

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016 AND 2015**

**(With Independent Accountants' Review Report Thereon)**



安侯建業聯合會計師事務所  
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## Independent Accountants' Review Report

The Board of Directors  
Nanya Technology Corporation

We have reviewed the accompanying consolidated statements of financial position of Nanya Technology Corporation (the "Company") and its subsidiaries as of September 30, 2016 and 2015 (restated), and the related consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2016 and 2015, changes in equity and cash flows for the nine-month periods ended September 30, 2016 and 2015 (restated). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

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

As discussed in Note 4(2), the financial statements of certain subsidiaries under the equity method as of and for the nine-month periods ended September 30, 2016 and 2015 were not reviewed by independent accountants. The total assets of these subsidiaries amounted to NT\$2,339,973 thousand and NT\$2,862,436 thousand, representing 2.00% and 2.72% of the related consolidated total assets as of September 30, 2016 and 2015, respectively; and the total liabilities amounted to NT\$684,792 thousand and NT\$662,367 thousand, representing 1.24% and 1.25% of the related consolidated total liabilities as of September 30, 2016 and 2015, respectively; and their comprehensive income (loss) amounted to a net income of NT\$355 thousand and a net income of NT\$25,091 thousand; as well as a net loss of NT\$131,795 thousand and a net income of NT\$86,113 thousand, representing 0.03% and 0.53%, as well as (3.63)% and 0.56% of the consolidated total comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2016 and 2015, respectively.



Based on our reviews, except for the effect of the adjustments, if any, to the consolidated financial statements as we might have been determined to be necessary had the financial statements of certain subsidiaries under the equity method described above been reviewed by independent accountants, we are not aware of any material modifications that should be made to the consolidated financial statements referred to in the first paragraph in order for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” as endorsed by Financial Supervisory Commission, ROC.

K P M G

Taipei, Taiwan (the Republic of China)

November 9, 2016

#### **Notes to Readers**

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards No. 34 “Interim Financial Reporting” as endorsed by Financial Supervisory Commission, ROC and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the independent accountants’ review 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 original Chinese version or any difference in the interpretation of the two versions, the independent accountants’ review report and consolidated financial statements in Chinese shall prevail.

**Consolidated financial statements as of September 30, 2016 and 2015 are reviewed only, not audited in accordance with the generally accepted auditing standards**

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**SEPTEMBER 30, 2016, DECEMBER 31, 2015 AND SEPTEMBER 30, 2015  
(Expressed in thousands of New Taiwan Dollars)**

|   | <u>September 30, 2016</u> |            | <u>December 31, 2015</u> |            | <u>September 30, 2015</u> |            |   | <u>September 30, 2016</u> |            | <u>December 31, 2015</u> |            | <u>September 30, 2015</u> |            |
|---|---------------------------|------------|--------------------------|------------|---------------------------|------------|---|---------------------------|------------|--------------------------|------------|---------------------------|------------|
|   |                           |            |                          |            |                           |            |   |                           |            | <u>(Restated)</u>        |            | <u>(Restated)</u>         |            |
| <b>Assets</b>   |                           |            |                          |            |                           |            | <b>Liabilities and Equity</b>                           |                           |            |                          |            |                           |            |
| <b>Current assets:</b>  |                           |            |                          |            |                           |            | <b>Current liabilities :</b>                            |                           |            |                          |            |                           |            |
| 1100 Cash and cash equivalents (Note 6(1))                          | \$ 13,248,008             | 12         | 3,103,705                | 3          | 3,746,947                 | 4          | 2100 Short-term loans (Note 6(9))                       | \$ 2,174,700              | 2          | 3,306,000                | 3          | 3,305,000                 | 3          |
| 1170 Notes and accounts receivable, net (Note 6(4))                 | 4,421,791                 | 4          | 5,442,511                | 5          | 5,758,982                 | 6          | 2170 Notes and accounts payable                         | 4,613,186                 | 4          | 1,384,780                | 2          | 1,564,993                 | 1          |
| 1200 Other receivables (Note 6(4))                                  | 1,376,538                 | 1          | 1,486,388                | 1          | 1,478,395                 | 1          | 2180 Accounts payable—related parties (Note 7)          | 198,839                   | -          | 175,430                  | -          | 172,018                   | -          |
| 1210 Other receivable—related parties (Notes 6(4)(8) and 7)         | 298,329                   | -          | 263,588                  | -          | 259,160                   | -          | 2200 Other payables                                     | 798,594                   | 1          | 518,651                  | -          | 530,823                   | 1          |
| 130x Inventories (Note 6(5))  | 5,779,735                 | 5          | 5,949,340                | 6          | 6,009,267                 | 6          | 2220 Other payables—related parties (Notes 6(11) and 7) | 23,623,946                | 19         | 26,646,915               | 26         | 30,600,901                | 29         |
| 1470 Other current assets   | <u>1,603,424</u>          | <u>1</u>   | <u>1,577,089</u>         | <u>2</u>   | <u>1,424,950</u>          | <u>1</u>   | 2322 Current portion of long-term loans (Note 6(10))    | 4,795,500                 | 4          | 500,000                  | -          | 500,000                   | 1          |
| <b>Total current assets</b>   | <u>26,727,825</u>         | <u>23</u>  | <u>17,822,621</u>        | <u>17</u>  | <u>18,677,701</u>         | <u>18</u>  | 2399 Other current liabilities                          | <u>2,487,483</u>          | <u>3</u>   | <u>2,697,823</u>         | <u>3</u>   | <u>2,332,184</u>          | <u>2</u>   |
| <b>Non-current assets:</b>  |                           |            |                          |            |                           |            | <b>Total current liabilities</b>                        | <u>38,692,248</u>         | <u>33</u>  | <u>35,229,599</u>        | <u>34</u>  | <u>39,005,919</u>         | <u>37</u>  |
| 1523 Available-for-sale financial assets—non-current (Note 6(2))    | 70,909                    | -          | 92,930                   | -          | 89,190                    | -          | <b>Non-current liabilities:</b>                         |                           |            |                          |            |                           |            |
| 1543 Financial assets carried at cost—non-current (Note 6(3))       | 9,340                     | -          | 9,340                    | -          | 9,340                     | -          | 2540 Long-term loans (Note 6(10))                       | 15,161,050                | 13         | 12,685,000               | 12         | 12,683,750                | 12         |
| 1546 Debt investments without active market—non-current (Note 6(3)) | 181,280                   | -          | 181,280                  | -          | 181,280                   | -          | 2570 Deferred income tax liabilities                    | 683                       | -          | 7,558                    | -          | 226                       | -          |
| 1550 Investments accounted for using equity method, net (Note 6(6)) | 31,698,994                | 28         | 32,833,967               | 32         | 32,624,740                | 31         | 2613 Lease payables—long-term (Notes 6(11) and 7)       | 267,349                   | -          | 273,923                  | -          | 276,051                   | -          |
| 1600 Property, plant and equipment (Notes 6(7), 7 and 8)            | 55,459,835                | 47         | 49,763,526               | 48         | 50,362,720                | 48         | 2640 Accrued pension liabilities—non current            | 750,658                   | 1          | 755,860                  | 1          | 631,915                   | 1          |
| 1780 Intangible assets  | 305,945                   | -          | 406,193                  | -          | 439,953                   | -          | 2670 Other non-current liabilities                      | <u>134,366</u>            | <u>-</u>   | <u>199,722</u>           | <u>-</u>   | <u>241,529</u>            | <u>-</u>   |
| 1840 Deferred income tax assets                                     | 868,879                   | 1          | 876,064                  | 1          | 846,881                   | 1          | <b>Total non-current liabilities</b>                    | <u>16,314,106</u>         | <u>14</u>  | <u>13,922,063</u>        | <u>13</u>  | <u>13,833,471</u>         | <u>13</u>  |
| 1935 Lease receivable—long-term (Notes 6(8) and 7)                  | 1,425,776                 | 1          | 1,632,343                | 2          | 1,697,687                 | 2          | <b>Total liabilities</b>                                | <u>55,006,354</u>         | <u>47</u>  | <u>49,151,662</u>        | <u>47</u>  | <u>52,839,390</u>         | <u>50</u>  |
| 1990 Other non-current assets (Notes 6(1) and 8)                    | <u>395,590</u>            | <u>-</u>   | <u>387,773</u>           | <u>-</u>   | <u>405,497</u>            | <u>-</u>   | <b>Equity (Notes 6(6)(13)(14)):</b>                     |                           |            |                          |            |                           |            |
| <b>Total non-current assets</b>                                     | 90,416,548                | 77         | 86,183,416               | 83         | 86,657,288                | 82         | 3110 Common stock                                       | 27,485,658                | 23         | 24,285,658               | 23         | 24,285,658                | 23         |
| <b>Total assets</b>   | <u>\$ 117,144,373</u>     | <u>100</u> | <u>104,006,037</u>       | <u>100</u> | <u>105,334,989</u>        | <u>100</u> | 3200 Additional paid-in capital                         | 15,960,088                | 14         | 7,812,701                | 8          | 7,219,425                 | 7          |
|   |                           |            |                          |            |                           |            | 3310 Legal reserve                                      | 2,791,929                 | 2          | 1,077,812                | 1          | 1,077,812                 | 1          |
|   |                           |            |                          |            |                           |            | 3320 Special reserve                                    | 4,570                     | -          | -                        | -          | -                         | -          |
|   |                           |            |                          |            |                           |            | 3350 Accumulated profits                                | 16,146,186                | 14         | 21,913,621               | 21         | 20,156,413                | 19         |
|   |                           |            |                          |            |                           |            | 3400 Other equity                                       | (23,416)                  | -          | (4,570)                  | -          | (6,773)                   | -          |
|   |                           |            |                          |            |                           |            | 3500 Treasury stock                                     | <u>(347,533)</u>          | <u>-</u>   | <u>(347,533)</u>         | <u>-</u>   | <u>(347,533)</u>          | <u>-</u>   |
|   |                           |            |                          |            |                           |            | Equity attributable to owners of the Company            | 62,017,482                | 53         | 54,737,689               | 53         | 52,385,002                | 50         |
|   |                           |            |                          |            |                           |            | 36xx Non-controlling interest                           | <u>120,537</u>            | <u>-</u>   | <u>116,686</u>           | <u>-</u>   | <u>110,597</u>            | <u>-</u>   |
|   |                           |            |                          |            |                           |            | <b>Total equity</b>                                     | <u>62,138,019</u>         | <u>53</u>  | <u>54,854,375</u>        | <u>53</u>  | <u>52,495,599</u>         | <u>50</u>  |
|   |                           |            |                          |            |                           |            | <b>Total Liabilities and Equity</b>                     | <u>\$ 117,144,373</u>     | <u>100</u> | <u>104,006,037</u>       | <u>100</u> | <u>105,334,989</u>        | <u>100</u> |

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with the generally accepted auditing standards

NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE-MONTH AND NINE- MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015

(Expressed in thousands of New Taiwan Dollars, except for earnings per share)

|      | For the three-month periods ended  |                     |               |                  | For the nine-month periods ended |                    |               |                   |           |
|------|--|---------------------|---------------|------------------|----------------------------------|--------------------|---------------|-------------------|-----------|
|      | September 30,  |                     | September 30, |                  | September 30,                    |                    | September 30, |                   |           |
|      | 2016   | 2015                | 2016          | 2015             | 2016                             | 2015               | 2016          | 2015              |           |
|      | Amount   | %                   | Amount        | %                | Amount                           | %                  | Amount        | %                 |           |
| 4000 | Operating revenues (Note 7)  | \$ 10,203,896       | 100           | 10,337,320       | 100                              | 29,534,545         | 100           | 33,521,039        | 100       |
| 5000 | Cost of goods sold (Notes 6(5)(12)(15)(17) and 7)                                  | <u>7,032,718</u>    | <u>69</u>     | <u>6,479,733</u> | <u>63</u>                        | <u>20,427,823</u>  | <u>69</u>     | <u>19,302,301</u> | <u>58</u> |
|      | <b>Gross profit</b>  | <u>3,171,178</u>    | <u>31</u>     | <u>3,857,587</u> | <u>37</u>                        | <u>9,106,722</u>   | <u>31</u>     | <u>14,218,738</u> | <u>42</u> |
|      | <b>Operating expenses (Notes 6(11)(12)(15)(17) and 7):</b>                         |                     |               |                  |                                  |                    |               |                   |           |
| 6100 | Selling and distribution expenses  | 169,797             | 2             | 155,813          | 1                                | 495,166            | 2             | 484,840           | 1         |
| 6200 | Administrative and general expenses  | 272,030             | 2             | 265,484          | 3                                | 729,682            | 2             | 838,900           | 3         |
| 6300 | Research and development expenses  | <u>1,030,140</u>    | <u>10</u>     | <u>484,210</u>   | <u>5</u>                         | <u>1,899,191</u>   | <u>7</u>      | <u>1,267,444</u>  | <u>4</u>  |
|      | <b>Total operating expenses</b>  | <u>1,471,967</u>    | <u>14</u>     | <u>905,507</u>   | <u>9</u>                         | <u>3,124,039</u>   | <u>11</u>     | <u>2,591,184</u>  | <u>8</u>  |
|      | <b>Operating income</b>  | <u>1,699,211</u>    | <u>17</u>     | <u>2,952,080</u> | <u>28</u>                        | <u>5,982,683</u>   | <u>20</u>     | <u>11,627,554</u> | <u>34</u> |
|      | <b>Non-operating income and expenses:</b>  |                     |               |                  |                                  |                    |               |                   |           |
| 7010 | Other income (Notes 6(8)(18))  | 67,038              | 1             | 52,950           | 1                                | 188,090            | 1             | 174,422           | 1         |
| 7020 | Other gains and losses (Notes 6(18) and 7)   | (390,304)           | (4)           | 539,649          | 5                                | (701,717)          | (3)           | 359,900           | 1         |
| 7050 | Finance expenses (Note 6(18))  | (187,320)           | (2)           | (216,383)        | (2)                              | (547,090)          | (2)           | (665,284)         | (2)       |
| 7060 | Share of profit of associates accounted for using equity method (Notes 6(6) and 7) | <u>214,579</u>      | <u>2</u>      | <u>1,405,683</u> | <u>14</u>                        | <u>(622,023)</u>   | <u>(2)</u>    | <u>4,296,181</u>  | <u>13</u> |
|      | <b>Total non-operating income and expenses</b>                                     | <u>(296,007)</u>    | <u>(3)</u>    | <u>1,781,899</u> | <u>18</u>                        | <u>(1,682,740)</u> | <u>(6)</u>    | <u>4,165,219</u>  | <u>13</u> |
|      | <b>Profit before income tax</b>  | 1,403,204           | 14            | 4,733,979        | 46                               | 4,299,943          | 14            | 15,792,773        | 47        |
| 7950 | Income tax expense (Note 6(13))  | <u>1,890</u>        | <u>-</u>      | <u>2,485</u>     | <u>-</u>                         | <u>648,859</u>     | <u>2</u>      | <u>497,163</u>    | <u>1</u>  |
|      | <b>Net income</b>  | <u>1,401,314</u>    | <u>14</u>     | <u>4,731,494</u> | <u>46</u>                        | <u>3,651,084</u>   | <u>12</u>     | <u>15,295,610</u> | <u>46</u> |
| 8300 | <b>Other comprehensive income (loss):</b>  |                     |               |                  |                                  |                    |               |                   |           |
| 8360 | <b>Items that could be reclassified subsequently to profit or loss</b>             |                     |               |                  |                                  |                    |               |                   |           |
| 8361 | Foreign currency translation differences – foreign operations                      | (6,564)             | -             | 30,696           | -                                | 3,174              | -             | 13,464            | -         |
| 8362 | Unrealized loss on available-for-sale financial assets                             | (15,407)            | -             | (23,406)         | -                                | (22,020)           | -             | (26,176)          | -         |
| 8399 | Income tax expense related to items that could be reclassified to profit or loss   | -                   | -             | -                | -                                | -                  | -             | -                 | -         |
|      | <b>Total items that could be reclassified subsequently to profit or loss</b>       | <u>(21,971)</u>     | <u>-</u>      | <u>7,290</u>     | <u>-</u>                         | <u>(18,846)</u>    | <u>-</u>      | <u>(12,712)</u>   | <u>-</u>  |
| 8500 | <b>Total comprehensive income</b>  | <u>\$ 1,379,343</u> | <u>14</u>     | <u>4,738,784</u> | <u>46</u>                        | <u>3,632,238</u>   | <u>12</u>     | <u>15,282,898</u> | <u>46</u> |
|      | <b>Profit attributable to:</b>   |                     |               |                  |                                  |                    |               |                   |           |
| 8610 | Income attributable to owners of the Company                                       | \$ 1,401,674        | 14            | 4,726,612        | 46                               | 3,647,236          | 12            | 15,271,353        | 46        |
| 8620 | Income attributable to non-controlling interests                                   | <u>(360)</u>        | <u>-</u>      | <u>4,882</u>     | <u>-</u>                         | <u>3,848</u>       | <u>-</u>      | <u>24,257</u>     | <u>-</u>  |
|      | <b>Total net income</b>  | <u>\$ 1,401,314</u> | <u>14</u>     | <u>4,731,494</u> | <u>46</u>                        | <u>3,651,084</u>   | <u>12</u>     | <u>15,295,610</u> | <u>46</u> |
|      | <b>Total comprehensive (loss) income attributable to:</b>                          |                     |               |                  |                                  |                    |               |                   |           |
| 8710 | Total comprehensive income attributable to owners of the Company                   | \$ 1,379,703        | 14            | 4,733,902        | 46                               | 3,628,390          | 12            | 15,258,641        | 46        |
| 8720 | Total comprehensive income attributable to non-controlling interests               | <u>(360)</u>        | <u>-</u>      | <u>4,882</u>     | <u>-</u>                         | <u>3,848</u>       | <u>-</u>      | <u>24,257</u>     | <u>-</u>  |
|      | <b>Total comprehensive income</b>  | <u>\$ 1,379,343</u> | <u>14</u>     | <u>4,738,784</u> | <u>46</u>                        | <u>3,632,238</u>   | <u>12</u>     | <u>15,282,898</u> | <u>46</u> |
|      | <b>Basic earnings per share (Note 6(16))</b>                                       |                     |               |                  |                                  |                    |               |                   |           |
| 9750 | <b>Basic earnings per share (Unit: TWD)</b>  | <u>\$ 0.51</u>      |               | <u>1.94</u>      |                                  | <u>1.33</u>        |               | <u>6.30</u>       |           |
| 9850 | <b>Diluted earnings per share (Unit: TWD)</b>                                      |                     |               |                  |                                  |                    |               | <u>\$ 6.25</u>    |           |

See accompanying notes to consolidated financial statements.

