
- c. The Corporation's dealer Tianjin Ace Pilar Co., Ltd. (Ace Pilar) intentionally stopped repaying its matured payables in the amount of USD 6,984 thousand. The Corporation secured the safety of assets and filed a civil lawsuit against Ace Pilar at the People's Court of Tianjin. The Supreme People's Court of Tianjin adjudged that Ace Pilar should pay USD 7,596 thousand and interest for overdue payments (based on 1.5 times relevant interest rate of the People's Bank of China), and rejected all requests of Ace Pilar's counterclaim on December 23, 2014. Ace Pilar submitted the appeal to the Supreme People's Court of Tianjin on January 6, 2015. As of March 26, 2016, the supreme people's court of Tianjin has not started a court trial.

31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

| | December 31, 2015 | | | December 31, 2014 | | |
|------------------------------|--------------------|---------------|-----------------|--------------------|---------------|-----------------|
| | Foreign Currencies | Exchange Rate | Carrying Amount | Foreign Currencies | Exchange Rate | Carrying Amount |
| <u>Financial assets</u> | | | | | | |
| Monetary items | | | | | | |
| USD | \$ 35,303 | 32.825 | \$ 1,158,820 | \$ 64,918 | 31.65 | \$ 2,054,654 |
| EUR | 18,910 | 35.88 | 678,503 | 18,380 | 38.47 | 707,060 |
| JPY | 1,405,818 | 0.2727 | 383,367 | 1,213,015 | 0.2646 | 320,964 |
| CNY | 752,781 | 4.995 | 3,760,143 | 599,458 | 5.092 | 3,052,440 |
| Non-monetary items | | | | | | |
| USD | 8,168 | 32.825 | 268,115 | 8,168 | 31.65 | 258,517 |
| ILS | 6,175 | 8.427 | 52,042 | 4,053 | 8.121 | 32,913 |
| <u>Financial liabilities</u> | | | | | | |
| Monetary items | | | | | | |
| USD | 3,643 | 32.825 | 119,594 | 1,939 | 31.65 | 61,357 |
| EUR | 1,473 | 35.88 | 52,861 | 1,294 | 38.47 | 49,779 |
| JPY | 853,676 | 0.2727 | 232,798 | 711,827 | 0.2646 | 188,349 |
| CNY | 359 | 4.995 | 1,791 | 398 | 5.092 | 2,026 |

The Group is mainly exposed to USD, EUR, JPY and CNY. The following information was aggregated by the functional currencies of the group entities, and the exchange rates between respective functional currencies and the presentation currency were disclosed. The significant (realized and unrealized) foreign exchange gains (losses) were as follows:

| | For the Year Ended December 31 | | | |
|--------------------|--------------------------------|---------------------------|---------------|---------------------------|
| | 2015 | | 2014 | |
| Foreign Currencies | Exchange Rate | Net Foreign Exchange Loss | Exchange Rate | Net Foreign Exchange Gain |
| NTD | 1 (NTD:NTD) | \$ (47,698) | 1 (NTD:NTD) | \$206,810 |

32. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (Table 1)
- 2) Endorsements/guarantees provided. (Table 2)
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities). (Table 3)
- 4) Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital. (Table 4)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (Table 5)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 6)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 7)
- 9) Trading in derivative instruments. (Notes 7 and 27)
- 10) Intercompany relationships and significant intercompany transactions. (Table 8)
- 11) Information on investees. (Table 9)

b. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 10)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses:
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (None)
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Tables 6 and 8)
 - c) The amount of property transactions and the amount of the resultant gains or losses. (None)
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the year and the purposes. (None)

- e) The highest balance, the end of year balance, the interest rate range, and total current period interest with respect to financing of funds. (None).
- f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services. (None)

33. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The Group's reportable segments are Linear guideways, Ballscrews and others.

a. Segment revenues and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segment.

