

Li-Ching Chiu *

Tunneling Behavior of Controlling Shareholders and Corporate Governance: A Case Study of XPEC Inc.

(Received Aug 28, 2019; First Revision Oct 14, 2019; Second Revision Nov 24, 2019; Third Revision Dec 09, 2019; Fourth Revision Feb 20, 2020; Accepted Mar 05, 2020)

Abstract

This management-level library case is created on the basis of a real event, that the successful public tender offer to acquire XPEC turned out to be a securities fraud transaction on August 31, 2016. It shocked the capital markets since this kind of frauds was first seen and XPEC also concealed the fact that the controlling shareholders with control rights used operating opportunities to engage in illegal transactions and obtain improper interests, which both violated the rights of the firms and shareholders and seriously jeopardized the development of capital markets. The stock price of XPEC decreased by as much as 88.57%, which made it the largest landmine stock in 2016. The stock was even delisted from the OTC market, and affected as many as 22,000 shareholders. The repercussions of the controlling shareholder's involvement in tunneling the firm are severe with a wide range of influences. Through this case study, students will understand that more attention should be paid to the tunneling behavior of controlling shareholders affected by their own interests. It also focuses on expropriation of small and medium shareholder interests, and students will learn to examine the nature, causes and impacts involved in the tunneling behaviors of controlling shareholders from views of agency problems, corporate governance, and public information analysis. Issues that are associated with corporate governance practices require further discussions, such as the discovery of tunneling behaviors of controlling shareholders and why, whether the board of directors that are entrusted by the shareholders play a good role in supervisory, tips for investors to avoid becoming victims of tunneling, and the failure of securities supervision.

Through this case study, this article also provides reform suggestions on enhancing current corporate management, corporate governance and securities supervision. To prevent tunneling behaviors of controlling shareholders and protect shareholders' equity, the company shall reinforce the supervision of controlling shareholders and the management team, and increase internal transparency.

Keywords: Tunneling Behavior, Controlling Shareholders, Corporate Governance, Financial Statement Fraud

Case

1. Fake Public Tender Offer of XPEC

The event originated out of the Japan-based Bai-Chi-Gan-Tou Digital Entertainment Co. (hereinafter "BCGT"), which intended to publicly acquire 25.71% equity of Taiwanese XPEC Entertainment Inc. (hereinafter "XPEC") at NT\$ 128 per share on May 31, 2016, with a premium of as high as 22% to attract investors to buy¹. The stock price of XPEC rose from NT\$ 81.6 to NT\$ 105 in the middle of May, before the announcement of the acquisition, and rose to

* Li-Ching Chiu is an Assistant Professor of Department of Finance, Ming Chuan University. Email: lcchiu@mail.mcu.edu.tw

¹ Xiao, Wen-Kang (2016, May 31), "XPEC's Large Shareholder Will Acquire More than 20% Equity of XPEC," *Apple Daily*, (accessed July 25, 2016), [available at <https://tw.appledaily.com/new/realtime/20160531/875286/>].

a high of NT\$ 115.5 (Fig.1) the day after the announcement². XPEC's Chairman, Chin-Lung Hsu (hereinafter "Mr. Hsu"), immediately convened an interim board of directors and selected three independent directors (Table 1) as members of the review committee. He also stated that he didn't know in advance that BCGT's principal, Kashino Yoshiaki (hereinafter "Mr. Kashino"), would launch a tender offer in Taiwan. The independent directors additionally had a civil service background (Table 2) and the review board should have been able to monitor any illegal acquisitions. The review committee convened on June 7, and Mr. Hsu held a board meeting on the same day. Through the review of public tender offer prospectus and the price rationality report issued by KPMG Taiwan Accounting Firm, all directors that attended the acquisition proposal without objection³, therefore small shareholders believed it.