**Reviewed only, not audited in accordance with the generally accepted auditing standards**

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015**

**(Expressed in thousands of New Taiwan Dollars)**

|   | Attributable to owners of the Company |                                    |                            |                   |                 |                               |   |   |                  |   |                          |                   |
|---|---------------------------------------|------------------------------------|----------------------------|-------------------|-----------------|-------------------------------|---|---|------------------|---|--------------------------|-------------------|
|   | Common stock                          | Advance receipts for share capital | Additional capital surplus | Retained earnings |                 |                               | Total other equity interest   |   |                  | Total equity attributable to owners of parent | Non-controlling interest | Total equity      |
|   |                                       |                                    |                            | Legal reserve     | Special reserve | Accumulated profits (deficit) | Exchange differences on translation of foreign financial statements | Unrealized gains (losses) on available -for-sale financial assets | Treasury stock   |   |                          |                   |
| <b>Balance as of January 1, 2015</b>  | \$ 24,095,278                         | 653,565                            | 6,377,936                  | -                 | -               | 10,816,268                    | (23,516)  | 29,455  | (347,533)        | 41,601,453                                    | 75,605                   | 41,677,058        |
| Net profit for the nine-month period ended September 30, 2015                 | -                                     | -                                  | -                          | -                 | -               | 15,271,353                    | -   | -   | -                | 15,271,353                                    | 24,257                   | 15,295,610        |
| Other comprehensive income (loss)   | -                                     | -                                  | -                          | -                 | -               | -                             | 13,464  | (26,176)  | -                | (12,712)                                      | -                        | (12,712)          |
| Total comprehensive income (loss)   | -                                     | -                                  | -                          | -                 | -               | 15,271,353                    | 13,464  | (26,176)  | -                | 15,258,641                                    | 24,257                   | 15,282,898        |
| <b>Appropriation and distribution of retained earnings:</b>                   |                                       |                                    |                            |                   |                 |                               |   |   |                  |   |                          |                   |
| Legal reserve   | -                                     | -                                  | -                          | 1,077,812         | -               | (1,077,812)                   | -   | -   | -                | -   | -                        | -                 |
| Cash dividends of common stock  | -                                     | -                                  | -                          | -                 | -               | (4,853,396)                   | -   | -   | -                | (4,853,396)                                   | -                        | (4,853,396)       |
| <b>Change in other capital surplus:</b>                                       |                                       |                                    |                            |                   |                 |                               |   |   |                  |   |                          |                   |
| Adjustments of capital surplus for cash dividends distributed to subsidiaries | -                                     | -                                  | 1,374                      | -                 | -               | -                             | -   | -   | -                | 1,374   | -                        | 1,374             |
| Recognized changes in equity in the subsidiaries                              | -                                     | -                                  | (3,159)                    | -                 | -               | -                             | -   | -   | -                | (3,159)                                       | 3,159                    | -                 |
| Change in equity of associates accounted for using equity method              | -                                     | -                                  | (16,846)                   | -                 | -               | -                             | -   | -   | -                | (16,846)                                      | -                        | (16,846)          |
| Recognized compensation costs on employee stock options by the company        | -                                     | -                                  | 2,924                      | -                 | -               | -                             | -   | -   | -                | 2,924   | -                        | 2,924             |
| Recognized compensation costs on employee stock options by subsidiaries       | -                                     | -                                  | 378                        | -                 | -               | -                             | -   | -   | -                | 378   | 275                      | 653               |
| Recognition of equity component from employee stock options issued            | 190,380                               | (653,565)                          | 856,818                    | -                 | -               | -                             | -   | -   | -                | 393,633                                       | -                        | 393,633           |
| Changes in non-controlling interests  | -                                     | -                                  | -                          | -                 | -               | -                             | -   | -   | -                | -   | 7,301                    | 7,301             |
| <b>Balance as of September 30, 2015</b>                                       | \$ <u>24,285,658</u>                  | <u>-</u>                           | <u>7,219,425</u>           | <u>1,077,812</u>  | <u>-</u>        | <u>20,156,413</u>             | <u>(10,052)</u>   | <u>3,279</u>  | <u>(347,533)</u> | <u>52,385,002</u>                             | <u>110,597</u>           | <u>52,495,599</u> |
| <b>Balance as of January 1, 2016</b>  | \$ 24,285,658                         | -                                  | 7,812,701                  | 1,077,812         | -               | 21,913,621                    | (11,588)  | 7,018   | (347,533)        | 54,737,689                                    | 116,686                  | 54,854,375        |
| Net profit for the nine-month period ended September 30, 2016                 | -                                     | -                                  | -                          | -                 | -               | 3,647,236                     | -   | -   | -                | 3,647,236                                     | 3,848                    | 3,651,084         |
| Other comprehensive income (loss)   | -                                     | -                                  | -                          | -                 | -               | -                             | 3,174   | (22,020)  | -                | (18,846)                                      | -                        | (18,846)          |
| Total comprehensive income (loss)   | -                                     | -                                  | -                          | -                 | -               | 3,647,236                     | 3,174   | (22,020)  | -                | 3,628,390                                     | 3,848                    | 3,632,238         |
| <b>Appropriation and distribution of retained earnings:</b>                   |                                       |                                    |                            |                   |                 |                               |   |   |                  |   |                          |                   |
| Legal reserve   | -                                     | -                                  | -                          | 1,714,117         | -               | (1,714,117)                   | -   | -   | -                | -   | -                        | -                 |
| Cash dividends declared on common stock                                       | -                                     | -                                  | -                          | -                 | -               | (7,695,984)                   | -   | -   | -                | (7,695,984)                                   | -                        | (7,695,984)       |
| Special reserve   | -                                     | -                                  | -                          | -                 | 4,570           | (4,570)                       | -   | -   | -                | -   | -                        | -                 |
| Capital increase by cash  | 3,200,000                             | -                                  | 8,475,000                  | -                 | -               | -                             | -   | -   | -                | 11,675,000                                    | -                        | 11,675,000        |
| <b>Change in other capital surplus:</b>                                       |                                       |                                    |                            |                   |                 |                               |   |   |                  |   |                          |                   |
| Adjustments of capital surplus for cash dividends distributed to subsidiaries | -                                     | -                                  | 1,926                      | -                 | -               | -                             | -   | -   | -                | 1,926   | -                        | 1,926             |
| Change in equity of associates accounted for using equity method              | -                                     | -                                  | (513,063)                  | -                 | -               | -                             | -   | -   | -                | (513,063)                                     | -                        | (513,063)         |
| Recognized compensation costs on employee stock options                       | -                                     | -                                  | 183,524                    | -                 | -               | -                             | -   | -   | -                | 183,524                                       | 3                        | 183,527           |
| <b>Balance as of September 30, 2016</b>                                       | \$ <u>27,485,658</u>                  | <u>-</u>                           | <u>15,960,088</u>          | <u>2,791,929</u>  | <u>4,570</u>    | <u>16,146,186</u>             | <u>(8,414)</u>  | <u>(15,002)</u>   | <u>(347,533)</u> | <u>62,017,482</u>                             | <u>120,537</u>           | <u>62,138,019</u> |

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with the generally accepted auditing standards

NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015

(Expressed in thousands of New Taiwan Dollars)

|   | <b>For the nine-month periods<br/>ended September 30,</b> |                            |
|---|---|----------------------------|
|   | <b>2016</b>   | <b>2015<br/>(Restated)</b> |
| <b>Cash flows from operating activities:</b>                        |   |                            |
| <b>Profit before tax</b>  | \$ 4,299,943  | 15,792,773                 |
| <b>Adjustments for:</b>   |   |                            |
| Income and expenses not affecting cash flow                         |   |                            |
| Depreciation expense  | 4,424,258   | 4,224,887                  |
| Amortization expense  | 111,419   | 108,177                    |
| Interest expenses   | 547,090   | 665,284                    |
| Interest income   | (188,090)   | (174,422)                  |
| Dividend income   | (2,770)   | (3,601)                    |
| Compensation costs arising from share-based payments                | 183,527   | 3,577                      |
| Share of profit of associate accounted for using equity method      | 622,023   | (4,296,181)                |
| Loss (gain) on disposal of property, plant and equipment            | (1,127)   | (812)                      |
| Loss (gain) on disposal of financial assets in available-for-sale   | (9,615)   | -                          |
| Impairment loss on non-financial assets                             | -   | 4,204                      |
| Unrealized foreign currency exchange gain, net                      | 41,041  | (126,756)                  |
| Income and expenses not affecting cash flow                         | 5,727,756   | 404,357                    |
| Change in operating assets and liabilities:                         |   |                            |
| Decrease (increase) in accounts receivable and notes receivable     | 1,006,256   | 467,657                    |
| Decrease in other receivables                                       | (40,363)  | 111,873                    |
| (Increase) decrease in inventories                                  | 169,605   | (860,860)                  |
| (Increase) decrease in other current assets                         | (26,025)  | (533,593)                  |
| Increase (decrease) in accounts payable and notes payable           | 483,684   | 158,005                    |
| Decrease in other accounts payable                                  | (2,750)   | 72,447                     |
| Increase (decrease) in other current liabilities                    | 297,233   | (675,994)                  |
| Decrease in accrued pension liabilities                             | (5,202)   | (2,648)                    |
| Increase (decrease) in other non-current liabilities                | 10,570  | 1,269                      |
| Total changes in operating assets and liabilities                   | 1,893,008   | (1,261,844)                |
| Cash generated from operations                                      | 11,920,707  | 14,935,286                 |
| Interest received   | 188,027   | 175,821                    |
| Interest paid   | (557,195)   | (682,597)                  |
| Income tax paid   | (382,948)   | (77,698)                   |
| <b>Net cash provided by operating activities</b>                    | 11,168,591  | 14,350,812                 |
| <b>Cash flows from investing activities:</b>                        |   |                            |
| Purchase of available for sale financial assets                     | (8,100,000)   | -                          |
| Proceeds from disposal of available for sale financial assets       | 8,109,615   | -                          |
| Acquisition of debt investments without active market – non-current | -   | (181,280)                  |
| Acquisition of financial assets carried at cost-non-current         | -   | (9,340)                    |
| Purchase of property, plant and equipment                           | (7,345,788)   | (3,067,004)                |
| Proceeds from disposal of property, plant and equipment             | 1,127   | 1,966                      |
| Purchase of intangible asset  | (83,095)  | (91,422)                   |
| Decrease in lease receivables                                       | 321,997   | 321,997                    |
| Increase in other non-current assets                                | (9,352)   | (21,381)                   |
| Dividends received  | 2,770   | 3,601                      |
| <b>Net cash used in investing activities</b>                        | (7,102,726)   | (3,042,863)                |
| <b>Cash flows from financing activities:</b>                        |   |                            |
| Increase in short-term loans  | 17,342,400  | 3,605,000                  |
| Repayments of short-term loans                                      | (18,473,700)  | (300,000)                  |
| Increase in long-term loans   | 7,964,000   | 500,000                    |
| Repayments of long-term loans                                       | (1,200,000)   | (3,700,000)                |
| Decrease in other payables – related parties                        | (3,497,821)   | (10,493,067)               |
| Decrease in lease payable   | (6,200)   | (5,846)                    |
| Cash dividends paid   | (7,694,058)   | (4,852,022)                |
| Capital increase by cash  | 11,675,000  | -                          |
| Advance receipts for share capital – employee stock options         | -   | 393,633                    |
| Increase in non-controlling interests                               | -   | 7,301                      |
| <b>Net cash provided by (used in) financing activities</b>          | 6,109,621   | (14,845,001)               |
| Effect of foreign currency exchange translation                     | (31,183)  | 16,144                     |
| Increase (decrease) in cash and cash equivalents                    | 10,144,303  | (3,520,908)                |
| Cash and cash equivalents at beginning of period                    | 3,103,705   | 7,267,855                  |
| <b>Cash and cash equivalents at end of period</b>                   | \$ 13,248,008   | 3,746,947                  |

See accompanying notes to consolidated financial statements.

**Notes to consolidated financial statements as of September 30, 2016 and 2015 are reviewed only, not audited in accordance with the generally accepted auditing standards**

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016 AND 2015**

**(All amounts are expressed in thousands of New Taiwan Dollars,  
except for per share information or unless otherwise specified)**

**1. Organization and business scope**

Nanya Technology Corporation (the "Company") was legally established upon the approval of the Ministry of Economic Affairs on March 4, 1995. It has a registered address at 669, Fuhsing 3rd Road, Hwa-Ya Technology Park, Kueishan District, Taoyuan City, Taiwan. The main operating activities of the Company and its subsidiary (the "Group") are researching, developing, manufacturing and selling semiconductor products, and the import and export of its machinery, equipment and raw materials.

**2. Approval date and procedures of the consolidated financial statements**

The consolidated financial statements as of and for the nine-month period ended September 30, 2016 were approved and authorized for issue by the board of directors on November 9, 2016.

**3. New standards and interpretations not yet adopted**

(1) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and endorsed by the FSC for adoption effective from January 1, 2017 (excluding IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers", and others which have yet to be approved by the FSC in order for them to take effect) in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

| <b><u>New, Revised or Amended Standards and Interpretations</u></b>                                    | <b><u>Effective date per IASB</u></b> |
|--|---------------------------------------|
| Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"  | January 1, 2016                       |
| Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"                   | January 1, 2016                       |
| IFRS 14 "Regulatory Deferral Accounts"   | January 1, 2016                       |
| Amendment to IAS 1 "Disclosure Initiative"   | January 1, 2016                       |
| 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                       |
| Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"                                   | July 1, 2014                          |

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

| <b><u>New, Revised or Amended Standards and Interpretations</u></b>                 | <b><u>Effective date per IASB</u></b> |
|---|---------------------------------------|
| Amendment to IAS 27 "Equity Method in Separate Financial Statements"                | January 1, 2016                       |
| Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"      | January 1, 2014                       |
| Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014                       |
| Annual improvements cycles 2010-2012 and 2011-2013                                  | July 1, 2014                          |
| Annual improvements cycle 2012-2014   | January 1, 2016                       |
| IFRIC 21 "Levies"   | January 1, 2014                       |

The results of the Group's assessment disclosed that the initial application of the above IFRSs would not have any material impact on the consolidated financial statements.