| | Year Ended December 31 | | | |
|---|------------------------|----------------------|---------------------|---------------------|
| | Segment Revenue | | Segment Profit | |
| | 2015 | 2014 | 2015 | 2014 |
| Linear guideways | \$ 8,807,589 | \$ 9,322,029 | \$ 1,522,990 | \$ 1,945,952 |
| Ballscrews | 3,912,283 | 4,013,350 | 404,656 | 695,800 |
| Others | <u>2,161,176</u> | <u>1,751,957</u> | <u>(25,029)</u> | <u>206,083</u> |
| Total from continuing operations | <u>\$ 14,881,048</u> | <u>\$ 15,087,336</u> | 1,902,617 | 2,847,835 |
| Subsidy revenue | | | 61,282 | 8,324 |
| Finance costs | | | (170,793) | (172,112) |
| Share of profit of associates accounted for using equity method | | | 23,087 | 10,055 |
| Interest income | | | 18,728 | 14,401 |
| Rental income | | | 376 | 6,380 |
| Other income | | | 85,923 | 37,570 |
| Net foreign exchange gain (loss) | | | (45,065) | 211,439 |
| Other expenses | | | (4,114) | (8,210) |
| Impairment loss on plant, property and equipment | | | (18,684) | (12,454) |
| Valuation loss on financial liabilities at fair value through profit or loss | | | (5,163) | (23,086) |
| Impairment loss on financial assets | | | <u>(14,008)</u> | <u>(9,200)</u> |
| Profit before income tax | | | <u>\$ 1,834,186</u> | <u>\$ 2,910,942</u> |

Segment revenue reported above represents revenue generated from external customers. There were no intersegment sales for the years ended December 31, 2015 and 2014.

Segment profit represented the profit before tax earned by each segment without subsidy revenue, finance costs, share of profit of associates accounted for using equity method, interest income, rental income, other income, net foreign exchange gain (loss), other expenses, impairment loss on plant, property and equipment, valuation loss on financial liabilities at fair value through profit or loss, impairment loss on financial assets and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

The Group had not reported segment assets and liabilities information to the chief operating decision maker. Thus, no disclosure is made.

c. Geographical information

The Group operates in four principal geographical areas - Taiwan, Germany, Japan, and USA.

The Group's revenue from continuing operations from external customers and information about its non-current assets by location of assets are detailed below.

| | Revenue from External Customers | | Non-current Assets | |
|---------|--|----------------------|---------------------------|----------------------|
| | Year Ended December 31 | | December 31 | |
| | 2015 | 2014 | 2015 | 2014 |
| Taiwan | \$ 10,020,705 | \$ 11,120,482 | \$ 15,653,091 | \$ 16,415,754 |
| Germany | 2,196,474 | 2,482,267 | 886,954 | 524,764 |
| Japan | 755,369 | 718,547 | 14,898 | 13,223 |
| USA | 790,770 | 713,016 | 35,745 | 25,348 |
| Others | <u>1,117,730</u> | <u>53,024</u> | <u>2,208,257</u> | <u>212,181</u> |
| | <u>\$ 14,881,048</u> | <u>\$ 15,087,336</u> | <u>\$ 18,798,945</u> | <u>\$ 17,191,270</u> |

d. Information about major customers

| Names | For the Year Ended December 31 | | | |
|--------------|---------------------------------------|----------|---------------|----------|
| | 2015 | | 2014 | |
| | Amount | % | Amount | % |
| Customer A | \$ 2,098,539 | 14 | \$ 1,952,129 | 13 |
| Customer B | 1,047,972 | 7 | 1,503,219 | 10 |