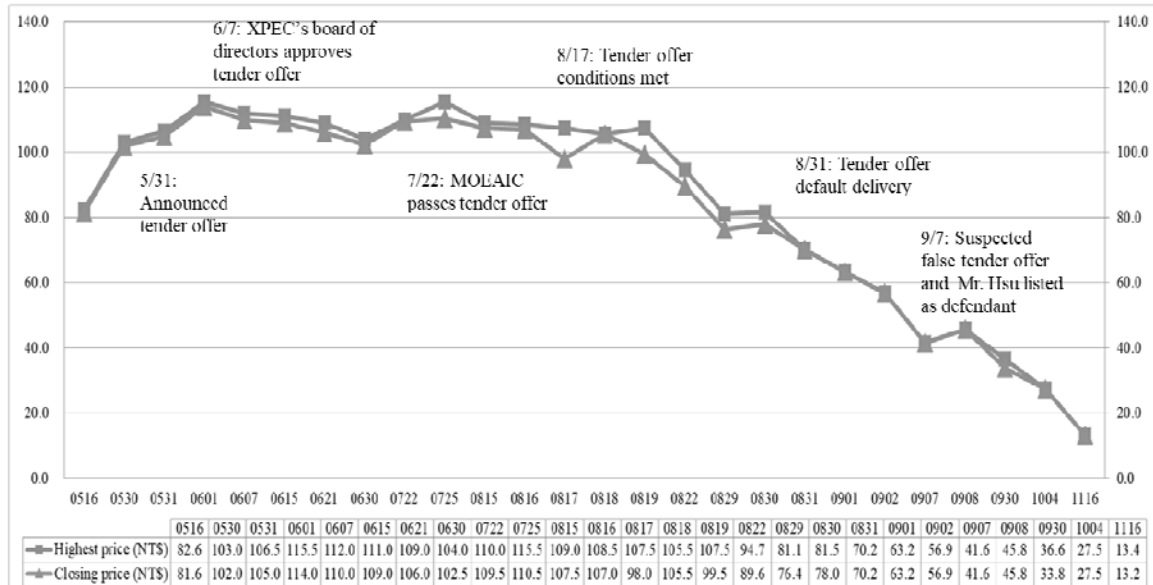


Figure 1 Trends of XPEC's Share Price from May 16 to November 16, 2016

Source: Summarized by the Author. OTC Stock Quotes⁴.

The MOEAIC approved the XPEC's tender offer on July 22, and the terms of the acquisition were achieved on August 17, with a total of over 61,000 thousand shares and over 30,000 investors participating in the tender offer, and an oversubscription ratio of about 60.5%. Mr. Kashino was welcomed by Mr. Hsu and invited to serve as a director, while BCGT asked to delay payment to the tenderers until August 31 when delivery day was on August 22⁵. This led to panic in the market and an irregular fluctuation of stock price, which dropped sharply from NT\$ 107 to NT\$ 89.6 during mid-August (Fig.1). On the afternoon of August 30, BCGT unilaterally announced that the funding side had decided not to complete the acquisition⁶. In the morning, Mr. Hsu held an interim shareholder meeting, saying that if BCGT failed to fulfill the acquisition, small shareholders and the firm would certainly suffer damages⁷. This statement confused small shareholders since BCGT already held 4.27% equity of XPEC through private placement before the acquisition occurred (Fig.2). However, investors could not understand why the Chairman of the listed firm was unclear whether the large shareholders could fulfill the acquisition, and why the board of directors passed it without really understanding the large shareholder's background and financial strength. Consequently, shareholders suffered

² Xu, Jia-Xuan (2016, June 1), "Japanese Company Intends to Acquire XPEC at the Opening Price of NT\$128 Per Share and Open up the Daily Limit," *NOWnews*, (accessed July 25, 2016), [available at <https://www.nownews.com/news/20160601/2119407/>].

DOI:10.6656/MR.202004_39(2).ENG147

³ Xiao, Wen-Kang (2016, June 8), "BCGT Acquires XPEC's Equity will Get One Director Seat," *Apple Daily*, (accessed July 25, 2016), [available at <https://tw.appledaily.com/new/realtime/20160608/881266/>].

⁴ Taipei Exchange (2016, December 1), "Daily Stock Quotes," Taipei Exchange, (accessed March 30, 2017), [available at https://www.tpex.org.tw/web/stock/aftertrading/daily_close_quotes/stk_quote.php?l=zh-tw].

⁵ Zeng, Cui-Zhi (2016, August 22), "Japanese BCGT's Acquisition of XPEC Makes Its Stock Price Plunge Today," *Chinatimes*, (accessed August 25, 2016), [available at <https://www.chinatimes.com/realtime/news/20160822006402-260410?chdtv>].

⁶ Ding, Shi-Jie (2016, August 30), "BCGT's Acquisition of XPEC Could Not Be Completed," *Chinatimes*, (accessed September 2, 2016), [available at <https://www.chinatimes.com/realtime/news/20160830006330-260410?chdtv>].

⁷ Zhuang, Bing-Nong (2016, August 30), "XPEC: If the Acquisition Fails, It Will Seek Legal Compensation from BCGT," *Chinatimes*, (accessed September 2, 2016), [available at <https://www.chinatimes.com/realtime/news/20160830002744-260410?chdtv>].

great losses due to this malicious default, and the stock price continued to decrease until it hit NT\$ 45.8 on September 8 (Fig. 1). Mr. Hsu blamed BCGT for the failure⁸, and both sides later stated that they had also suffered damages like other shareholders without making any profits from it⁹. It is doubtful whether some things that small shareholders could not know was hidden behind the acquisition, and it is difficult to understand why XPEC needed to be acquired at the time.