(2) Newly released or amended standards and interpretations not yet endorsed by the FSC

The new standards and amendments issued by the IASB but not yet endorsed by the FSC as of the end of reporting date are as follows:

| <b><u>New, Revised or Amended Standards and Interpretations</u></b>  | <b><u>Effective date per IASB</u></b>   |
|--|---|
| IFRS 9 "Financial Instruments"   | January 1, 2018                         |
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture" | Effective date to be determined by IASB |
| IFRS 15 "Revenue from Contracts with Customers"  | January 1, 2018                         |
| IFRS 16 "Leases"   | January 1, 2019                         |
| Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"               | January 1, 2018                         |
| Amendment to IFRS 15 "Clarifications of IFRS 15"   | January 1, 2018                         |
| Amendment to IAS 7 "Disclosure Initiative"   | January 1, 2017                         |
| Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"   | January 1, 2017                         |

(Continued)

## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Group is still determining the potential impact on its consolidated financial statements of the standards listed below:

| <u>Issuance /<br/>Release Dates</u>   | <u>Standards or Interpretations</u>                | <u>Content of amendment</u>  |
|---------------------------------------|--|--|
| May 28, 2014<br>April 12, 2016        | IFRS 15 "Revenue from<br>Contracts with Customers" | <p>IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations.</p> <p>The final amendments to IFRS 15 issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.</p>   |
| November 19,<br>2013<br>July 24, 2014 | IFRS 9 "Financial Instruments"                     | <p>This accounting standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the key amendments in this standard are as follows:</p> <ul style="list-style-type: none"> <li>• <i>Classification and measurement:</i> Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income.</li> <li>• <i>Impairment:</i> The expected credit loss model is used to evaluate impairment.</li> <li>• <i>Hedge accounting:</i> Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.</li> </ul> |

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

| <u>Issuance /<br/>Release Dates</u> | <u>Standards or Interpretations</u> | <u>Content of amendment</u>   |
|-------------------------------------|-------------------------------------|---|
| January 13, 2016                    | IFRS 16 "Leases"                    | <p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> <li>• For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of use asset during the lease term.</li> <li>• A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</li> </ul> |

The Group is evaluating the impact on its financial position and financial performance of the initial adoption of the above-mentioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

**4. Summary of significant accounting policies**

(1) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Guidelines) and IAS 34 "Interim Financial Reporting" endorsed by the FSC. These consolidated financial statements do not include all disclosures required of the annual financial statements under the Guidelines and IFRSs, IASs, IFRIC Interpretations and SIC Interpretations as endorsed by the FSC (hereinafter referred to as IFRS as endorsed by the FSC).

Except as described below, the significant accounting policies adopted in the accompanying consolidated financial statements are the same as those adopted in the consolidated financial statements for the year ended December 31, 2015. Please refer to Note 4 of the consolidated financial statements for the year ended December 31, 2015 for related information.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(2) Basis of consolidation

Principle of preparing consolidated financial statements are the same as those used for the consolidated financial statements for the year ended December 31, 2015. Please refer to Note 4(3) of the consolidated financial statements for the year ended December 31, 2015 for complete disclosures of significant accounting policies.

1) Subsidiaries included in the consolidated financial statements:

| Investor                    | The name of subsidiaries        | Business activity                             | Shareholdings      |                   |                    |
|-----------------------------|---------------------------------|---|--------------------|-------------------|--------------------|
|                             |                                 |   | September 30, 2016 | December 31, 2015 | September 30, 2015 |
| The Company                 | NANYA TECHNOLOGY CORP. U.S.A    | Sales of semiconductor products               | 100.00%            | 100.00%           | 100.00%            |
| The Company                 | NANYA TECHNOLOGY CORP. Delaware | Design of semiconductor products              | 100.00%            | 100.00%           | 100.00%            |
| The Company                 | NANYA TECHNOLOGY CORP. H.K.     | Sales of semiconductor products               | 100.00%            | 100.00%           | 100.00%            |
| The Company                 | NANYA TECHNOLOGY CORP. Japan    | Sales of semiconductor products               | 100.00%            | 100.00%           | 100.00%            |
| The Company                 | PEI JEN Co., Ltd.               | Investment in enterprise                      | 100.00%            | 100.00%           | 100.00%            |
| The Company                 | PIECEMAKERS TECHNOLOGY CORP.    | Product design and sells                      | 55.26%             | 55.26%            | 55.26%             |
| The Company                 | SUMPRO ELECTRONICS CORP.        | Manufacture and sale of electronic components | 100.00%            | 100.00%           | 100.00%            |
| NANYA TECHNOLOGY CORP. H.K. | NANYA TECHNOLOGY CORP., Germany | Sales of semiconductor products               | 100.00%            | 100.00%           | 100.00%            |
| NANYA TECHNOLOGY CORP. H.K. | NANYA TECHNOLOGY CORP. Shenzhen | Sales of semiconductor products               | 100.00%            | 100.00%           | 100.00%            |

Notes: 1) The financial statements as of and for the nine-month periods ended September 30, 2016 and 2015 of all the subsidiaries enumerated above were not reviewed by independent accountants.

2) Subsidiaries not included in the consolidated financial statements: None.

(3) Income taxes

The Group evaluates and discloses the interim period income tax expense in accordance with paragraph B12 of IAS 34 “Interim Financial Reporting”.

Income tax expense is best estimated by multiplying the pretax income for the interim reporting period by the effective annual tax rate as forecasted by management. This is recognized as current tax expense and deferred taxes in proportion with the estimated annual current tax expense and deferred tax expense.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases are measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled and recognized directly in equity or other comprehensive income as tax expense.

(4) Employee benefits

The pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-time events.

**5. Critical accounting judgments and key sources of estimation uncertainty**

The consolidated financial statements are prepared in conformity with IAS 34 “Interim Financial Reporting” as endorsed by the FSC, under which, the management makes judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In these consolidated financial statements, judgments and key sources of estimation uncertainty used by management in the application of critical accounting policies are expected to be consistent with those in Note 5 of the consolidated financial statements for the year ended December 31, 2015.

**6. Significant accounts**

Except as described below, the description of significant accounts in the accompanying consolidated financial statements is not materially different from those in the consolidated financial statements for the year ended December 31, 2015. Please refer to Note 6 of the consolidated financial statements for the year ended December 31, 2015 for more details.

(1) Cash and cash equivalents

|   | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>September 30,<br/>2015</b> |
|---|-------------------------------|------------------------------|-------------------------------|
| Cash on hand—pretty cash                                | \$ 421                        | 171                          | 238                           |
| Cash in bank—demand deposit account                     | 4,100,686                     | 2,952,040                    | 2,455,452                     |
| Cash equivalents:                                       |                               |                              |                               |
| Cash in bank—time deposits                              | 9,146,901                     | -                            | 1,225,329                     |
| Repurchase agreements collateralized by corporate bonds | -                             | 151,494                      | 65,928                        |
|   | <b><u>\$ 13,248,008</u></b>   | <b><u>3,103,705</u></b>      | <b><u>3,746,947</u></b>       |

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Group's certificate of deposit and restricted bank deposit amounting to \$378,654, \$376,883 and \$378,771 were pledged for the Group's importation of cargo materials, research and development's plan being undertaken with the Ministry of Economic Affairs and loans payable, which were reclassified to non-current assets as of September 30, 2016, December 31, 2015 and September 30, 2015, respectively.

(2) Non-current assets held for sale

The non-current assets held for sale were as follows:

|   | <u>September 30,<br/>2016</u> | <u>December 31,<br/>2015</u> | <u>September<br/>30, 2015</u> |
|---|-------------------------------|------------------------------|-------------------------------|
| Available-for-sale financial assets – non current |                               |                              |                               |
| Listed shares of stock                            | \$ <u>70,909</u>              | <u>92,930</u>                | <u>89,190</u>                 |

(3) Investment in debt securities with no active market / Financial assets carried at cost – non-current

In August, 2015, the Group purchased a two-year interest-free convertible bond of US\$6,000 thousand issued by Memoright. The conversion rights embedded in this corporate bond are accounted for separately as the economic characteristics and risks are not specifically associated. Likewise, the conversion rights of this corporate bond which are linked to unlisted preference shares of \$9,340 and the corporate bonds of \$181,280 were accounted for as financial assets carried at cost non-current and investment in debt securities with no active market – non-current, respectively, as of September 30, 2016, December 31, 2015 and September 30, 2015.

(4) Notes receivable, accounts receivable and other receivables

|   | <u>September 30,<br/>2016</u> | <u>December 31,<br/>2015</u> | <u>September<br/>30, 2015</u> |
|---|-------------------------------|------------------------------|-------------------------------|
| Accounts receivable                           | \$ 4,432,219                  | 5,451,688                    | 5,768,230                     |
| Other receivables (including related parties) | 1,674,867                     | 1,749,976                    | 1,737,555                     |
| Less : allowance for doubtful receivables     | <u>(10,428)</u>               | <u>(9,177)</u>               | <u>(9,248)</u>                |
|   | \$ <u>6,096,658</u>           | <u>7,192,487</u>             | <u>7,496,537</u>              |

Aging analysis of notes receivable, accounts receivable and other receivables:

|                    |    | <u>Neither past<br/>due nor impaired</u> | <u>Past due but not impaired</u> |                   |                     | <u>Total</u> |
|--------------------|----|--|----------------------------------|-------------------|---------------------|--------------|
|                    |    |  | <u>Within 30 days</u>            | <u>31-60 days</u> | <u>over 61 days</u> |              |
| September 30, 2016 | \$ | 6,049,258                                | 39,737                           | 7,663             | -                   | 6,096,658    |
| December 31, 2015  |    | 7,154,949                                | 37,538                           | -                 | -                   | 7,192,487    |
| September 30, 2015 |    | 7,245,560                                | 250,922                          | 55                | -                   | 7,496,537    |

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Movements of the allowance for doubtful receivables were as follows:

|                                  | <u>Collectively assessed<br/>impairment</u> |
|----------------------------------|---|
| Balance as of January 1, 2016    | \$ 9,177                                    |
| Loss on foreign exchange         | <u>1,251</u>                                |
| Balance as of September 30, 2016 | <u><u>\$ 10,428</u></u>                     |
| Balance as of January 1, 2015    | \$ 8,889                                    |
| Loss on foreign exchange         | <u>359</u>                                  |
| Balance as of September 30, 2015 | <u><u>\$ 9,248</u></u>                      |

(5) Inventories

|                 | <u>September 30,<br/>2016</u> | <u>December 31,<br/>2015</u> | <u>September 30,<br/>2015</u> |
|-----------------|-------------------------------|------------------------------|-------------------------------|
| Raw materials   | \$ 333,289                    | 214,271                      | 225,191                       |
| Work in process | 2,905,494                     | 2,723,567                    | 2,920,952                     |
| Finished goods  | 2,470,917                     | 2,998,347                    | 2,760,290                     |
| Supplies        | <u>70,035</u>                 | <u>13,155</u>                | <u>102,834</u>                |
|                 | <u><u>\$ 5,779,735</u></u>    | <u><u>5,949,340</u></u>      | <u><u>6,009,267</u></u>       |

The Group did not recognize any loss from devaluation of inventories or gain from recovery in the value of inventories for the three-month and nine-month periods ended September 30, 2016.

The Group recognized a loss from devaluation of inventories of \$2 for the nine-month period ended September 30, 2015, which was debited to cost of goods sold. The Group did not recognize any loss from devaluation of inventories or gain from recovery in the value of inventories for the three-month period ended September 30, 2015.

(6) Investments accounted for using equity method

The components of the investments accounted for using equity method were as follows:

|           | <u>September 30,<br/>2016</u> | <u>December 31,<br/>2015</u> | <u>September 30,<br/>2015</u> |
|-----------|-------------------------------|------------------------------|-------------------------------|
| Associate | <u><u>\$ 31,698,994</u></u>   | <u><u>32,833,967</u></u>     | <u><u>32,624,740</u></u>      |

The Group's capital surplus—equity of associates accounted for using equity method increased by \$11,859 due to the recognition of the costs of employee stock options of Inotera Memories, Inc. for the nine-month period ended September 30, 2016.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On February 23, May 10 and August 9, 2016 the Group's capital surplus—equity of associates accounted for using equity method decreased by \$75,456 due to the increase in capital injection of 26,179 thousand shares of Inotera Memories, Inc., without purchasing in proportion to the original shareholding percentage.

On September 30, 2016, the Group's capital surplus—equity of associates accounted for using equity method decreased by \$449,466 due to the repurchasing of treasury shares of Inotera Memories, Inc. in accordance with the Business Mergers and Acquisitions Act.

The Group's capital surplus—equity of associates accounted for using equity method increased by \$32,926 due to the recognition of the costs of employee stock options of Inotera Memories, Inc. for the nine-month period ended September 30, 2015.

On February 10, May 12 and August 11, 2015, the Group's capital surplus—equity of associates accounted for using equity method decreased by \$49,772 due to the increase in capital injection of 22,060 thousand shares of Inotera Memories, Inc., as the Group did not purchase in proportion to its original shareholding percentage.

The related information of the investments in a significant associate accounted for using equity method was as follows:

| Associate              | Relationship   | Registration<br>Country | Percentage of ownership |                      |                       |
|------------------------|--|-------------------------|-------------------------|----------------------|-----------------------|
|                        |  |                         | September<br>30, 2016   | December<br>31, 2015 | September<br>30, 2015 |
| Inotera Memories, Inc. | Its primary operating activity is producing and selling of semiconductor products. | Taiwan                  | 24.24%                  | 24.34%               | 24.34%                |

The fair value of investments in publicly traded stocks of the significant associate was as follows:

|                        | September 30,<br>2016 | December 31,<br>2015 | September 30,<br>2015 |
|------------------------|-----------------------|----------------------|-----------------------|
| Inotera Memories, Inc. | \$ <u>44,063,453</u>  | <u>44,622,229</u>    | <u>32,808,115</u>     |

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The key financial information of Inotera Memories Inc. were as follows:

|                         | <u>September 30,<br/>2016</u> | <u>December 31,<br/>2015</u> | <u>September 30,<br/>2015</u> |
|-------------------------|-------------------------------|------------------------------|-------------------------------|
| Current assets          | \$ 33,005,591                 | 41,012,811                   | 51,280,779                    |
| Non-current assets      | 121,423,475                   | 116,871,496                  | 102,417,814                   |
| Current liabilities     | (14,101,592)                  | (12,325,004)                 | (17,463,766)                  |
| Non-current liabilities | <u>(9,148,615)</u>            | <u>(10,237,028)</u>          | <u>(1,782,075)</u>            |
| Net asset               | <u>\$ <b>131,178,859</b></u>  | <u><b>135,322,275</b></u>    | <u><b>134,452,752</b></u>     |

|  | <u>For the three-month periods<br/>ended September 30,</u> |                          | <u>For the nine-month periods<br/>ended September 30,</u> |                          |
|--|--|--------------------------|---|--------------------------|
|  | <u>2016</u>  | <u>2015</u>              | <u>2016</u>   | <u>2015</u>              |
| Revenue  | \$ <u><b>13,891,682</b></u>                                | <u><b>14,490,329</b></u> | <u><b>36,288,397</b></u>                                  | <u><b>49,188,726</b></u> |
| Net income from continuing operations                      | \$ 885,967   | 5,773,519                | (2,561,893)   | 17,630,798               |
| Other comprehensive income                                 | <u>(2,215)</u>   | <u>429</u>               | <u>(371)</u>  | <u>298</u>               |
| Total comprehensive income (loss)                          | <u>\$ <b>883,752</b></u>                                   | <u><b>5,773,948</b></u>  | <u><b>(2,562,264)</b></u>                                 | <u><b>17,631,096</b></u> |
| Total comprehensive income (loss) distributed to the Group | <u>\$ <b>214,579</b></u>                                   | <u><b>1,405,683</b></u>  | <u><b>(622,023)</b></u>                                   | <u><b>4,296,181</b></u>  |

|  | <u>For the nine-month periods<br/>ended September 30,</u> |                          |
|--|---|--------------------------|
|  | <u>2016</u>   | <u>2015</u>              |
| Share of the equity of the associate as of January 1,  | \$ 32,833,967   | 28,345,213               |
| Total comprehensive income allocated to the Group of investment in associate for the nine-month period ended September 30, | <u>(622,023)</u>  | <u>4,296,181</u>         |
| Share of the equity of the associate as of September 30,   | 32,211,944  | 32,641,394               |
| Add:   |   |                          |
| Realized profit on disposal of fixed assets  | 203   | 203                      |
| Recognition of the costs of employee stock options   | 11,859  | 32,926                   |
| Less:  |   |                          |
| Capital surplus due to acquisition of shares not proportionate to original holding ratio                                   | (524,922)   | (49,772)                 |
| Others   | <u>(90)</u>   | <u>(11)</u>              |
| Carrying amount of equity of a significant associate   | <u>\$ <b>31,698,994</b></u>                               | <u><b>32,624,740</b></u> |

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(7) Property, plant and equipment