TABLE 1

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

**FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2015
(In Thousands of New Taiwan Dollars)**

| No. | Lender | Borrower | Financial Statement Account | Related Parties | Highest Balance for the Period (Note 4) | Ending Balance (Note 4) | Actual Borrowing Amount (Note 5) | Interest Rate | Nature of Financing (Note 2) | Business Transaction Amounts (Note 5) | Reasons for Short-term Financing | Allowance for Impairment loss | Collateral | | Financing Limit for Each Borrower (Note 1) | Aggregate Financing Limits (Note 3) |
|-----|-----------------|--------------|--|-----------------|---|-------------------------|----------------------------------|---------------|------------------------------|---------------------------------------|----------------------------------|-------------------------------|-------------------------------|---------|--|-------------------------------------|
| | | | | | | | | | | | | | Item | Value | | |
| 0 | The Corporation | Hiwin Japan | Other receivables from related parties | Yes | \$ 100,000 | \$ 100,000 | \$ 19,672 | 1.95% | 1 | Sales \$458,350 Purchases 3,107 | - | \$ - | - | \$ - | \$ 1,364,604 | \$ 4,093,811 |
| 0 | The Corporation | Hiwin S.R.L. | Other receivables from related parties | Yes | 135,000 | 135,000 | 6,429 | 1.95% | 1 | Sales 183,059 | - | - | - | - | 1,364,604 | 4,093,811 |
| 0 | The Corporation | Hulk | Other receivables from related parties | Yes | 150,000 | 150,000 | 150,000 | 1.95% | 2 | - | Operating capital | - | Promissory note and equipment | 150,000 | 1,364,604 | 4,093,811 |

Note 1: The total amount for lending to a company for funding shall not exceed 10% of the net assets of the Corporation in the latest financial report. In addition, the total amount of lending to any one borrower shall not be more than the borrower’s paid-in capital. The above restriction does not apply to the offshore subsidiaries whose voting shares are 100% owned, directly or indirectly.

Note 2: Nature of the loan funds:
1. Business relationship.
2. Necessary for short-term financing.

Note 3: For the financing provided by each subsidiary, the maximum amount should not exceed 30% of the Corporation’s net assets as shown in its latest financial statements.

Note 4: The ending balance amount has been approved by the board of directors.

Note 5: Significant intercompany accounts and transactions have been eliminated.

TABLE 2

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

**ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2015
(In Thousands of New Taiwan Dollars and Foreign Currency)**

| No. | Endorser/Guarantor | Endorsee/Guaranteed Party | | Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note 1) | Maximum Amount Endorsed/ Guaranteed During the Period | Outstanding Endorsement/ Guarantee at the End of the Period | Actual Borrowing Amount | Amount Endorsed/ Guaranteed by Collaterals | Ratio of Accumulated Endorsement/ Guarantee to Net Equity In Latest Financial Statements (%) | Aggregate Endorsement/ Guarantee Limit (Note 2) | Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries | Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent | Endorsement/ Guarantee Given On behalf of Companies in Mainland China |
|-----|--------------------|---------------------------|--------------|---|--|---|-------------------------------|---|--|---|---|---|---|
| | | Name | Relationship | | | | | | | | | | |
| 0 | The Corporation | Hiwin USA | Subsidiary | \$ 1,364,604 | \$ 234,830 (USD 7,154) | \$ 234,830 (USD 7,154) | \$ 35,659 (USD 1,086) | \$ - | 2 | \$ 4,776,113 | Yes | - | - |
| 0 | The Corporation | Hiwin Singapore | Subsidiary | 1,364,604 | 32,825 (USD 1,000) | 32,825 (USD 1,000) | 1,641 (USD 50) | - | - | 4,776,113 | Yes | - | - |
| 0 | The Corporation | Hiwin Korea | Subsidiary | 1,364,604 | 32,825 (USD 1,000) | 32,825 (USD 1,000) | - | - | - | 4,776,113 | Yes | - | - |

Note 1: The maximum is 10% of the net assets of the Corporation as shown in the latest financial statements.

Note 2: The maximum amount of the total guarantee is 35% of the Corporation’s net assets as shown in its latest financial statements.

Note 3: The amounts denominated in foreign currency were translated into New Taiwan dollars at prevailing exchange rate on December 31, 2015.