The Financial Supervisory Commission (hereinafter “FSC”) reported to Taipei Local Court on September 2, and the prosecutor questioned Mr. Hsu on September 7 suspecting the acquisition was a fraud¹⁰. The investors' participation in the tender offer was a case of securities fraud. The stock price of XPEC decreased from the record-high price of NT\$ 115.5 during the acquisition period to NT\$ 13.2 (Fig. 1), dropping about 88.57%. The stock became the largest landmine stock in 2016¹¹ and was also delisted on October 19, 2017. On January 24, 2017, the prosecutor concluded that Mr. Hsu actually led a fake tender offer and arbitrage of selling stocks, and made use of the opportunity to operate XPEC to engage in illegal transactions to obtain improper benefits of up to NT\$ 4 billion, and thus was sentenced to 30 years in prison¹². Both the XPEC’s operation and corporate governance had problems, so the large shareholders were able to tunnel the firm and expropriate the interests of small shareholders, which caused damage to the firm and the shareholders’ rights, but also seriously affected the operation and development of the capital market. Since emerging markets lack laws to protect the interests of small and medium shareholders and securities supervision mechanisms, how to effectively prevent the controlling shareholder’s tunneling behaviors has become the focus of the capital market and a problem that needs to be resolved.

Table 1 List of XPEC’s Senior Executives in June 2016 and Positions Held over the Years

Name / Position	2016/6	2011/12	2012/12	2013/12	2014/12	2015/12
Hsu, Chin-Lung	Chairman	Chairman	Chairman	Chairman	Chairman / General manager	Chairman
King Kong Co. (Mr. Hsu 100% owned)	Corporate director	Corporate director	Corporate director	Corporate director	Corporate director	Corporate director
Legal representative : Hsieh, Tung-Po	Director / Financial Officer	Director / General manager	Director / Vice General manager	Vice General manager	Director	Director / Financial Officer
Legal Representative : Liu, Po-Yuan	Director	—	—	—	Director	Director
Chang, Shu-Hung	Director	Director	Director	Director	Director	Director
Chen, Wen-Chien	Independent director	Independent director	Independent director	Independent director	Independent director	Independent director
Yin, Chi-Ming	Independent director	—	—	—	Independent director	Independent director
Li, Yung-Ping	Independent director	Independent director	Independent director	Independent director	Independent director	Independent director
Hsu, Jen-Tzu	Supervisor	Director	Director	Director	Supervisor	Supervisor
Chen, Guo-Hua	Supervisor	Supervisor	Supervisor	Supervisor	Supervisor	Supervisor
Hsu, Fei-Lung	Supervisor	Supervisor	Supervisor	Supervisor	Supervisor	Supervisor

⁸ Zhu, Zhi-Yi and Pei-Hua Lu (2016, September 2), “NT\$5 Billion Stock Market Scams and How Does the XPEC Case Fail?” *Common Wealth Magazine*, (accessed September 2, 2016), [available at <https://www.cw.com.tw/article/article.action?id=5078180>].

⁹ CAN (2016, September 6), “Acquiring XPEC Fails and BCGT Will Develop Solutions,” *Chinatimes*, (accessed September 10, 2016), [available at <https://www.chinatimes.com/realtimenews/20160906005764-260410?chdtv>].

¹⁰ Pan, Qian-Shi (2016, September 8), “Mergers and Acquisitions under Investigation, XPEC Hsu, Chin-Lung Listed Defendant Collapsed, Crying and Everything Is Gone,” SETN, (accessed September 10, 2016), [available at <https://www.setn.com/News.aspx?NewsID=180105>].

¹¹ Han, Ting-Ting (2016, December 24), “2016 Largest Landmine Is XPEC Crowned,” *CNA*, (accessed December 30, 2016), [available at <https://www.chinatimes.com/realtimenews/20161224002112-260410?chdtv>].

¹² Business Weekly (2017, January 24), “XPEC Really is a Tunneling Drama! Prosecutor: The Chairman Self-Directed and Acted as a Foreign Investor, Borrowed Five Private Placements, and Approached Nearly NT\$4 billion,” *Business Weekly*, (accessed February 2, 2017), [available at <https://www.businessweekly.com.tw/article.aspx?id=31323&type=Indep>].