The following are the cost and accumulated depreciation of property, plant and equipment of the Group:

|   | <u>Land</u>         | <u>Building</u>  | <u>Machinery<br/>and equipment</u> | <u>Other<br/>facilities</u> | <u>Construction<br/>in progress</u> | <u>Total</u>       |
|---|---------------------|------------------|------------------------------------|-----------------------------|-------------------------------------|--------------------|
| Cost :                                  |                     |                  |                                    |                             |                                     |                    |
| Balance as of January 1, 2016           | \$ 1,013,924        | 4,197,540        | 124,544,160                        | 1,428,002                   | 1,275,203                           | 132,458,829        |
| Additions                               | -                   | -                | 288,032                            | 18,997                      | 9,813,888                           | 10,120,917         |
| Disposals                               | -                   | -                | (115,514)                          | (27,769)                    | -                                   | (143,283)          |
| Reclassification                        | -                   | 673              | 212,419                            | 4,580                       | (217,672)                           | -                  |
| Effect of exchange rate change          | -                   | 271              | (1,270)                            | (580)                       | -                                   | (1,579)            |
| Balance as of September 30, 2016        | <u>\$ 1,013,924</u> | <u>4,198,484</u> | <u>124,927,827</u>                 | <u>1,423,230</u>            | <u>10,871,419</u>                   | <u>142,434,884</u> |
| Balance as of January 1, 2015           | \$ 1,013,924        | 4,197,965        | 117,669,279                        | 1,548,558                   | 4,079,353                           | 128,509,079        |
| Additions                               | -                   | 82               | 3,179,921                          | 11,645                      | 223,550                             | 3,415,198          |
| Disposals                               | -                   | (566)            | (188,941)                          | (39,796)                    | -                                   | (229,303)          |
| Reclassification                        | -                   | 400              | 3,518,761                          | (3,675)                     | (3,515,486)                         | -                  |
| Effect of exchange rate change          | -                   | 394              | 1,238                              | 1,792                       | -                                   | 3,424              |
| Balance as of September 30, 2015        | <u>\$ 1,013,924</u> | <u>4,198,275</u> | <u>124,180,258</u>                 | <u>1,518,524</u>            | <u>787,417</u>                      | <u>131,698,398</u> |
| Accumulated depreciation / impairment : |                     |                  |                                    |                             |                                     |                    |
| Balance as of January 1, 2016           | \$ -                | 1,290,719        | 80,274,330                         | 1,130,254                   | -                                   | 82,695,303         |
| Depreciation for the period             | -                   | 120,122          | 4,264,740                          | 39,396                      | -                                   | 4,424,258          |
| Disposals                               | -                   | -                | (115,514)                          | (27,769)                    | -                                   | (143,283)          |
| Reclassification                        | -                   | 673              | 267                                | (940)                       | -                                   | -                  |
| Effect of exchange rate change          | -                   | 135              | (1,794)                            | 430                         | -                                   | (1,229)            |
| Balance as of September 30, 2016        | <u>\$ -</u>         | <u>1,411,649</u> | <u>84,422,029</u>                  | <u>1,141,371</u>            | <u>-</u>                            | <u>86,975,049</u>  |
| Balance as of January 1, 2015           | \$ -                | 1,131,077        | 75,006,135                         | 1,195,940                   | -                                   | 77,333,152         |
| Depreciation for the period             | -                   | 120,134          | 4,051,979                          | 52,774                      | -                                   | 4,224,887          |
| Disposals                               | -                   | (566)            | (188,324)                          | (39,056)                    | -                                   | (227,946)          |
| Impairment loss                         | -                   | -                | -                                  | 4,204                       | -                                   | 4,204              |
| Reclassification                        | -                   | 673              | 5,398                              | (6,071)                     | -                                   | -                  |
| Effect of exchange rate change          | -                   | 77               | 725                                | 579                         | -                                   | 1,381              |
| Balance as of September 30, 2015        | <u>\$ -</u>         | <u>1,251,395</u> | <u>78,875,913</u>                  | <u>1,208,370</u>            | <u>-</u>                            | <u>81,335,678</u>  |
| <b>Carrying amounts:</b>                |                     |                  |                                    |                             |                                     |                    |
| Balance as of September 30, 2016        | <u>\$ 1,013,924</u> | <u>2,786,835</u> | <u>40,505,798</u>                  | <u>281,859</u>              | <u>10,871,419</u>                   | <u>55,459,835</u>  |
| Balance as of December 31, 2015         | <u>\$ 1,013,924</u> | <u>2,906,821</u> | <u>44,269,830</u>                  | <u>297,748</u>              | <u>1,275,203</u>                    | <u>49,763,526</u>  |
| Balance as of September 30, 2015        | <u>\$ 1,013,924</u> | <u>2,946,880</u> | <u>45,304,345</u>                  | <u>310,154</u>              | <u>787,417</u>                      | <u>50,362,720</u>  |

1) Collaterals

Please refer to Note 8 for conditions of the Group's property, plant and equipment pledged or collateralized as security for long-term loans or lines of credit.

2) Leased Assets

Please refer to Note 6(11) for the further description of finance lease liabilities.

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## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (8) Lease receivables

- 1) On June 18, 2009, the Company signed an amended long-term lease agreement with Inotera Memories, Inc. and MeiYa Technology Corp. on the lease of building, facilities and land located on 348, 348-1 and 348-3, Hwa-Ya Section, Kueishan District, Taoyuan City. This amended lease agreement, which took effect retroactively from January 1, 2009, includes the renewal term. Initial lease term is from January 1, 2009 to December 31, 2018. However, Inotera Memories, Inc. is entitled to renew this amended lease agreement for an unlimited number of consecutive additional terms of five years each, by providing a written notice with the intention to renew the lease term commencing from January 1, 2019. In addition, Inotera Memories, Inc. has an exclusive option to purchase the leased assets for a total purchase price of US\$50,000 thousand on and after January 1, 2024. Also, the rental receivable for the entire year of 2009 has been waived. Initial yearly rentals for the leased building (including facilities and land) were US\$13,010 thousand and US\$1,990 thousand, respectively from January 1, 2010 to December 31, 2018; the first yearly renewal rentals for the leased building (including facilities and land) will be US\$8,010 thousand and US\$1,990 thousand, respectively, from January 1, 2019 to December 31, 2023; the subsequent yearly renewal rentals for the leased building (including facilities and land) will be US\$10 thousand and US\$1,990 thousand commencing from January 1, 2024. The amended lease agreement for the building (including facilities) is treated as a capital lease because (a) the present value of the periodic rental payments made since the inception date is at least 90% of the market value of the leased assets and (b) the lease term is equal to 75% or more of the total estimated economic life of the leased assets. The land is treated as an operating lease.
- 2) The total lease receivable from the capital lease of the building (including facilities) was \$5,185,620; with implicit interest rate was 10.56%. The cost of the leased assets at the beginning of the lease period was \$2,656,223. The differences between the total lease receivable from the capital lease of the building and the cost of the leased assets were recognized as unrealized interest revenue of \$2,529,397. For the three-month periods and nine-month periods ended September 30, 2016 and 2015, the Company recognized interest revenue of \$43,669, \$49,971, \$135,878, \$154,302, respectively.

The lease receivables were analyzed as follows:

|                                     | September 30, 2016            |                         |  | December 31, 2015             |                         |  | September 30, 2015            |                         |  |
|-------------------------------------|-------------------------------|-------------------------|--|-------------------------------|-------------------------|--|-------------------------------|-------------------------|--|
|                                     | Gross investment in the lease | Unearned finance income | Present value of minimum lease payments receivable | Gross investment in the lease | Unearned finance income | Present value of minimum lease payments receivable | Gross investment in the lease | Unearned finance income | Present value of minimum lease payments receivable |
| Less than one year                  | \$ 429,330                    | 157,419                 | 271,911  | 429,330                       | 177,867                 | 251,463  | 429,330                       | 184,335                 | 244,995  |
| Between one and five years          | 1,263,570                     | 374,878                 | 888,692  | 1,387,320                     | 444,864                 | 942,456  | 1,428,570                     | 469,106                 | 959,464  |
| More than five years                | 594,743                       | 57,659                  | 537,084  | 792,990                       | 103,103                 | 689,887  | 859,073                       | 120,850                 | 738,223  |
| Sub-total                           | <u>\$ 2,287,643</u>           | <u>589,956</u>          | <u>1,697,687</u>                                   | <u>2,609,640</u>              | <u>725,834</u>          | <u>1,883,806</u>                                   | <u>2,716,973</u>              | <u>774,291</u>          | <u>1,942,682</u>                                   |
| Current                             |                               |                         | \$ 271,911   |                               |                         | 251,463  |                               |                         | 244,995  |
| Non-current                         |                               |                         | 1,425,776  |                               |                         | 1,632,343  |                               |                         | 1,697,687  |
| Lease receivables – related parties |                               |                         | <u>\$ 1,697,687</u>                                |                               |                         | <u>1,883,806</u>                                   |                               |                         | <u>1,942,682</u>                                   |

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## (9) Short-term loans

1) Short-term loans consisted of the following:

|                                 | <u>September 30,</u><br><u>2016</u> | <u>December 31,</u><br><u>2015</u> | <u>September 30,</u><br><u>2015</u> |
|---------------------------------|-------------------------------------|------------------------------------|-------------------------------------|
| Unsecured short-term borrowings | \$ <u>2,174,700</u>                 | <u>3,306,000</u>                   | <u>3,305,000</u>                    |
| Interest rate                   | <u>1.1%</u>                         | <u>1.15%~1.6%</u>                  | <u>1.15%~1.6%</u>                   |

2) Issuance and redemption of loans

|                                | <u>For the nine-month periods</u><br><u>ended September 30,</u> |                         |
|--------------------------------|---|-------------------------|
|                                | <u>2016</u>   | <u>2015</u>             |
| Balance as of January 1,       | \$ 3,306,000  | -                       |
| New issuance during the period | 17,342,400  | 3,605,000               |
| Repayments during the period   | (18,473,700)  | (300,000)               |
| Balance as of September 30,    | \$ <u>2,174,700</u>   | <u>3,305,000</u>        |
| Annual interest rate           | <u>1.1%</u>   | <u>1.15%~1.6%</u>       |
| Due date                       | <u>October 30, 2016</u>   | <u>January 21, 2016</u> |

## (10) Long-term loans

The details of long-term loans payable were as follows:

| <u>September 30, 2016</u>  |                 |                            |                   |                      |
|----------------------------|-----------------|----------------------------|-------------------|----------------------|
|                            | <u>Currency</u> | <u>Interest rate range</u> | <u>Expiration</u> | <u>Amount</u>        |
| Secured bank loans         | TWD             | 1.7895% ~ 2.1924%          | 2019 ~ 2021       | \$ 19,956,550        |
| Less: current portion      |                 |                            |                   | (4,795,500)          |
| Total                      |                 |                            |                   | \$ <u>15,161,050</u> |
| Unused long-term of credit |                 |                            |                   | \$ <u>10,040,000</u> |
| <u>December 31, 2015</u>   |                 |                            |                   |                      |
|                            | <u>Currency</u> | <u>Interest rate range</u> | <u>Expiration</u> | <u>Amount</u>        |
| Unsecured bank loans       | TWD             | 1.271%~2.014%              | 2016~2017         | \$ 1,200,000         |
| Secured bank loans         | TWD             | 2.327%                     | 2019              | 11,985,000           |
| Less: current portion      |                 |                            |                   | (500,000)            |
| Total                      |                 |                            |                   | \$ <u>12,685,000</u> |
| Unused long-term of credit |                 |                            |                   | \$ <u>8,106,000</u>  |

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## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

|                            | <b>September 30, 2015</b> |                            |                   |                             |
|----------------------------|---------------------------|----------------------------|-------------------|-----------------------------|
|                            | <u>Currency</u>           | <u>Interest rate range</u> | <u>Expiration</u> | <u>Amount</u>               |
| Unsecured bank loans       | TWD                       | 1.3278%~2.078%             | 2015~2017         | \$ 1,200,000                |
| Secured bank loans         | TWD                       | 2.3945%                    | 2015~2019         | 11,983,750                  |
| Less: current portion      |                           |                            |                   | <u>(500,000)</u>            |
| Total                      |                           |                            |                   | <b>\$ <u>12,683,750</u></b> |
| Unused long-term of credit |                           |                            |                   | <b>\$ <u>7,221,000</u></b>  |

## 1) Issuance and redemption of loans

- a. The Company signed a syndicated loan agreement with Taiwan Cooperative Bank, the managing bank, and 15 (hereinafter referred to as “the group of banks”) other banks for a syndicated loan with a credit line of \$12,000,000 on February 18, 2016, and applied for appropriation of loans of \$8,000,000 on March 30, 2016. The interest rates would be adjusted depending on the profit-after-tax ratio and also takes into consideration the three-month or six-month TAIBOR rate 2 bank trading days before each of the accounts' drawdown dates or coupon reset dates released on the ROC Bankers Association website. Additionally, the first repayment of the principal is due on the 36 month after the first appropriation date, with the balance payable in 5 semi-annual installments.

Also, the Company is required to maintain certain financial ratios which should be based on the semi-annual and annual consolidated financial statements of the Company and calculated by the managing bank every 6 months starting from the end of year 2016 or when the managing bank deems necessary. If the borrower fails to comply with the above-mentioned financial covenants by the inspection date, it should be given a six-month grace period, commencing from the inspection date, to correct the situation by raising additional capital or other means necessary. Should the borrower successfully adhered to the stated financial covenants before the end of the grace period, it should be deemed as a non-violation of the written agreement. The required financial ratios are as follows:

- (a) Liability Ratio (total liabilities to total net equity and tangibles assets, plus, financing payables to related parties): not more than 200%.
- (b) Tangible net equity, plus, other financing payables to related parties: not less than \$50,000,000 for each year.

The Group was in compliance with all of the aforementioned covenants as of and for the nine-month period ended September 30, 2016.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- b. The Group signed a syndicated loan agreement with Bank of Taiwan, the managing bank, and 14 other banks (hereinafter referred to as “the Company of banks”) for a syndicated loan with a credit line of \$12,000,000 on January 2, 2014, and applied for appropriation of loans of \$6,400,000 on January 28, 2014, \$3,650,000 on July 28, 2014, and \$1,950,000 on October 27, 2014. This loan bears interest of 90 day commercial paper rate, plus, an annual interest rate of 1.1% in monthly payments. Additionally, the first installment payment of the principal is payable on due date, with the rest payable in 5 semiannual installments. According to the agreement, the borrower should maintain a balance of no less than 3% of the original credit limit in the specified bank account two months from the first credit approval date.

Also, the Group is required to maintain certain financial ratios which should be based on its semi-annual and annual consolidated financial statements and calculated by the managing bank every 6 months starting from the end of year 2013 or when the managing bank deems necessary. In the event that any of the financial covenants below is breached, the Group is required to submit a formal letter to the managing bank at least three months after submitting the semi-annual and annual consolidated financial statements to syndicated banks, so that the managing bank can convene a meeting of the Banks to discuss the aforesaid breach and to resolve whether a waiver of the breach will be granted. The required financial ratios are as follows:

- I. Financing payables to related parties: not less than \$35,000,000. In July 2015, the Company signed a supplementary contract with a group of banks, agreeing to delete this financial covenant.
- II. Liability Ratio (total liabilities to total net equity and tangibles assets, plus, financing payables to related parties): not more than 200%.
- III. Tangible net equity, plus, other financing payables to related parties: not less than \$45,000,000 in the semi-annual and annual financial statements of 2013, and \$50,000,000 for each year beginning 2014.

The Group was in compliance with all of the aforementioned covenants above for the first six months of 2016 and for the years ended December 31, 2015.

2) Collaterals for bank loans

Please refer to Note 8 for information on assets pledged as loan collateral by the Group.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## (11) Finance lease liabilities

|                                  | September 30, 2016                     |                       |   | December 31, 2015                      |                       |   | September 30, 2015                     |                       |   |
|----------------------------------|--|-----------------------|---|--|-----------------------|---|--|-----------------------|---|
|                                  | Future<br>minimum<br>lease<br>payments | Interest              | Present<br>value of<br>minimum<br>lease<br>payments | Future<br>minimum<br>lease<br>payments | Interest              | Present<br>value of<br>minimum<br>lease<br>payments | Future<br>minimum<br>lease<br>payments | Interest              | Present<br>value of<br>minimum<br>lease<br>payments |
| Less than one year               | \$ 24,698                              | 15,996                | 8,702   | 24,698                                 | 16,371                | 8,327   | 24,698                                 | 16,492                | 8,206   |
| Between one and five years       | 98,792                                 | 58,404                | 40,388  | 98,792                                 | 60,142                | 38,650  | 98,792                                 | 60,704                | 38,088  |
| More than five years             | <u>327,246</u>                         | <u>100,285</u>        | <u>226,961</u>                                      | <u>345,770</u>                         | <u>110,497</u>        | <u>235,273</u>                                      | <u>351,944</u>                         | <u>113,981</u>        | <u>237,963</u>                                      |
|                                  | <b>\$ <u>450,736</u></b>               | <b><u>174,685</u></b> | <b><u>276,051</u></b>                               | <b><u>469,260</u></b>                  | <b><u>187,010</u></b> | <b><u>282,250</u></b>                               | <b><u>475,434</u></b>                  | <b><u>191,177</u></b> | <b><u>284,257</u></b>                               |
| Current                          |  | \$ 8,702              |   |  |                       | 8,327   |  |                       | 8,206   |
| Non-current                      |  |                       | <u>267,349</u>                                      |  |                       | <u>273,923</u>                                      |  |                       | <u>276,051</u>                                      |
| Lease payables – related parties |  | \$ <u>276,051</u>     |   |  |                       | <u>282,250</u>                                      |  |                       | <u>284,257</u>                                      |

- 1) The rental of land is treated as an operating lease. The rental expenses amounting to \$930, \$930, \$2,789 and \$2,789 were fully paid and were recognized for the three-month and nine-month periods ended September 30, 2016 and 2015, respectively.
- 2) The Group did not issue, repurchase, or repay any lease liabilities during the nine-month periods ended September 30, 2016 and 2015. Please refer to Note 6(18) for the details of related interest expenses. For other relevant information, please refer to Note 6(13) of the consolidated financial statements for the year ended December 31, 2015.