TABLE 3

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2015

(In Thousands of New Taiwan Dollars and Foreign Currency)

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2015 | | | | Note |
|----------------------|--|---------------------------------------|---|-------------------|-------------------|-------------------------|---------------------|------|
| | | | | Shares | Carrying Amount | Percentage of Ownership | Fair Value (Note 1) | |
| The Corporation | <u>Capital stock</u> | | | | | | | |
| | Kaland | - | Financial assets measured at cost - non-current | 389 | \$ 236,266 | 19 | \$ 298,488 | |
| | Sunengine | - | Financial assets measured at cost - non-current | 6,203,093 | 58,138 | 10 | 61,746 | |
| | Hiwin Mikrosystem | - | Financial assets measured at cost - non-current | 8,483,173 | 63,440 | 9 | 168,291 | |
| | Taichung International Country Club | - | Financial assets measured at cost - non-current | 1 | 2,100 | - | - | |
| | King Kong Iron Work Ltd. | - | Financial assets measured at cost - non-current | 76,300 | - | - | - | |
| Hiwin Germany | <u>Share capital</u> | | | | | | | |
| | Hiwin (Schweiz) GmbH | - | Financial assets measured at cost - non-current | - | 3,320 (EUR 72) | 19 | 3,320 (EUR 72) | |

Note 1: For companies with stocks that have no quoted market prices, the estimated fair value of the securities held is based on the investees’ net asset values as of December 31, 2015.

Note 2: Information about the investment in subsidiary and associates; please see Tables 9 and 10.

TABLE 4

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICE AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2015
(In Thousands of New Taiwan Dollars and Foreign Currency)**

| Company Name | Type and Name of Marketable Securities | Financial Statement Account | Counterparty | Relationship | Beginning Balance | | Acquisition | | Disposal | | | | Ending Balance | | |
|-----------------|--|---|--------------|--------------|-------------------|------------|-------------|--------------------------|----------|--------|-----------------|-------------------------|----------------------|------------|-----------------|
| | | | | | Shares | Amount | Shares | Amount | Shares | Amount | Carrying Amount | Gain (Loss) on Disposal | Others | Shares | Amount (Note 3) |
| The Corporation | Share capital | Investments accounted for using equity method | Hiwin China | Subsidiary | - | \$ 381,512 | - | \$ 633,275 (CNY 125,000) | - | \$ - | \$ - | \$ - | \$ (30,172) (Note 1) | - | \$ 984,615 |
| | Capital stock | Investments accounted for using equity method | Luren | Subsidiary | - | - | 11,352,373 | 358,955 | - | - | - | - | (12,701) (Note 2) | 11,352,373 | 346,254 |

Note 1: Including investment income accounted for using equity method \$26,568 thousand, exchange differences on translation \$(18,084) thousand, and unrealized intercompany profit \$(38,656) thousand.

Note 2: Including investment loss and comprehensive loss accounted for using equity method \$(15,735) thousand, unrealized intercompany profit \$(291) thousand, and capital surplus \$3,325 thousand of subscribing for additional new shares at a percentage different from its existing ownership percentage.

Note 3: Significant intercompany accounts and transactions have been eliminated.

TABLE 5

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2015
(In Thousands of New Taiwan Dollars)

| Buyer | Property | Event Date | Transaction Amount | Payment Status | Counterparty | Relationship | Information on Previous Title Transfer If Counterparty is a Related Party | | | | Pricing Reference | Purpose of Acquisition | Other Terms |
|-----------------|--|------------|--------------------|--|---------------------------------|--------------|---|--------------|------------------|--------|--|----------------------------------|-------------|
| | | | | | | | Property Owner | Relationship | Transaction Date | Amount | | | |
| The Corporation | Taichung Precision Machinery Science and Technology Innovation Park employees' residence | 2015.5.11 | \$ 320,000 | \$ 35,200 | Lee Ming Construction Co., Ltd. | None | - | - | - | \$ - | Contractors bid | Employees' dorm | - |
| | Land located in Dabeishi Dist. of Yunlin Technology Industrial Park | 2015.6.2 | 481,592 | 288,017 (Rentals paid amounted to \$193,575 thousand is deductible from the total purchase price) | Ministry of Economic Affairs | None | - | - | - | - | Land lease contract of Yunlin Technology Industrial Park | Lease transferred to acquisition | - |
| | Taichung Precision Machinery Science and Technology Innovation Park factory Phase II | 2015.8.11 | 966,800 | - | Lee Ming Construction Co., Ltd. | None | - | - | - | - | Contractors bid | Factory | - |