Name / Position	2016/6	2011/12	2012/12	2013/12	2014/12	2015/12
Chen, Yi	General manager	—	Manager	Manager	—	General manager
Li, Bo-Heng	Vice General manager	Accounting director	Accounting director	Accounting director	Accounting director	Vice General manager

Source: Summarized by the Author. Corporate Governance Organization Structure of the Market Observation Post System (hereinafter “MOPS”)¹³, Annual Report and Relevant Information of the Shareholders Meeting¹⁴.

Table 2 Directors and Supervisors of XPEC Attended the Board of Directors and Professional Background

Year/Item	Number of Board meetings	Board average attendance (%)	Chairman’s average attendance (%)	Supervisors average attendance (%)	Number of directors with financial experience	Number of directors with legal experience	Number of directors with public institution background
2011	15	79.73	100	80	0	1	2
2012	12	69.75	100	69.44	0	1	3
2013	11	70	100	57.58	0	1	3
2014	16	67.88	100	44.44	1	1	4
2015	11	70	100	60.61	1	1	4
2016	23	77.49	56.52	67.21	0	1	1

Source: Summarized by the Author. MOPS’s Information of Directors and Supervisors Attending the Board of Directors¹⁵.

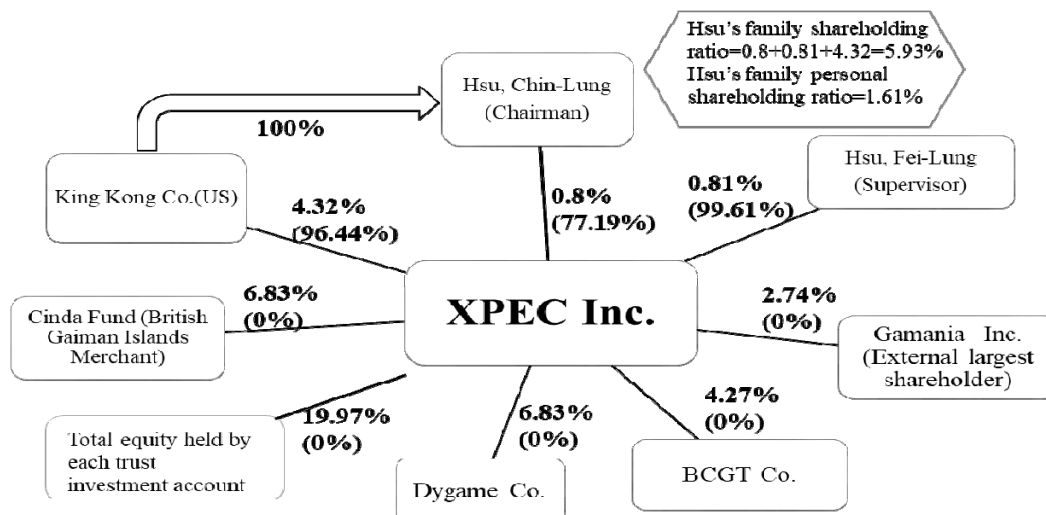


Figure 2 Hsu’s Family and Major Shareholders Held XPEC’s Equity in June 2016

Note: The Numbers in () Are the Collateralized Share Ratio.

Source: Summarized by the Author. MOPS’s Detailed Information on the Balance of Shares Held by Directors and Supervisors¹⁶.

¹³ Taiwan Stock Exchange (2017, January 1), “Corporate Governance Organization Structure of Market Observation Post System,” Taiwan Stock Exchange, (accessed July 30, 2017), [available at https://mops.twse.com.tw/mops/web/t100sb01_1].

¹⁴ Taiwan Stock Exchange (2017, April 30), “Annual Report and Shareholders Meeting of Market Observation Post System,” Taiwan Stock Exchange, (accessed March 30, 2017), [available at https://mops.twse.com.tw/mops/web/t57sb01_q5].

¹⁵ Taiwan Stock Exchange (2017, July 1), “The Presence of Directors and Supervisors on the Board of Market Observation Post System,” Taiwan Stock Exchange, (accessed July 30, 2017), [available at https://mops.twse.com.tw/mops/web/t93sc03_1].

¹⁶ Taiwan Stock Exchange (2017, February 1), “Details of the Balance of Directors and Supervisors’ Holdings of Market Observation Post System,” Taiwan Stock Exchange, (accessed July 30, 2017), [available at <https://mops.twse.com.tw/mops/web/stapap1>].