## (12) Employee benefits

## 1) Defined benefit plan

Subsequent to December 31, 2015, there is apparently no evidence of any material market volatility, material curtailment, reimbursement and settlement or other material one-time events. Therefore, the pension cost in these interim consolidated financial statements was measured and disclosed according to the respective actuarial report for the years ended December 31, 2015 and 2014.

The Company's pension costs recognized in profit or loss were as follows:

|                    | For the three-month periods<br>ended September 30, |                     | For the nine-month periods<br>ended September 30, |                      |
|--------------------|--|---------------------|---|----------------------|
|                    | 2016   | 2015                | 2016  | 2015                 |
| Cost of goods sold | \$ 2,988   | 3,180               | 8,846   | 9,571                |
| Operating expenses | <u>1,275</u>                                       | <u>1,356</u>        | <u>3,944</u>                                      | <u>4,035</u>         |
| Total              | <b>\$ <u>4,263</u></b>                             | <b><u>4,536</u></b> | <b><u>12,790</u></b>                              | <b><u>13,606</u></b> |

(Continued)

## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2) Defined contribution plan

The Group's pension costs that were contributed to the Bureau of Labor Insurance were as follows:

|                    | For the three-month periods<br>ended September 30, |               | For the nine-month periods<br>ended September 30, |               |
|--------------------|--|---------------|---|---------------|
|                    | 2016   | 2015          | 2016  | 2015          |
| Cost of goods sold | \$ 18,236  | 16,899        | 52,775  | 50,667        |
| Operating expenses | 14,907   | 10,646        | 36,676  | 34,187        |
| Total              | <u>\$ 33,143</u>                                   | <u>27,545</u> | <u>89,451</u>                                     | <u>84,854</u> |

## (13) Income tax

## 1) The components of income tax expense were as follows:

|   | For the three-month periods<br>ended September 30, |              | For the nine-month periods<br>ended September 30, |                |
|---|--|--------------|---|----------------|
|   | 2016   | 2015         | 2016  | 2015           |
| Current income tax expense  | \$ 1,722   | 2,897        | (112,273)   | 12,753         |
| Income tax using the Company's<br>domestic tax rate 10% surtax on<br>undistributed earnings | -  | -            | 759,822   | 484,691        |
| Deferred income tax expense   | 168  | (412)        | 310   | (281)          |
| Income tax expense  | <u>\$ 1,890</u>                                    | <u>2,485</u> | <u>648,859</u>                                    | <u>497,163</u> |

## 2) The Company's income tax returns have been examined by the ROC tax authority through 2014.

## 3) Information related to the undistributed earnings and imputation credit account (ICA) and creditable ratio were as follows:

|  | September 30,<br>2016 | December 31,<br>2015 | September 30,<br>2015 |
|--|-----------------------|----------------------|-----------------------|
| Undistributed earnings (accumulated deficit) after 1998        | <u>\$ 16,146,186</u>  | <u>21,913,621</u>    | <u>20,156,413</u>     |
| Imputation credit account                                      | <u>\$ 229,666</u>     | <u>37,556</u>        | <u>33,151</u>         |
|  |                       | <u>2015 (actual)</u> | <u>2014 (actual)</u>  |
| Tax deduction ratio for earnings distribution to ROC residents |                       | <u>1.83</u> %        | <u>0.68</u> %         |

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Under the integrated income tax regulation, the above imputation credit account and creditable ratio were calculated according to the formal interpretation No.10204562810 issued by the Taxation Administration, Ministry of Finance, R.O.C. on October 17, 2013.

**(14) Capital and other equity**

Except as described below, there was no material change in equity for the nine-month periods ended September 30, 2016 and 2015. Please refer to Note 6(16) of the consolidated financial statements as of and for the year ended December 31, 2015 for the related detail disclosures on equity.

**1) Common stock**

On January 14, 2016 the board of directors approved to carry out a private placement of common shares through the issuance of 320,000 thousand common shares of stock, the price of \$36.5 per share, respectively, with the total values amounting to \$11,675,000 respectively. All issued shares were paid up upon issuance. Also, the process for the registration thereof was completed.

On August 10, 2015, the board of directors approved to increase the Company's outstanding common shares through the exercise of stock options under the Employee Stock Option Plan (ESOP). Accordingly, the Company issued 4 thousand and 19,034 thousand common shares of stock, at an issuance premium price of \$81.9 and \$55 per share, respectively, with total value of \$328 and \$1,046,870, respectively. All issued shares were paid up upon issuance. Also, the process for the registration thereof was completed.

On June 12, 2012 and December 24, 2012, the board of directors approved to carry out a private placement of common shares through the issuance of 3,800,000 thousand common shares and 5,294,118 thousand common shares after reducing the Company's capital to 380,319 thousand common shares and 529,856 thousand common shares, respectively, at a discounted issuance price of \$1.7 per share. The process for the registration thereof was completed. According to the Securities and Exchange Act, the transfer of such privately placed common shares within three years from the delivery date is forbidden, except when the transferees conform to Article 43-8 of the Securities and Exchange Act. On March 15, 2016, the board of directors voted to approve the procedures for the listing and public offering of the shares of stock of the Company. The approval was also granted by the respective authorities in accordance with the regulations. The registration of these private common shares of stock had been completed.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The movements of shares outstanding for the nine-month periods ended September 30, 2015 and 2016 were as follows:

|                                     | <b>Common Shares</b>                                      |                         |
|-------------------------------------|---|-------------------------|
|                                     | <b>For the nine-month periods<br/>ended September 30,</b> |                         |
|                                     | <b>2016</b>   | <b>2015</b>             |
| Balance as of January 1,            | \$ 2,428,566  | 2,409,528               |
| Exercise of employees stock options | -   | 19,038                  |
| Capital increase                    | <u>320,000</u>  | <u>-</u>                |
| Balance as of September 30,         | <u><u>\$ 2,748,566</u></u>                                | <u><u>2,428,566</u></u> |

2) Capital surplus

The components of capital surplus were as follows:

|   | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>September 30,<br/>2015</b> |
|---|-------------------------------|------------------------------|-------------------------------|
| Premium from exercise of employee stock options           | \$ 9,852,246                  | 1,377,246                    | 520,428                       |
| The equity method of accounting for long-term Investments | 4,548,542                     | 5,061,605                    | 4,960,709                     |
| Employee stock option plans                               | 1,556,000                     | 1,372,476                    | 1,736,914                     |
| Other   | <u>3,300</u>                  | <u>1,374</u>                 | <u>1,374</u>                  |
|   | <u><u>\$ 15,960,088</u></u>   | <u><u>7,812,701</u></u>      | <u><u>7,219,425</u></u>       |

3) Retained Earnings

According to the Company's Articles of Incorporation, the Company's annual net profit, after providing for income tax and covering the losses of previous years, is first set aside for legal reserve at the rate of 10% thereof until the accumulated balance of legal reserve equals the total issued capital and any special reserves pursuant to relevant laws and regulations. The remainder, plus the undistributed earnings of the previous years, are distributed or left undistributed for business purposes according to the resolution of the stockholders' dividend distribution plan, which are initially proposed by the board of directors and adopted by the shareholders in the annual stockholders' meeting.

As it belongs to a highly capital-intensive industry with strong growth potential, the Company adopts a dividend distribution policy which is in line with its plans for product line expansion and the demand of fund. This policy requires that the distribution of cash dividends shall be equal to at least fifty percent (50%) of the Company's total dividend distribution every year.

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## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The appropriations of earnings of 2015 were approved in the stockholders' meeting on June 22, 2016 and the appropriations of earnings of 2014 were approved in the stockholders' meeting on June 10, 2015. The amounts of appropriation of dividends per share were as follows:

|   | 2015                   |                  | 2014                   |                  |
|---|------------------------|------------------|------------------------|------------------|
|   | Dividends<br>per share | Amount           | Dividends<br>per share | Amount           |
| Dividends attributable to<br>ordinary shareholders: |                        |                  |                        |                  |
| Cash dividends                                      | \$ 2.80                | <u>7,695,984</u> | 2.00                   | <u>4,853,396</u> |

## 4) Treasury stock

The Company's shares of stock held by subsidiaries were as follows:

|   | Unit: thousand shares of common stock |                      |                       |
|---|---------------------------------------|----------------------|-----------------------|
|   | September 30,<br>2016                 | December 31,<br>2015 | September<br>30, 2015 |
| Ending number of shares as of September 30, | <u>687</u>                            | <u>687</u>           | <u>687</u>            |
| Ending balance as of September 30,          | \$ <u>347,533</u>                     | <u>347,533</u>       | <u>347,533</u>        |
| Carrying amount per share                   | \$ <u>505.46</u>                      | <u>505.46</u>        | <u>505.46</u>         |
| Market price per share                      | \$ <u>39.25</u>                       | <u>45.7</u>          | <u>36.5</u>           |

As of September 30, 2016, none of the Company's common shares of stock held by its subsidiary, Pei Jen Co., Ltd., has been sold.

According to the R.O.C. Securities and Exchange Act, treasury stock cannot be pledged and the shareholders' rights thereon are restricted until the treasury shares of stock are transferred.

## 5) Other Equity

|   | Exchange<br>differences on<br>translation of<br>foreign operations | Unrealized gains<br>on available-for-sale<br>financial assets |
|---|--|---|
| Balance at January 1, 2016  | \$ (11,588)  | 7,018   |
| Exchange differences on translation of foreign<br>operations, net of tax: |  |   |
| -the Group  | 3,174  | -   |
| Unrealized gains (losses) on available-for-sale<br>financial assets:      |  |   |
| -the Group  | -  | (22,020)  |
| Balance at September 30, 2016   | \$ <u>(8,414)</u>  | <u>(15,002)</u>   |

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

|   | <b>Exchange<br/>differences on<br/>translation of<br/>foreign operations</b> | <b>Unrealized gains<br/>on available-for-sale<br/>financial assets</b> |
|---|--|--|
| Balance at January 1, 2015  | \$ (23,516)  | 29,455   |
| Exchange differences on translation of foreign operations, net of tax |  |  |
| -the Group  | 13,464   | -  |
| Unrealized gains (losses) on available-for-sale financial assets:     |  |  |
| -the Group  | -  | (26,176)   |
| Balance at September 30, 2015   | <b>\$ (10,052)</b>   | <b>3,279</b>   |

(15) Share-based payment transactions

Except as described below, there was no material change on the share-based payment transactions for the nine-month periods ended September 30, 2016 and 2015. Please refer to Note 6(17) of the consolidated financial statements as of and for the year ended December 31, 2015 for related disclosures on share-based payment transactions.

Related information on these employee stock option plans were as follows:

|                                    | Unit: in thousands                                    |  |  |  |
|------------------------------------|---|--|--|--|
|                                    | <b>For the nine-month periods ended September 30,</b> |  |  |  |
|                                    | <b>2016</b>   |  | <b>2015</b>  |  |
|                                    | <b>Weighted-average<br/>exercise price<br/>(TWD)</b>  | <b>Number of<br/>options<br/>(Units)</b> | <b>Weighted-average<br/>exercise price<br/>(TWD)</b> | <b>Number of<br/>options<br/>(Units)</b> |
| Outstanding as of January 1,       | \$ 42.79  | 71,846                                   | 46.98  | 83,965                                   |
| Options paid                       | 35.33   | 100,000                                  | -  | -  |
| Options exercised                  | -   | -  | 53.12  | (7,155)                                  |
| Options forfeited                  | 37.55   | (502)                                    | 74.23  | (4,834)                                  |
| Outstanding as of September 30,    | 36.89   | <b>171,344</b>                           | 42.79  | <b>71,976</b>                            |
| Options exercisable, end of period | 39.06   | <b>71,523</b>                            | 42.79  | <b>71,976</b>                            |

For the three-month and nine-month periods ended September 30, 2016 and 2015, compensation costs arising from share options granted to employees amounted to \$110,716, \$400, \$183,483 and \$3,577, respectively.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## (16) Earnings per share

The basic earnings per share and diluted earnings per share were calculated as follows:

|  | <b>For the three-month periods<br/>ended September 30,</b> |                    | <b>For the nine-month periods<br/>ended September 30,</b> |                       |
|--|--|--------------------|---|-----------------------|
|  | <b>2016</b>  | <b>2015</b>        | <b>2016</b>   | <b>2015</b>           |
| <b>Basic earnings per share :</b>                              |  |                    |   |                       |
| Net income attributable to the Group                           | \$ <u>1,401,674</u>  | <u>4,726,612</u>   | <u>3,647,236</u>  | <u>15,271,353</u>     |
| Weighted-average number of ordinary shares outstanding (basic) | <u>2,747,878</u>   | <u>2,427,806</u>   | <u>2,732,696</u>  | <u>2,422,512</u>      |
| Basic earnings per share (dollars)                             | \$ <u><u>0.51</u></u>                                      | <u><u>1.94</u></u> | <u><u>1.33</u></u>  | <u><u>6.30</u></u>    |
| <b>Diluted earnings per share:</b>                             |  |                    |   |                       |
| Net income attributable to the Group                           |  |                    |   | \$ <u>15,271,353</u>  |
| Effect of potentially diluted ordinary shares                  |  |                    |   |                       |
| Weighted-average number of ordinary shares (basic)             |  |                    |   | 2,422,512             |
| Effect of employee stock option                                |  |                    |   | <u>21,144</u>         |
| Weighted-average number of ordinary shares (diluted)           |  |                    |   | <u>2,443,656</u>      |
| Diluted earnings per share (dollars)                           |  |                    |   | \$ <u><u>6.25</u></u> |

Because the average market price of the shares of stock if the employee stock options are exercised during the three-month and nine-month periods ended September 30, 2016 was lower than the exercise price of the employee stock options issued by the Company, the diluted earnings per share need not be disclosed.

## (17) Compensation of employees, directors and supervisors

According to the Company's articles of incorporation, if the Company makes a profit, it should appropriate for employee compensation which is calculated based on 1% to 12% of the Company's net income before tax before deduction of employee compensation, and after offsetting accumulated deficits, if any, should be distributed as employee compensations.. Employees who are entitled to receive the above mentioned employee compensation, in shares or cash, include the employees of the subsidiaries of the Company who meet certain specific requirements.

The estimated employee compensation which was charged to profit or loss under operating costs or expense amounted to \$46,510 and \$138,331 for the three-month and nine-month periods ended September 30, 2016, respectively. This employee compensation was estimated based on the Company's net income before tax before deducting any employee compensation, according to the earnings allocation method as stated under the Company's articles of association. If there is any difference between the actual amounts and the estimated amounts of employee compensation after the financial reports are issued, the management of the Company is expecting that the differences will be treated as a changes in accounting estimates and recognized through profit or loss in the following year.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The estimated employee compensation which was charged to profit or loss under operating costs or expense amounted to \$42,539 and \$141,804 for the three-month and nine-month periods ended September 30, 2015. This employee compensation was estimated based on the Company's net income before tax before deducting any employee compensation, according to the earnings allocation method as stated under the Company's articles of association. If there is any difference between the actual amounts and the estimated amounts of employee compensation after the financial reports are issued, the management of the Company is expecting that the differences will be treated as a changes in accounting estimates and recognized through profit or loss in the following year.

For the year ended December 31, 2015, the estimated employee compensation amounted to \$634,408, which differed by \$36,620 as compared to the actual amount distributed of \$671,028. This was due mainly to a change in an accounting estimate so that the difference was charged to profit or loss in 2016. The related information can be obtained from the Market Observation Post System website.