TABLE 6

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2015
(In Thousands of New Taiwan Dollars)**

| Company Name (Note) | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Receivable (Payable) | | Note |
|------------------------|-------------------|-----------------------------|---------------------|------------------|------------|---------------------------------------|----------------------|---------------|--|------------|------|
| | | | Purchase/Sale | Amount (Note) | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance (Note) | % to Total | |
| The Corporation | Hiwin Germany | Subsidiary | Sale | \$ 1,031,930 | 8 | O/A 120 days | \$ - | - | \$ 288,951 | 5 | |
| | Hiwin China | Subsidiary | Sale | 802,286 | 6 | O/A 120 days | - | - | 256,793 | 5 | |
| | Hiwin Japan | Subsidiary | Sale | 458,350 | 4 | O/A 150-180 days | - | - | 321,670 | 6 | |
| | Hiwin USA | Subsidiary | Sale | 258,331 | 2 | O/A 120-180 days | - | - | 79,152 | 1 | |
| | Hiwin S.R.L. | Indirectly owned subsidiary | Sale | 183,059 | 1 | O/A 150-180 days | - | - | 152,257 | 3 | |
| | | Other related party | Purchase | 165,018 | 3 | Net 120 days after monthly closing | - | - | 78,451 | 4 | |
| | Hiwin Mikrosystem | | | | | | | | | | |
| Hiwin Germany | Hiwin Mikrosystem | Other related party | Purchase | 206,581 | 12 | O/A 90 days | - | - | 40,021 | 11 | |
| | Hiwin S.R.O. | Associate | Sale | 145,927 | 6 | O/A 45 days | - | - | 13,525 | 11 | |
| Hiwin USA | Hiwin Mikrosystem | Other related party | Purchase | 138,245 | 30 | O/A 90 days | - | - | 49,100 | 36 | |

Note: Significant intercompany accounts and transactions have been eliminated except Hiwin Mikrosystem and Hiwin S.R.O.

TABLE 7

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2015
(In Thousands of New Taiwan Dollars)**

| Company Name | Related Party | Relationship | Ending Balance (Note) | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Impairment Loss | |
|-----------------|---------------|-----------------------------|--|---------------|---------|---------------|---|----------------------------------|------|
| | | | | | Amount | Actions Taken | | | |
| The Corporation | Hiwin Germany | Subsidiary | Trade receivables from related parties | \$ 288,951 | 3.50 | \$ - | - | \$ 169,024 | \$ - |
| | Hiwin Japan | Subsidiary | Trade receivables from related parties | 321,670 | 1.59 | - | - | 68,661 | - |
| | Hiwin China | Subsidiary | Trade receivables from related parties | 256,793 | 3.75 | - | - | 193,978 | - |
| | Hiwin S.R.L. | Indirectly owned subsidiary | Trade receivables from related parties | 152,257 | 2.28 | - | - | - | - |
| | Hulk | Subsidiary | Other receivables from related parties | 150,219 | - | - | - | - | - |
| | Hiwin Japan | Subsidiary | Other receivables from related parties | 19,704 | - | - | - | - | - |
| | Hiwin S.R.L. | Indirectly owned subsidiary | Other receivables from related parties | 6,439 | - | - | - | - | - |
| | | | | | | | | | |

Note: Significant intercompany accounts and transactions have been eliminated.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2015
(In Thousands of New Taiwan Dollars)**

| No. | Investee Company | Counterparty | Relationship (Note 1) | Transaction Details | | | |
|-----|------------------|---------------|-----------------------|-----------------------------|-----------------|------------------|----------------------------|
| | | | | Financial Statement Account | Amount (Note 2) | Payment Terms | % to Total Sales or Assets |
| 0 | The Corporation | Hiwin Japan | 1 | Sales | \$ 458,350 | O/A 150-180 days | 3 |
| | | | 1 | Trade receivables | 321,670 | O/A 150-180 days | 1 |
| | | Hiwin Germany | 1 | Sales | 1,031,930 | O/A 120 days | 7 |
| | | | 1 | Trade receivables | 288,951 | O/A 120 days | 1 |
| | | Hiwin USA | 1 | Sales | 258,331 | O/A 120-180 days | 2 |
| | | | 1 | Trade receivables | 79,152 | O/A 120-180 days | - |
| | | Hiwin China | 1 | Sales | 802,286 | O/A 120 days | 5 |
| | | | 1 | Trade receivables | 256,793 | O/A 120 days | 1 |
| | | Hiwin S.R.L. | 1 | Sales | 183,059 | O/A 150-180 days | 1 |
| | | | 1 | Trade receivables | 152,257 | O/A 150-180 days | - |

Note 1: Relationship of counterparty; (1) parent company to subsidiary; (2) subsidiary to parent company.

Note 2: Significant intercompany accounts and transactions have been eliminated.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2015
(In Thousands of New Taiwan Dollars and Foreign Currency)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | As of December 31, 2015 | | | Net Income (Loss) of the Investee | Share of Profit (Loss) | Note |
|------------------|-------------------------------|--------------------------|--|----------------------------|---------------------|-------------------------|-----|---------------------|-----------------------------------|------------------------|---|
| | | | | December 31, 2015 | December 31, 2014 | Shares | % | Carrying Amount | | | |
| The Corporation | Hiwin Germany | Germany | Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots | \$ 452,797 | \$ 323,307 | - | 100 | \$ 1,023,786 | \$ 33,395 | \$ 33,395 | Subsidiary |
| | Hiwin USA | United States of America | Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots | 353,844 | 353,844 | 2,148,000 | 100 | 403,815 | 17,037 | 17,037 | Subsidiary |
| | Hiwin Japan | Japan | Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots | 470,361 | 366,441 | 30,200 | 100 | (118,960) | (138,383) | (138,383) | Subsidiary |
| | Mega Fabs Motion Systems Ltd. | Israel | Research, manufacture and sale of drivers and controllers | 42,444 | 42,444 | - | 40 | 84,871 | 44,719 | 17,888 | Investments accounted for using equity method |
| | Hulk | Taiwan | Research, development, design, manufacture and sale of solar cell, electronic components, electric power supply, electric transmission and power distribution machinery products | 1,153,935 | 1,008,247 | 115,393,463 | 48 | 633,391 | (452,210) | (217,980) | Subsidiary |
| | Hiwin Singapore | Singapore | Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots | 117,550 | 117,550 | 5,000,000 | 100 | 45,372 | (34,315) | (34,315) | Subsidiary |
| | Hiwin Korea | Korea | Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots | 140,665 | 140,665 | 1,000,000 | 100 | 61,418 | (38,502) | (38,502) | Subsidiary |
| | Luren | Taiwan | Research, development, produce, manufacture and sale of gear cutting tools and machinery | 358,955 | - | 11,352,373 | 47 | 346,254 | (44,371) | (14,636) | Subsidiary |
| | Hiwin Healthcare Corp. | Samoa | Sale of medical robots | 3,108 | - | 100,000 | 100 | 3,283 | - | - | Subsidiary |
| Hiwin Germany | Hiwin S.R.O. | Czech Republic | Sale of aerospace parts, ballscrews, linear guideways, and industrial robots | 104 (CZK 70) | 104 (CZK 70) | - | 32 | 41,373 (EUR 1,153) | (Note 1) | (Note 1) | Investments accounted for using equity method |
| | Hiwin S.R.L. | Italy | Sale of aerospace parts, ballscrews, linear guideways, and industrial robots | 241,214 (EUR 6,500) | 140,149 (EUR 3,619) | - | 100 | 103,708 (EUR 2,890) | (Note 1) | (Note 1) | Indirectly owned subsidiary |
| Luren | Luren Japan | Japan | Sale of gear cutting tools and machinery | 3,571 | 3,571 | 200 | 100 | 970 | (Note 1) | (Note 1) | Indirectly owned subsidiary |
| | Luren USA | United States of America | Sale of gear cutting tools and machinery | 14,721 | 4,995 | 460,000 | 100 | 10,839 | (Note 1) | (Note 1) | Indirectly owned subsidiary |