(18) Non-operating income and expenses

1) Other income

The components of the other income were as follows:

|  | <b>For the three-month periods<br/>ended September 30,</b> |                      | <b>For the nine-month periods<br/>ended September 30,</b> |                       |
|--|--|----------------------|---|-----------------------|
|  | <b>2016</b>  | <b>2015</b>          | <b>2016</b>   | <b>2015</b>           |
| Bank deposits and interest revenue<br>short-term notes | \$ 23,369  | 2,979                | 52,212  | 20,120                |
| Interest revenue on finance leases                     | <u>43,669</u>  | <u>49,971</u>        | <u>135,878</u>  | <u>154,302</u>        |
|  | <b>\$ <u>67,038</u></b>                                    | <b><u>52,950</u></b> | <b><u>188,090</u></b>                                     | <b><u>174,422</u></b> |

2) Other gains and losses

The components of the Group's other gains and losses were as follows:

|   | <b>For the three-month periods<br/>ended September 30,</b> |                       | <b>For the nine-month periods<br/>ended September 30,</b> |                       |
|---|--|-----------------------|---|-----------------------|
|   | <b>2016</b>  | <b>2015</b>           | <b>2016</b>   | <b>2015</b>           |
| Foreign exchange income (loss), net                         | \$ (448,352)   | 479,178               | (853,063)   | 225,320               |
| Reversal of allowance for impairment                        | -  | (2,466)               | -   | (4,204)               |
| Gain on disposal of property, plant<br>and equipment        | 308  | 145                   | 1,127   | 812                   |
| Dividend income   | 2,770  | 3,601                 | 2,770   | 3,601                 |
| Gains on disposal of available-for-sale<br>financial assets | 7,123  | -                     | 9,615   | -                     |
| Others  | <u>47,847</u>  | <u>59,171</u>         | <u>137,834</u>  | <u>134,371</u>        |
|   | <b>\$ <u>(390,304)</u></b>                                 | <b><u>539,649</u></b> | <b><u>(701,717)</u></b>                                   | <b><u>359,900</u></b> |

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 3) Finance expenses

The components of the Group's finance expenses were as follows:

|  | <u>For the three-month periods</u><br><u>ended September 30,</u> |                | <u>For the nine-month periods</u><br><u>ended September 30,</u> |                |
|--|--|----------------|---|----------------|
|  | <u>2016</u>  | <u>2015</u>    | <u>2016</u>   | <u>2015</u>    |
| Bank borrowings  | \$ 104,992   | 64,058         | 291,683   | 269,704        |
| Less: capitalized interest payments                                      | -  | (3,653)        | -   | (29,515)       |
| Financing interest of entities with significant influence over the group | 28,356   | 40,255         | 87,495  | 132,863        |
| Financing interest from other related parties                            | 49,758   | 85,432         | 155,257   | 279,342        |
| Lease payments   | 4,077  | 4,197          | 12,324  | 12,677         |
| Others   | 137  | 26,094         | 331   | 213            |
|  | <u>\$ 187,320</u>  | <u>216,383</u> | <u>547,090</u>  | <u>665,284</u> |

## (19) Financial instruments

Except as described below, the management of the Company believe that there was no material change with regard to the fair value and exposure risks of credit risk, liquidity risk and market risk on financial instruments. Please refer to Note 6(22) of the consolidated financial statements as of and for the year ended December 31, 2015 for the related detail disclosures on financial instruments.

## 1) Liquidity risk

The following are the dates of contractual maturities of financial liabilities, including estimated interest payments but excluding the impact of netting agreements.

|   | <u>Carrying amount</u> | <u>Contractual cash flow</u> | <u>Within 6 months</u> | <u>6-12 months</u> | <u>1-2 years</u> | <u>2-5 years</u>  | <u>Over 5 years</u> |
|---|------------------------|------------------------------|------------------------|--------------------|------------------|-------------------|---------------------|
| <b>September 30, 2016</b>                                 |                        |                              |                        |                    |                  |                   |                     |
| Non-derivative financial liabilities                      |                        |                              |                        |                    |                  |                   |                     |
| Secured bank loans  | \$ 19,956,550          | 20,834,365                   | 2,589,872              | 2,564,253          | 5,051,647        | 10,628,593        | -                   |
| Unsecured bank loans                                      | 2,174,700              | 2,176,590                    | 2,176,590              | -                  | -                | -                 | -                   |
| Other payables  | 798,594                | 798,594                      | 36,914                 | 761,680            | -                | -                 | -                   |
| Entities with significant influence over the Group        | 8,000,000              | 8,116,112                    | -                      | 8,116,112          | -                | -                 | -                   |
| Other payables-related parties                            | 23,623,946             | 23,623,946                   | 23,623,946             | -                  | -                | -                 | -                   |
| Financing from other related parties                      | 14,030,120             | 14,238,309                   | -                      | 14,238,309         | -                | -                 | -                   |
| Finance lease liabilities                                 | 276,051                | 450,737                      | 12,349                 | 12,349             | 24,698           | 74,094            | 327,247             |
| Notes and accounts payable (including to related parties) | 4,812,025              | 4,812,025                    | 4,812,025              | -                  | -                | -                 | -                   |
|   | <u>\$ 73,671,986</u>   | <u>75,050,678</u>            | <u>33,251,696</u>      | <u>25,692,703</u>  | <u>5,076,345</u> | <u>10,702,687</u> | <u>327,247</u>      |

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

|  | Carrying<br>amount          | Contractual<br>cash flow | Within 6<br>months       | 6-12<br>months           | 1-2 years               | 2-5 years               | Over 5<br>years       |
|--|-----------------------------|--------------------------|--------------------------|--------------------------|-------------------------|-------------------------|-----------------------|
| <b>December 31, 2015</b>                                     |                             |                          |                          |                          |                         |                         |                       |
| Non-derivative financial liabilities                         |                             |                          |                          |                          |                         |                         |                       |
| Secured bank loans   | \$ 11,985,000               | 12,572,251               | 137,707                  | 137,707                  | 5,001,359               | 7,295,478               | -                     |
| Unsecured bank loans   | 4,506,000                   | 4,559,195                | 3,829,486                | 9,178                    | 712,156                 | 8,375                   | -                     |
| Other payables   | 518,651                     | 518,651                  | 36,086                   | 482,565                  | -                       | -                       | -                     |
| Other payables-related parties                               | 26,646,915                  | 26,646,915               | 26,646,915               | -                        | -                       | -                       | -                     |
| Entities with significant influence over<br>the Group        | 8,800,000                   | 8,939,150                | -                        | 8,939,150                | -                       | -                       | -                     |
| Financing from other related parties                         | 16,727,941                  | 16,992,737               | -                        | 16,992,737               | -                       | -                       | -                     |
| Finance lease liabilities                                    | 282,250                     | 469,260                  | 12,349                   | 12,349                   | 24,698                  | 74,094                  | 345,770               |
| Notes and accounts payable (including<br>to related parties) | <u>1,560,210</u>            | <u>1,560,210</u>         | <u>1,560,210</u>         | <u>-</u>                 | <u>-</u>                | <u>-</u>                | <u>-</u>              |
|  | <b>\$ <u>71,026,967</u></b> | <b><u>72,258,369</u></b> | <b><u>32,222,753</u></b> | <b><u>26,573,686</u></b> | <b><u>5,738,213</u></b> | <b><u>7,377,947</u></b> | <b><u>345,770</u></b> |
| <b>September 30, 2015</b>                                    |                             |                          |                          |                          |                         |                         |                       |
| Non-derivative financial liabilities                         |                             |                          |                          |                          |                         |                         |                       |
| Secured bank loans   | \$ 11,983,750               | 12,659,701               | 141,702                  | 141,702                  | 5,035,540               | 7,340,757               | -                     |
| Unsecured bank loans   | 4,505,000                   | 4,565,086                | 3,829,428                | 9,748                    | 715,731                 | 10,179                  | -                     |
| Other payables   | 530,823                     | 530,823                  | 530,823                  | -                        | -                       | -                       | -                     |
| Other payables-related parties                               | 30,600,901                  | 30,600,901               | 300,600,901              | -                        | -                       | -                       | -                     |
| Entities with significant influence over<br>the Group        | 9,500,000                   | 9,653,451                | -                        | 9,653,451                | -                       | -                       | -                     |
| Financing from other related parties                         | 20,022,500                  | 20,346,149               | -                        | 20,346,149               | -                       | -                       | -                     |
| Finance lease liabilities                                    | 284,257                     | 475,433                  | 12,349                   | 12,349                   | 24,698                  | 74,093                  | 351,944               |
| Notes and accounts payable (including<br>to related parties) | <u>1,737,011</u>            | <u>1,737,011</u>         | <u>1,737,011</u>         | <u>-</u>                 | <u>-</u>                | <u>-</u>                | <u>-</u>              |
|  | <b>\$ <u>79,164,242</u></b> | <b><u>80,568,555</u></b> | <b><u>36,852,214</u></b> | <b><u>30,163,399</u></b> | <b><u>5,775,969</u></b> | <b><u>7,425,029</u></b> | <b><u>351,944</u></b> |

The management of the Company is not expecting that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

2) Market risk

a. Exposure to currency

The Group's significant exposure to foreign currency risk was as follows:

|                              | September 30, 2016                    |                  |                          | December 31, 2015                     |                 |                          | September 30, 2015                    |                  |                          |
|------------------------------|---------------------------------------|------------------|--------------------------|---------------------------------------|-----------------|--------------------------|---------------------------------------|------------------|--------------------------|
|                              | Foreign<br>currency (in<br>thousands) | Exchange<br>rate | New<br>Taiwan<br>Dollars | Foreign<br>currency (in<br>thousands) | Foreign<br>rate | New<br>Taiwan<br>Dollars | Foreign<br>currency (in<br>thousands) | Exchange<br>rate | New<br>Taiwan<br>Dollars |
| <b>Financial assets:</b>     |                                       |                  |                          |                                       |                 |                          |                                       |                  |                          |
| <b>Monetary items</b>        |                                       |                  |                          |                                       |                 |                          |                                       |                  |                          |
| USD                          | \$ 243,993                            | 31.366           | 7,653,084                | 214,956                               | 33.066          | 7,107,735                | 215,725                               | 33.128           | 7,146,538                |
| JPY                          | 566,401                               | 0.3109           | 176,094                  | 2,575,126                             | 0.2736          | 704,554                  | 2,969,217                             | 0.2757           | 818,613                  |
| EUR                          | 58                                    | 32.2519          | 2,045                    | 451                                   | 36.038          | 16,253                   | 328                                   | 37.1310          | 12,179                   |
| <b>Financial liabilities</b> |                                       |                  |                          |                                       |                 |                          |                                       |                  |                          |
| <b>Monetary items</b>        |                                       |                  |                          |                                       |                 |                          |                                       |                  |                          |
| USD                          | 92,689                                | 31.366           | 2,907,283                | 92,178                                | 33.066          | 3,047,958                | 103,649                               | 33.128           | 3,433,684                |
| JPY                          | 904,796                               | 0.3109           | 281,301                  | 156,072                               | 0.2736          | 42,701                   | 173,363                               | 0.2757           | 47,796                   |
| EUR                          | 2,102                                 | 35.2519          | 74,108                   | 1,098                                 | 36.038          | 39,570                   | 617                                   | 37.1310          | 22,910                   |

(Continued)

## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Group's exposure to foreign currency risk arises from the foreign currency exchange fluctuations on cash and cash equivalents, accounts receivable, and accounts payable which are denominated in different foreign currencies. A 1% depreciation of the TWD against the USD, EUR, and JPY as of September 30, 2016 and 2015 would have increased the net income after tax by \$45,685 and \$44,729 for the nine-month periods ended September 30, 2016 and 2015, respectively. This analysis assumes that all other variables remain constant and ignores any impact of forecasted sales and purchases. Management believes that the analysis is performed on the same basis for both periods.

## b. Interest rate risk

The Group's exposure to interest rate risk arising from financial assets and liabilities is described in Note 6(19).

The following sensitivity analysis is based on the risk exposure to interest rates of the derivative and non-derivative financial instruments on the reporting date. For variable rate instruments, the sensitivity analysis assumes the liabilities bearing variable interest rates are outstanding for the whole year. A 1% increase or decrease in interest rate is assessed by the management to be a reasonably possible change in the interest rate.

If the interest rates increase by 1% (with all the other factors remain constant) for the nine-month periods ended September 30, 2016 and 2015, the Group's profit would have decreased by \$441,614 and \$460,113, respectively, which were mainly caused by loans bearing floating interest rate.

## 3) Fair value

## (i) Types and fair value of financial instruments

The following Group's financial assets and liabilities included (1) information on the levels in fair value hierarchy, wherein, disclosures are not required for financial instruments not measured at fair value with a carrying value approximating its fair value; and (2) those equity investments in which the fair value cannot be reliably measured and without any quoted price in the open market.

|                                     | September 30, 2016 |               |          |              | Total         |
|-------------------------------------|--------------------|---------------|----------|--------------|---------------|
|                                     | Book Value         | Fair Value    |          |              |               |
|                                     | Level 1            | Level 2       | Level 3  |              |               |
| Available-for-sale financial assets |                    |               |          |              |               |
| Listed shares of stock              | \$ 70,909          | 70,909        | -        | -            | 70,909        |
| Financial assets carried at cost    | 9,340              | -             | -        | 9,340        | 9,340         |
| Total                               | <u>\$ 80,249</u>   | <u>70,909</u> | <u>-</u> | <u>9,340</u> | <u>80,249</u> |

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

|   | September 30, 2015   |               |          |                |                |
|---|----------------------|---------------|----------|----------------|----------------|
|   | Book Value           | Fair Value    |          |                | Total          |
|   |                      | Level 1       | Level 2  | Level 3        |                |
| Available-for-sale financial assets                   |                      |               |          |                |                |
| Listed stocks   | \$ 89,190            | 89,190        | -        | -              | 89,190         |
| Financial assets carried at cost                      | 9,340                | -             | -        | -              | -              |
| Total   | <u>\$ 98,530</u>     | <u>89,190</u> | <u>-</u> | <u>-</u>       | <u>89,190</u>  |
| Loans and receivables :                               |                      |               |          |                |                |
| Cash and cash equivalents                             | \$ 3,746,947         | -             | -        | -              | -              |
| Investment in debt securities with no active market   | 181,280              | -             | -        | 181,280        | 181,280        |
| Net amount of account receivables                     | 5,758,982            | -             | -        | -              | -              |
| Other account receivables (including related parties) | 1,492,560            | -             | -        | -              | -              |
| Lease receivable                                      | 1,942,682            | -             | -        | -              | -              |
| Total   | <u>\$ 13,122,451</u> | <u>-</u>      | <u>-</u> | <u>181,280</u> | <u>181,280</u> |
| Financial liabilities measured at amortized cost      |                      |               |          |                |                |
| Short-term loans                                      | \$ 3,305,000         | -             | -        | -              | -              |
| Accounts payable (including current portion)          | 1,737,011            | -             | -        | -              | -              |
| Other account payables (including current portion)    | 31,123,518           | -             | -        | -              | -              |
| Long-term loans (including current portion)           | 13,183,750           | -             | -        | -              | -              |
| Lease payables  | 284,257              | -             | -        | -              | -              |
| Total   | <u>\$ 49,633,536</u> | <u>-</u>      | <u>-</u> | <u>-</u>       | <u>-</u>       |

(ii) Valuation techniques not used in determining the fair value of financial instruments

Investment in debt securities with no active market and financial liabilities measured at amortized cost:

The fair value of financial liabilities traded in active markets or market maker is based on quoted market prices. When quoted prices are unavailable, the fair value is determined by discounted cash flows, using estimation and assumptions under existing market conditions which are obtainable by the Group.

(iii) Valuation techniques used in fair value determination of financial instruments

If the quoted price is available on an active market, the market price is adopted as the fair value.

Fair value of the Group's financial instruments with no active market is determined as follows: The fair value of investment in debt securities with no active market and financial assets carried at cost was estimated by Cox-Ross-Rubinstein of convertible bond and Binomial model of European call option. The key assumption for stock volatility was based on the stock volatility of same industry.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(20) Financial risk management

The policies and the objectives of the Group's financial risk management are consistent with those disclosed in Note 6(23) of the consolidated financial statements for the year ended December 31, 2015.

(21) Capital management

The objectives, policies, and procedures are the same as those stated in the consolidated financial statement for the year ended December 31, 2015. There were no material changes from January 1, 2016 to September 30, 2016 for similar quantitative information adopted for capital management in the consolidated financial statements for the year ended December 31, 2015.

**7. Related-party transactions**

(1) Significant related-party transactions

1) Sales to related parties

The Group's significant sales to related parties and the balance of accounts receivable were as follows:

|                       | <b>Sales</b>                       |                            |                                   |                            |
|-----------------------|------------------------------------|----------------------------|-----------------------------------|----------------------------|
|                       | <b>For the three-month periods</b> |                            | <b>For the nine-month periods</b> |                            |
|                       | <b>ended September 30,</b>         | <b>ended September 30,</b> | <b>ended September 30,</b>        | <b>ended September 30,</b> |
|                       | <b>2016</b>                        | <b>2015</b>                | <b>2016</b>                       | <b>2015</b>                |
| Associate             | \$ -                               | 1,288                      | 1,269                             | 1,288                      |
| Other related parties | -                                  | -                          | -                                 | (3,120)                    |
|                       | <b>\$ -</b>                        | <b>1,288</b>               | <b>1,269</b>                      | <b>(1,832)</b>             |

Note: The sales discount of \$57, \$3,177 to other related parties were recognized for the nine -month period ended September 30, 2015, respectively.

The selling prices and collection terms for the sales to related parties and other related parties are not significantly different from those third-party customers, and the normal credit term with the related parties above is that the account is due for collection on the 15<sup>th</sup> day of the month following the month of delivery of goods sold. There is no collateral obtained for related party accounts receivable. However, no bad debt provision thereon is necessary based on the result of management's evaluation.

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## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2) Purchase from related parties

The Group's significant purchases of inventory from related parties and the related balance of accounts payable were as follows:

|  | Purchases                                       |                |  |                | Accounts receivable—related parties |                |                |
|--|---|----------------|--|----------------|-------------------------------------|----------------|----------------|
|  | For the three-month periods ended September 30, |                | For the nine-month periods ended September 30, |                | September 30,                       | December 31,   | September 30,  |
|  | 2016  | 2015           | 2016   | 2015           | 2016                                | 2015           | 2015           |
| Associate  | \$ -  | (204)          | -  | (1,504)        | -                                   | -              | -              |
| Entities with significant influence over the Group | 84,828  | 26,550         | 262,297  | 7,951          | 50,153                              | 9,314          | 9,033          |
| Other related parties                              | <u>235,690</u>                                  | <u>268,334</u> | <u>745,010</u>                                 | <u>704,715</u> | <u>148,686</u>                      | <u>166,116</u> | <u>162,985</u> |
|  | <u>\$ 320,518</u>                               | <u>294,680</u> | <u>1,007,307</u>                               | <u>711,162</u> | <u>198,839</u>                      | <u>175,430</u> | <u>172,018</u> |

Note: The purchase discounts and allowances were recognized as a result of the transfer price change with purchase price of the Group.

The purchase price and payment terms for the purchase from related parties are not significantly different from those with third party vendors, and the average payment period for notes and accounts payable pertaining to such purchase transactions ranged from one to two months, which was similar to that of other normal vendors. Purchase price with associates is calculated using the transfer pricing formula in accordance with the agreement.

## 3) Outsourced processing and other payables

|                       | Amount  |                  |  |                  | Other payables—related parties |                  |                  |
|-----------------------|---|------------------|--|------------------|--------------------------------|------------------|------------------|
|                       | For the three-month periods ended September 30, |                  | For the nine-month periods ended September 30, |                  | September 30,                  | December 31,     | September 30,    |
|                       | 2016  | 2015             | 2016   | 2015             | 2016                           | 2015             | 2015             |
| Associate             | \$ -  | 19               | 7  | 180              | -                              | 21               | 17               |
| Other related parties | <u>1,372,189</u>                                | <u>1,450,879</u> | <u>4,251,393</u>                               | <u>4,533,903</u> | <u>919,612</u>                 | <u>1,012,250</u> | <u>1,026,349</u> |
| Total                 | <u>\$ 1,372,189</u>                             | <u>1,450,898</u> | <u>4,251,400</u>                               | <u>4,534,083</u> | <u>919,612</u>                 | <u>1,012,271</u> | <u>1,026,366</u> |

The term of transactions with the related parties above is 60 days after the end of each month.

## 4) The Group's income received from related parties, such as utility income and receivables from payment on behalf of related parties were as follows:

|           | Other receivables—related parties |                   |                    |
|-----------|-----------------------------------|-------------------|--------------------|
|           | September 30, 2016                | December 31, 2015 | September 30, 2015 |
| Associate | \$ <u>26,418</u>                  | <u>12,125</u>     | <u>14,165</u>      |

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

5) Financing from related parties

The breakdown of the Group's lending from related parties were as follows:

|  | <b>Other payables – related parties</b> |                              |                               |
|--|---|------------------------------|-------------------------------|
|  | <b>September 30,<br/>2016</b>           | <b>December 31,<br/>2015</b> | <b>September 30,<br/>2015</b> |
| Entities with significant influence over the group | \$ 8,000,000                            | 8,800,000                    | 9,500,000                     |
| Other related parties                              | <u>14,030,120</u>                       | <u>16,727,941</u>            | <u>20,022,500</u>             |
| Total  | <u>\$ <b>22,030,120</b></u>             | <u><b>25,527,941</b></u>     | <u><b>29,522,500</b></u>      |

Interest payables on borrowings from related parties as of September 30, 2016, December 31, 2015, and September 30, 2015 amounted to \$25,733, \$34,347 and \$39,800, respectively. Please refer to Note 6(18) for details on related interest expenses.

6) Property transactions

- a. The Group sold land and machinery equipment to its affiliates. The downstream unrealized sales profit is realized over the useful life of machinery equipment. The realized profit on disposal of assets amounted to \$68, \$68, \$203 and \$203 for the three-month and six-month periods ended September 30, 2016 and 2015, respectively; and the unrealized profit on disposal of assets, which was treated as a deduction of investments accounted for using equity method, amounted to \$100,935 and \$101,205 as of September 30, 2016 and September 30, 2015, respectively.
- b. The Group purchased machinery equipment from other related parties of \$1,008,621 for the nine-month period ended September 30, 2016, and the unpaid payables of \$639,779 were accounted for under other payables—related parties as of September 30, 2016.
- c. The Group purchased machinery equipment from other related parties amounting to \$25,473 for the nine-month period ended September 30, 2015, and the unpaid payables of \$4,029 were accounted for under payables—related parties as of September 30, 2015.
- d. The Group disposed its affiliates for \$695 which resulted in a gain from such disposal of \$695 for the nine-month period ended September 30, 2015. The entire sales proceeds were received as of September 30, 2015.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

7) Lease contracts

- a. The Group's long-term lease contract signed with associates is discussed in-Note 6(8) and 6(11).
- b. The Group's rental expenses and the balance of lease payable from related parties were as follows:

|  | Amount   |               |   |                |
|--|--|---------------|---|----------------|
|  | For the three-month periods<br>ended September 30, |               | For the nine-month periods<br>ended September 30, |                |
|  | 2016   | 2015          | 2016  | 2015           |
| Entities with significant influence over the Group | \$ 50,318  | 26,585        | 150,466   | 78,557         |
| Other related parties                              | -  | -             | -   | 79,348         |
| Total  | <u>\$ 50,318</u>                                   | <u>26,585</u> | <u>150,466</u>                                    | <u>157,905</u> |

8) Contracts with related parties

- a. The Company signed a Service Agreement with Inotera Memories Inc. (IMI). According to the contract, IMI should provide services including the management of facility, human resources, finance, purchasing, engineering, etc. The Company is entrusted to provide certain administrative services. This Service Agreement took effect on July 15, 2003, and will remain effective until it has been mutually agreed to be terminated by both parties.
- b. On August 6, 2013, the Company signed a Probe Tester Consignment and Service Agreement with IMI. Under this Agreement, IMI provides the services of probe test and related maintenance of testing equipment. This Prober Tester Consignment and Service Agreement took effect from the signing date to December 31, 2014, or whenever a party has notified the other party to terminate this Prober Tester Consignment and Service Agreement in accordance with the conditions stipulated in the aforementioned Agreement.
- c. On November 6, 2014, Nanya Technology Corporation, U.S.A., the Company's subsidiary, signed a Consulting Agreement with Inotera Memories, Inc., U.S.A., and the subsidiary of IMI. Under this Agreement, Nanya Technology Corporation, U.S.A. provides human resource and bookkeeping services to Inotera Memories, Inc., USA. This Consulting Agreement took effect on November 6, 2014, and will remain effective until a party has notified the other party to terminate the Consulting Agreement in accordance with the conditions stipulated in the aforementioned Agreement.
- d. On July 1, 2005, the Company signed a Lease Agreement with IMI for the use of its headquarters office. The Lease covers a period up to December 31, 2034. On August 22, 2016, the Company decided to sign an agreement with IMI for the termination of the said Lease effective December 31, 2016.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(2) Key Management Personnel Compensation

|                              | <b>For the three-month periods<br/>ended September 30,</b> |                      | <b>For the nine-month periods<br/>ended September 30,</b> |                      |
|------------------------------|--|----------------------|---|----------------------|
|                              | <b>2016</b>  | <b>2015</b>          | <b>2016</b>   | <b>2015</b>          |
| Short-term employee benefits | \$ 21,390  | 13,652               | 44,032  | 46,345               |
| Share-based payments         | <u>5,821</u>   | <u>-</u>             | <u>9,702</u>  | <u>29</u>            |
|                              | <b><u>\$ 27,211</u></b>                                    | <b><u>13,652</u></b> | <b><u>53,734</u></b>                                      | <b><u>46,374</u></b> |

**8. Pledged Properties**

The Group's assets pledged to secure bank loans were as follows:

| <b>Pledged assets</b>         | <b>Object</b>                          | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>September 30,<br/>2015</b> |
|-------------------------------|--|-------------------------------|------------------------------|-------------------------------|
| Property, plant and equipment | Guarantee for bank loans               | \$ <u>28,205,749</u>          | <u>17,092,977</u>            | <u>17,671,400</u>             |
| Other non-current assets      | Guarantee for bank loans<br>and import | \$ <u>378,654</u>             | <u>376,883</u>               | <u>378,711</u>                |

**9. Significant commitments and contingencies**

(1) Significant Commitments

- 1) The Group's foreign workers and shipping guarantees amounted to \$585,000 as of September 30, 2016, December 31, 2015 and September 30, 2015, respectively.
- 2) As of September 30, 2016, December 31, 2015 and September 30 2015, the Group's unused letters of credit amounted to \$103,139, \$22,829 and \$496,843, respectively.

(2) Contingencies Liabilities

- 1) In 2002, Nanya Technology Corporation and its subsidiary, Nanya Technology Corporation, U.S.A. (collectively "Nanya"), and other major Dynamic Random Access Memory ("DRAM") manufacturers, were alleged to collusively manipulate DRAM's market prices in the U.S.A. which violates the Antitrust Law. Currently, the aforementioned antitrust litigation is still pending in the U.S.A. Federal Court and State Court, and Nanya has engaged counsels to properly handle it to ensure Nanya's rights.
- 2) In 2000, the Company was charged by Brazil's Ministry of Justice as being involved in the International Monopolies, which influences Brazil's DRAM market. Consequently, the Company, other large international companies and individuals are investigated at the same time. The Company has engaged counsels to properly handle it to ensure Nanya's rights.

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- 3) In November 2015, North Star Innovations Inc. accused Nanya Technology Corporation and its subsidiary in U.S District Court of Delaware for patent infringement. The Company has engaged counsels to properly handle it to ensure Nanya's rights.

**10. Significant disaster loss: None.**

**11. Subsequent events:**

- (1) On November 9, 2016, the board of directors of the Company resolved to subscribe for 57,780,138 ordinary shares of Micron Technology Inc.'s private equity, at a subscription price of \$ 17.29 per share. The total investment amounted to \$31,457,097, at the exchange rate of New Taiwan dollars to US dollars of US\$1 : TWD 31.488.
- (2) On November 9, 2016, the board of directors of the Company passed a resolution approving the issuance of foreign unsecured convertible corporate bonds of up to US\$500,000,000. Each zero-coupon bond has a face value that is tentatively set at US\$200,000 or multiple of 200,000, a coupon rate of 0%, with a maturity term of five years. The Company shall apply with the respective authorities for the approval of the corporate action for the issuance of these new corporate bonds.
- (3) Inotera Memories, Inc. approved to sign a share-swap agreement with Micron Semiconductor Taiwan Co. (MST). After fulfilling certain specific requirements in the share-swap agreement, MST shall acquire all outstanding shares of Inotera Memories, Inc. through a share swap. On October 11, 2016, the board of directors of Inotera Memories, Inc. approved to set December 6, 2016 as the date of the share-swap with MST. The Company shall dispose all shares of investments in Inotera Memories, Inc. to MST.

**12. Others**

- (1) The nature of the Group's personnel, depreciation, and amortization expense, categorized by function, were as follows:

|                               | For the three-month period ended<br>September 30, 2016 |                       |           | For the three-month period ended<br>September 30, 2015 |                       |           |
|-------------------------------|--|-----------------------|-----------|--|-----------------------|-----------|
|                               | Cost of<br>goods sold                                  | Operating<br>expenses | Total     | Cost of<br>goods sold                                  | Operating<br>expenses | Total     |
| Employee benefits             |  |                       |           |  |                       |           |
| Salaries                      | 646,059  | 409,456               | 1,055,515 | 583,100  | 358,260               | 941,360   |
| Labor and health<br>insurance | 35,499   | 26,423                | 61,922    | 34,118   | 23,057                | 57,175    |
| Pension expenses              | 21,224   | 16,182                | 37,406    | 20,079   | 12,002                | 32,081    |
| Other personnel<br>expenses   | 14,673   | 4,833                 | 19,506    | 12,494   | 3,959                 | 16,453    |
| Depreciation expenses         | 1,464,460  | 13,484                | 1,477,944 | 1,428,936  | 15,571                | 1,444,507 |
| Amortization expenses         | 38,077   | -                     | 38,077    | 36,015   | -                     | 36,015    |

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## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

|                               | For the nine-month period ended<br>September 30, 2016 |                       |           | For the nine-month period ended<br>September 30, 2015 |                       |           |
|-------------------------------|---|-----------------------|-----------|---|-----------------------|-----------|
|                               | Cost of<br>goods sold                                 | Operating<br>expenses | Total     | Cost of<br>goods sold                                 | Operating<br>expenses | Total     |
| Employee benefits             |   |                       |           |   |                       |           |
| Salaries                      | 1,714,036   | 1,089,862             | 2,803,898 | 1,765,677   | 1,051,285             | 2,816,962 |
| Labor and health<br>insurance | 102,949   | 78,955                | 181,904   | 103,203   | 67,660                | 170,863   |
| Pension expenses              | 61,621  | 40,620                | 102,241   | 60,238  | 38,222                | 98,460    |
| Other personnel<br>expenses   | 42,628  | 14,305                | 56,933    | 33,376  | 10,281                | 43,657    |
| Depreciation expenses         | 4,382,695   | 41,563                | 4,424,258 | 4,164,897   | 59,990                | 4,224,887 |
| Amortization expenses         | 111,419   | -                     | 111,419   | 108,177   | -                     | 108,177   |

## 13. Other Disclosure Items

## (1) Information on investees

The significant transactions required by the “Guidelines” for the Group were as follows:

- 1) Financing provided: None.
- 2) Guarantees and endorsements for other parties: None.
- 3) The securities held at balance sheet date (excluding subsidiaries, associates and joint ventures) :

| Security holder   | Category and name of security      | Relationship between issuer of security and the company which holds securities | Account name   | September 30, 2016            |                |                         |                                 | Note |
|-------------------|------------------------------------|--|--|-------------------------------|----------------|-------------------------|---------------------------------|------|
|                   |                                    |  |  | Shares / Units (in thousands) | Carrying value | Percentage of ownership | Market value or net asset value |      |
| Pei Jen Co., Ltd. | Nan Ya Printed Circuit Board Corp. | Other related party  | Available-for-sale financial assets  | 2,770                         | 70,909         | 0.43%                   | 70,909                          | -    |
| The Company       | Memoright (Cayman) Co., LTD        | -  | Investment in debt securities with no active market and Financial assets carried at cost | -                             | 190,620        | -%                      | 190,620                         | -    |

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- 4) Information regarding purchase or sales of securities for the period exceeding \$300 million or 20% of the Company's paid-in capital :

| Name of company | Category and name of security | Account name                                  | Name of counter-party | Relationship with the Company | Beginning balance |        | Purchases     |           | Sales         |               |           | Ending balances       |               |        |
|-----------------|-------------------------------|---|-----------------------|-------------------------------|-------------------|--------|---------------|-----------|---------------|---------------|-----------|-----------------------|---------------|--------|
|                 |                               |   |                       |                               | Shares /Units     | Amount | Shares /Units | Amount    | Shares /Units | Selling price | Cost      | Disposal gain or loss | Shares/ Units | Amount |
| The Company     | Mega Diamond Money Market     | Available-for-sale financial assets – current | -                     | -                             | -                 | -      | 145,397       | 1,802,937 | 145,397       | 1,806,528     | 1,802,937 | 3,591                 | -             | -      |
| The Company     | Taishin 1699 Money Market     | Available-for-sale financial assets – current | -                     | -                             | -                 | -      | 134,723       | 1,801,027 | 134,723       | 1,803,405     | 1,801,027 | 2,378                 | -             | -      |
| The Company     | Yuanta Wan Tai Money Market   | Available-for-sale financial assets – current | -                     | -                             | -                 | -      | 133,611       | 2,000,000 | 133,611       | 2,001,762     | 2,000,000 | 1,762                 | -             | -      |
| The Company     | Paradigm Pion Money Market    | Available-for-sale financial assets – current | -                     | -                             | -                 | -      | 87,562        | 1,000,000 | 87,562        | 1,000,359     | 1,000,000 | 359                   | -             | -      |
| The Company     | Jih Sun Money Market          | Available-for-sale financial assets – current | -                     | -                             | -                 | -      | 34,160        | 500,413   | 34,160        | 501,004       | 500,413   | 591                   | -             | -      |
| The Company     | Capital Money Market          | Available-for-sale financial assets – current | -                     | -                             | -                 | -      | 62,699        | 1,000,527 | 62,699        | 1,001,461     | 1,000,527 | 934                   | -             | -      |

- 5) Information on acquisition of real estate for which the purchase amount exceeded \$300 million or 20% of the Company's paid-in capital: None.
- 6) Information regarding receivables from disposal of real estate exceeding \$300 million or 20% of the Company's paid-in capital: None.
- 7) Information regarding related-party purchases and/or sales for which the amount exceeded \$100 million or 20% of the Company's paid-in capital :

| Purchasing (selling) company | Related party                   | Nature of relationship | Transaction details |           |            |                    | Abnormal transaction |               | Accounts/notes receivable (payable) |                                      | Note   |
|------------------------------|---------------------------------|------------------------|---------------------|-----------|------------|--------------------|----------------------|---------------|-------------------------------------|--------------------------------------|--------|
|                              |                                 |                        | Purchase (sale)     | Amount    | % to total | Payment terms      | Amount               | Payment terms | Ending balance                      | Notes/ accounts receivable (payable) |        |
| The Company                  | Nanya Technology Corp., U.S.A.  | Parent company         | (Sale)              | 883,510   | 3.03%      | O/A<br>60~90 days  | -                    | -             | 168,339                             | 3.54%                                | (Note) |
| The Company                  | Nanya Technology Corp., H.K.    | Parent company         | (Sale)              | 124,651   | 0.43%      | O/A<br>60~90 days  | -                    | -             | 64,407                              | 1.35%                                | (Note) |
| The Company                  | Nanya Technology Corp., Japan   | Parent company         | (Sale)              | 2,040,804 | 6.99%      | O/A<br>180 days    | -                    | -             | 605,368                             | 12.73%                               | (Note) |
| The Company                  | Nanya Technology Corp., Germany | Parent company         | (Sale)              | 1,191,609 | 4.08%      | O/A<br>60~90 days  | -                    | -             | 255,572                             | 5.37%                                | (Note) |
| The Company                  | Piece Makers Technology, Inc.   | Parent company         | (Sale)              | 676,808   | 2.32%      | O/A<br>60~100 days | -                    | -             | 287,857                             | 6.05%                                | (Note) |
| The Company                  | Formosa Sumco Technology Corp.  | Other related party    | Purchase            | 727,829   | 12.15%     | O/A<br>60days      | -                    | -             | (146,211)                           | (3.06)%                              | -      |

Note : The transaction has already been written-off in the consolidated financial statements.