Note 1: Not applicable.

Note 2: Significant intercompany accounts and transactions have been eliminated except Mega Fabs Motion Systems Ltd. and Hiwin S.R.O.

Note 3: Information on investment in Mainland China, please see Table 10.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2015
(In Thousands of New Taiwan Dollars and Foreign Currency)

| Investee Company | Main Businesses and Products | Paid-in Capital | Method of Investment | Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2015 | Remittance of Funds | | Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2015 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) | Carrying Amount as of December 31, 2015 | Accumulated Repatriation of Investment Income as of December 31, 2015 |
|------------------|---|----------------------------|----------------------|---|--------------------------|--------|---|-----------------------------------|--|------------------------------|---|---|
| | | | | | Outward | Inward | | | | | | |
| YIFU Finance | Finance lease | \$ 820,625 (USD 25,000) | (Note 1) | \$ 236,266 (USD 8,168) | \$ - | \$ - | \$ 236,266 (USD 8,168) | \$ 45,123 | 19 | (Note 3) | \$ 236,266 | \$ - |
| Hiwin China | Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots | 1,105,539 (CNY 221,700) | (Note 2) | 472,264 (CNY 96,700) | 633,275 (CNY 125,000) | - | 1,105,539 (CNY 221,700) | 26,568 | 100 | \$ 26,568 (Notes 4 and 6) | 984,615 (Note 6) | - |
| Luren Shanghai | Sale of gear cutting tools and machinery | 4,871 (USD 148) | (Note 2) | 4,871 (USD 148) | - | - | 4,871 (USD 148) | (4,015) | 47 | (1,887) (Notes 4 and 6) | (4,459) (Note 6) | - |
| Luren Xiamen | Sale of gear cutting tools | 15,104 (USD 500) | (Note 2) | 5,287 (USD 180) | 9,817 (USD 320) | - | 15,104 (USD 500) | (3,199) | 47 | (1,504) (Notes 4 and 6) | 1,557 (Note 6) | - |

| Investor Company | Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2015 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA |
|------------------|---|--|---|
| The Corporation | \$ 1,341,805 (USD 8,168 and CNY 221,700) | \$ 1,810,338 (USD 9,500 and CNY 300,000) | (Note 5) |
| Luren | \$ 19,975 (USD 648) | \$ 19,975 (USD 648) | \$ 215,226 (Note 5) |

- Note 1: The investment was made through a corporation established in a third country, which, in turn, invested in companies located in Mainland China.
- Note 2: The investment in Mainland China was made directly.
- Note 3: The investment in Kaland is carried at cost; thus, no investment gain or loss is recognized.
- Note 4: The investment gain (loss) is recognized according to the financial statements audited by the Corporation’s independent auditors.
- Note 5: According to “Regulation for Screening of Application to Engage in Technical Cooperation in Mainland China” issued by the Investment Commission of Ministry of Economic Affairs, the investment in Mainland China has no maximum limitation since the Corporation had acquired the IDB approval of the Corporation’s establishment of an operating headquarter in Taiwan. The upper limit investment amount of Luren is 60% of the net assets of Luren in the latest financial report.
- Note 6: Significant intercompany accounts and transactions have been eliminated.