(Continued)

## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- 8) Information regarding accounts receivable from related parties for which the amount exceeded \$100 million or 20% of the Company's paid-in capital :

| Accounts receivable company | Related party                   | Nature of relationship | Amount                     | Turnover | Due date accounts receivable |        | Amounts received in subsequent periods | Allowance for bad debt |
|-----------------------------|---------------------------------|------------------------|----------------------------|----------|------------------------------|--------|--|------------------------|
|                             |                                 |                        |                            |          | Amount                       | Method |  |                        |
| The Company                 | Nanya Technology Corp., U.S.A.  | Parent company         | Account receivable 168,339 | 6.35%    | -                            | -      | 115,502                                | -                      |
| The Company                 | Nanya Technology Corp., Japan   | Parent company         | Account receivable 605,368 | 4.35%    | -                            | -      | 279,215                                | -                      |
| The Company                 | Nanya Technology Corp., Germany | Parent company         | Account receivable 255,572 | 5.75%    | -                            | -      | 168,219                                | -                      |
| The Company                 | Piece Makers Technology, Inc.   | Parent company         | Account receivable 287,857 | 5.70%    | -                            | -      | 37,731                                 | -                      |

- 9) Information regarding trading in derivative financial instruments: None.

- 10) Intercompany relationships and significant intercompany transactions :

| No. | Company name | Counter party                    | Relationship | Intercompany transactions |           |                    |  |
|-----|--------------|----------------------------------|--------------|---------------------------|-----------|--------------------|--|
|     |              |                                  |              | Financial Statement Item  | Amount    | Terms              | Percentage of consolidated total gross sales or total assets |
| 0   | The Company  | Nanya Technology Corp., U.S.A.   | 1            | Sales                     | 883,510   | General conditions | 2.99%  |
| 0   | "            | Nanya Technology Corp., H.K.     | 1            | Sales                     | 124,651   | General conditions | 0.42%  |
| 0   | "            | Nanya Technology Corp., Germany  | 1            | Sales                     | 1,191,609 | General conditions | 4.03%  |
| 0   | "            | Nanya Technology Corp., Japan    | 1            | Sales                     | 2,040,804 | General conditions | 6.91%  |
| 0   | "            | Piece Makers Technology, Inc.    | 1            | Sales                     | 676,808   | General conditions | 2.29%  |
| 0   | "            | Nanya Technology Corp., U.S.A.   | 1            | Accounts receivable       | 168,339   | General conditions | 0.14%  |
| 0   | "            | Nanya Technology Corp., Germany  | 1            | Accounts receivable       | 255,572   | General conditions | 0.22%  |
| 0   | "            | Nanya Technology Corp., H.K.     | 1            | Accounts receivable       | 64,407    | General conditions | 0.05%  |
| 0   | "            | Piece Makers Technology, Inc.    | 1            | Accounts receivable       | 287,857   | General conditions | 0.25%  |
| 0   | "            | Nanya Technology Corp., Japan    | 1            | Accounts receivable       | 605,368   | General conditions | 0.52%  |
| 0   | "            | Nanya Technology Corp., Delaware | 1            | Administrative expenses   | 248,033   | General conditions | 0.21%  |

Note 1: Assigned numbers represent the following:

1. 0 represents the parent company
2. Subsidiary is numbered in sequence that starts with 1.

Note 2: Transactions are categorized as follows:

1. The parent company to subsidiary.
2. Subsidiary to parent.
3. Subsidiary to subsidiary.

Note 3: For significant intercompany transactions, only information regarding funding and finances, sales, and accounts receivable were disclosed; the opposing items of the transactions were not disclosed.

(Continued)

**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## (2) Information on investment:

The information on investment of the Group for the nine-month periods ended September 30, 2016 was as follows:

| Investor company           | Investee company                 | Location | Major operations                 | Original investment Amount |                   | Balance as of June 30, 2016 |         |                | Net income of investee | Investment income (loss) recognized by the investor company | Note   |
|----------------------------|----------------------------------|----------|----------------------------------|----------------------------|-------------------|-----------------------------|---------|----------------|------------------------|---|--------|
|                            |                                  |          |                                  | September 30, 2016         | December 31, 2015 | Shares (thousands)          | %       | Carrying value |                        |   |        |
| The Company                | Nanya Technology Corp., U.S.A.   | U.S.A    | Sales of semiconductor products  | 20,392                     | 20,392            | 2                           | 100.00% | 126,286        | 3,320                  | 3,320   | (Note) |
| The Company                | Nanya Technology Corp., Delaware | U.S.A    | Design of semiconductor products | 36,005                     | 36,005            | -                           | 100.00% | 129,271        | 12,455                 | 12,455  | (Note) |
| The Company                | Pei Jen Co., Ltd.                | Taipei   | Import/export business           | 175,348                    | 175,348           | 480                         | 100.00% | -              | (6,175)                | (6,175)   | (Note) |
| The Company                | Nanya Technology Corp., HK       | HK       | Sales of semiconductor products  | 66,271                     | 66,271            | 20                          | 100.00% | 40,290         | 7,380                  | 7,380   | (Note) |
| The Company                | Nanya Technology Corp., Japan    | Japan    | Sales of semiconductor products  | 20,161                     | 20,161            | 1                           | 100.00% | 36,667         | (159,197)              | (159,197)   | (Note) |
| The Company                | Inotera Memories, Inc.           | Taoyuan  | Business of electronic products  | 24,631,379                 | 24,631,379        | 1,587,484                   | 24.10%  | 31,519,339     | (2,561,893)            | (618,557)   |        |
| The Company                | Piece Makers Technology, Inc.    | Hsinchu  | Design of semiconductor products | 21,246                     | 21,246            | 7,918                       | 55.26%  | 68,176         | 8,584                  | 4,662   | (Note) |
| The Company                | Sumpro Electronics Corporation   | Taoyuan  | Business of electronic products  | 2,591,000                  | 2,591,000         | 259,100                     | 100.00% | 35,786         | (86)                   | (86)  | (Note) |
| Nanya Technology Corp., HK | Nanya Technology Corp., Germany  | Germany  | Import/export business           | 30,056                     | 30,056            | -                           | 100.00% | 53,992         | 3,132                  | 3,132   | (Note) |
| Pei Jen Co., Ltd.          | Inotera Memories, Inc.           | Taoyuan  | Business of electronic products  | 143,966                    | 143,966           | 9,018                       | 0.14%   | 179,655        | (2,561,893)            | (3,466)   |        |

Note: The transaction has already been written-off in the consolidated financial statements.

## (3) Information regarding investments in Mainland China :

## 1) Information on indirect investment in companies in Mainland China :

| Name of the PRC investee company | Primary business scope          | Amount of paid-in capital | Method of investment | Investment transferred from Taiwan, beginning of period | Nine-month periods ended September 30, 2016 |            | Investment transferred from Taiwan, end of period | Equity in the earnings (losses) | Direct and indirect shareholding percentage by the company | Recognized gain or loss from investment for the current period | Carrying value of investment, end of period | Remitted gain on investment, end of period |
|----------------------------------|---------------------------------|---------------------------|----------------------|---|---|------------|---|---------------------------------|--|--|---|--|
|                                  |                                 |                           |                      |   | Remittance                                  | Remittance |   |                                 |  |  |   |  |
| Nanya Technology Corp., Shenzhen | Sales of semiconductor products | 30,896                    | (Note 1)             | 30,896 (USD 985)  | -   | -          | 30,896 (US 985)                                   | 2,804                           | 100.00%  | 2,804  | 16,968                                      | -  |

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**NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 2) Quota for investment in Mainland China :

| Accumulative remittance from Taiwan to Mainland China, end of the period | Amount of investment approved by Investment Commission, Ministry of Economic Affairs | Limit on the amount of investment in Mainland China (Note 4) |
|--|--|--|
| 30,896<br>(USD 985)  | 30,896<br>(USD 985)  | 37,210,489   |

Note 1 : Indirect investment in Nanya Technology Corp., Shenzhen was derived through Nanya Technology Corp., HK.

Note 2 : The exchange rate of New Taiwan dollars to US dollars on June 30, 2016 was USD1 : TWD 31.366

Note 3 : Amount was recognized based on the self-prepared financial statements.

Note 4 : 60% of net equity.

## 3) Information on significant transactions :

Please refer to “Related information on material transaction items” and “Intercompany relationships and significant intercompany transactions” for direct or indirect significant transactions between the Company and its investees in Mainland China for the nine-month period ended September 30, 2016.

**14. Segment Information**

Information on operating segments is as follows:

|  | <u>Japanese division</u> | <u>Manufacturing division</u> | <u>Others divisions</u> | <u>Adjustments and eliminated</u> | <u>Total</u>      |
|--|--------------------------|-------------------------------|-------------------------|-----------------------------------|-------------------|
| <b>For the three-month period ended September 30, 2016</b> |                          |                               |                         |                                   |                   |
| Revenue:   |                          |                               |                         |                                   |                   |
| From external customers                                    | \$ 669,451               | 8,380,177                     | 1,154,268               | -                                 | 10,203,896        |
| From sales among intersegments                             | -                        | 1,707,738                     | 124,804                 | (1,832,542)                       | -                 |
| Total revenue  | <u>\$ 669,451</u>        | <u>10,087,915</u>             | <u>1,279,072</u>        | <u>(1,832,542)</u>                | <u>10,203,896</u> |
| Reportable segment profit or loss                          | <u>\$ (16,263)</u>       | <u>1,402,442</u>              | <u>17,739</u>           | <u>(714)</u>                      | <u>1,403,204</u>  |
|  | <u>Japanese division</u> | <u>Manufacturing division</u> | <u>Others divisions</u> | <u>Adjustments and eliminated</u> | <u>Total</u>      |
| <b>For the three-month period ended September 30, 2015</b> |                          |                               |                         |                                   |                   |
| Revenue:   |                          |                               |                         |                                   |                   |
| From external customers                                    | \$ 797,819               | 8,110,524                     | 1,428,977               | -                                 | 10,337,320        |
| From sales among intersegments                             | -                        | 2,049,709                     | 82,831                  | (2,132,540)                       | -                 |
| Total revenue  | <u>\$ 797,819</u>        | <u>10,160,233</u>             | <u>1,511,808</u>        | <u>(2,132,540)</u>                | <u>10,337,320</u> |
| Reportable segment profit or loss                          | <u>\$ (13,895)</u>       | <u>4,726,717</u>              | <u>41,365</u>           | <u>(20,208)</u>                   | <u>4,733,979</u>  |

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## NANYA TECHNOLOGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

|   | <u>Japanese<br/>division</u> | <u>Manufacturing<br/>division</u> | <u>Others<br/>divisions</u> | <u>Adjustments<br/>and eliminated</u> | <u>Total</u>       |
|---|------------------------------|-----------------------------------|-----------------------------|---------------------------------------|--------------------|
| <b>For the nine-month period<br/>ended September 30, 2016</b> |                              |                                   |                             |                                       |                    |
| Revenue:  |                              |                                   |                             |                                       |                    |
| From external customers                                       | \$ 2,112,333                 | 24,286,700                        | 3,135,512                   | -                                     | 29,534,545         |
| From sales among intersegments                                | -                            | 4,917,381                         | 289,744                     | (5,207,125)                           | -                  |
| Total revenue   | <u>\$ 2,112,333</u>          | <u>29,204,081</u>                 | <u>3,425,256</u>            | <u>(5,207,125)</u>                    | <u>29,534,545</u>  |
| Reportable segment profit or loss                             | <u>\$ (159,198)</u>          | <u>4,293,162</u>                  | <u>30,336</u>               | <u>135,643</u>                        | <u>4,299,943</u>   |
| <br>  |                              |                                   |                             |                                       |                    |
|   | <u>Japanese<br/>division</u> | <u>Manufacturing<br/>division</u> | <u>Others<br/>divisions</u> | <u>Adjustments<br/>and eliminated</u> | <u>Total</u>       |
| <b>For the nine-month period<br/>ended September 30, 2015</b> |                              |                                   |                             |                                       |                    |
| Revenue:  |                              |                                   |                             |                                       |                    |
| From external customers                                       | \$ 2,344,519                 | 27,076,750                        | 4,099,770                   | -                                     | 33,521,039         |
| From sales among intersegments                                | -                            | 5,992,688                         | 251,831                     | (6,244,519)                           | -                  |
| Total revenue   | <u>\$ 2,344,519</u>          | <u>33,069,438</u>                 | <u>4,351,601</u>            | <u>(6,244,519)</u>                    | <u>33,521,039</u>  |
| Reportable segment profit or loss                             | <u>\$ (11,916)</u>           | <u>15,746,328</u>                 | <u>120,216</u>              | <u>(61,855)</u>                       | <u>15,792,773</u>  |
| <br>  |                              |                                   |                             |                                       |                    |
|   | <u>Japanese<br/>division</u> | <u>Manufacturing<br/>division</u> | <u>Others<br/>divisions</u> | <u>Adjustments<br/>and eliminated</u> | <u>Total</u>       |
| <b>Reportable segment assets</b>                              |                              |                                   |                             |                                       |                    |
| September 30, 2016  | <u>\$ 654,586</u>            | <u>116,657,539</u>                | <u>1,794,216</u>            | <u>(1,961,968)</u>                    | <u>117,144,373</u> |
| December 31, 2015   | <u>\$ 882,900</u>            | <u>103,514,039</u>                | <u>1,620,261</u>            | <u>(2,011,163)</u>                    | <u>104,006,037</u> |
| September 30, 2015  | <u>\$ 845,677</u>            | <u>104,849,993</u>                | <u>2,163,260</u>            | <u>(2,523,941)</u>                    | <u>105,334,989</u> |
| <br>  |                              |                                   |                             |                                       |                    |
|   | <u>Japanese<br/>division</u> | <u>Manufacturing<br/>division</u> | <u>Others<br/>divisions</u> | <u>Adjustments<br/>and eliminated</u> | <u>Total</u>       |
| <b>Reportable segment liabilities</b>                         |                              |                                   |                             |                                       |                    |
| September 30, 2016  | <u>\$ 614,048</u>            | <u>54,604,270</u>                 | <u>1,452,237</u>            | <u>(1,664,201)</u>                    | <u>55,006,354</u>  |
| December 31, 2015   | <u>\$ 701,548</u>            | <u>48,776,856</u>                 | <u>1,261,340</u>            | <u>(1,588,082)</u>                    | <u>49,151,662</u>  |
| September 30, 2015  | <u>\$ 698,936</u>            | <u>52,432,071</u>                 | <u>1,819,317</u>            | <u>(2,110,934)</u>                    | <u>52,839,390</u>  |