2. XPEC with a Family-Controlled Business Type

After the establishment of XPEC in August of 2000, Mr. Hsu became the largest shareholder and served as Chairman. In 2008, it actively carried out the business of stand-alone games and art production, participated in the Hollywood film adaptation of Kung Fu Panda, and began to attract attention from the outside world¹⁷. The shares were listed at emerging stock market in 2009 and became OTC stock as NT\$ 60 per stock on August 3, 2011, with a capital stock of NT\$ 210 million then. Mr. Hsu and his family had substantial control over American King Kong Co., held 24.39% equity of XPEC (Table 3), and had four directors and supervisors (Table 4). His brother, Fei-Lung Hsu, was the supervisor, and the representative of the corporate director was also the senior executive (Table 3), so Mr. Hsu had actual control rights of the board. He was a layman in the gaming industry¹⁸, but previously worked as a worker in the media, he had a vast network and was good at negotiating¹⁹. Many investors and rivals believed that XPEC was his attempt to make a game dealer with a “one-stop-shop” advantage in Taiwan, from upstream game development and art production, to middle and downstream game releases, operations and channels, which was one of the few Chinese game developers with independent development and international publishing experience²⁰.

Table 3 Controlling Shareholders of XPEC Held Shares and Served as Senior Executives

Shareholding ratio (%) / Position	2010/12	2011/12	2012/12	2013/12	2014 /6	2014/12	2015/ 6	2015 /12	2016 /6	2016/12
Hsu, Chin-Lung	0.83	0.67	0.62	0.39	0.39	0.36	0.86	0.86	0.8	0.42
	Chairman	Chairman	Chairman	Chairman	Chairman	Chairman / General Manager	Chairman	Chairman	Chairman	Chairman
King Kong Co. (Mr. Hsu 100% owned)	27.9	22.52	20.37	12.88	10.23	8.45	8.25	6.64	4.32	3.09
	Director / General Manager	Director / Vice President	Director / General Manager	Director / General Manager	Director / General Manager	Director	Director	Director / Treasurer	Director / Treasurer	Director
Hsu, Fei-Lung	1.2	1.2	1.29	0.82	1.03	0.95	0.93	0.87	0.81	0
	Supervisor	Supervisor	Supervisor	Supervisor	Supervisor	Supervisor	Supervisor	Supervisor	Supervisor	-
Hsu's Family	29.93	24.39	22.28	14.09	11.65	9.76	10.06	8.37	5.93	3.51
Top ten shareholders (Excluding directors and supervisors)	28.85	28.44	31.3	49.9	38.93	43.71	43.08	31.78	42.09	40.91
Board (Directors and Supervisors)	31.77	25.87	23.63	8.73	12.3	10.22	10.48	8.73	6.26	3.84

Source: Summarized by the Author. MOPS's Corporate Governance Organization Structure, Annual Report and Relevant Information of the Shareholders Meeting²¹.

¹⁷ Yan, Ya-Juan (2014, April 3), “Hollywood Animation Games are Looking for It!” *Business Today*, (accessed October 2, 2017), [available at <http://www.businesstoday.com.tw/article-content-80394-106890>].

¹⁸ Xu, Yi-Pin (2013, June 11), “From 7 Years of Losing Money to Making Profits of NT\$200 Million,” *Common Wealth Magazine*, (accessed October 2, 2017), [available at <https://www.cw.com.tw/article/article.action?id=5049786>].

¹⁹ Next Magazine (2016, September 7), “From a Media Journalist to a Panelist, XPEC's Director Chin-Lung Hsu is Well-Connected,” *Next Digital*, (accessed September 30, 2016), [available at <https://www.nextmag.com.tw/realtimeneews/news/43529327>].

²⁰ XPEC (2016, January 1), “XPEC Technology Inc. Profile,” XPEC, (accessed September 15, 2016), [available at <http://www.xpec.com.tw/about-xpec/>].

²¹ Same as Note 13 and Note 14.

Table 4 Board Composition of XPEC and Control Seats of Family Shareholders

Item / Date	2010/12	2011/12	2012/12	2013/12	2014/12	2015/12	2016/6	2016/12
Board seats	10	10	10	10	10	10	10	5
Director seats	7	7	7	7	7	7	7	4
Supervisor seats	3	3	3	3	3	3	3	1
Independent director seats	2	2	2	2	3	3	3	0
Board control seats (Number of members of board familization)	4	4	4	4	4	4	4	3
Director control seats	3	3	3	3	3	3	3	3
Supervisor control seats	1	1	1	1	1	1	1	0
Number of board internalization	2	2	2	2	3	2	2	1

Note: The Number of Board Internalization Is the Total Number of Concurrent Appointments of Family Directors by the Firm's Chairman, General Manager, Vice General Manager, and Financial Officer.

Source: Summarized by the Author. MOPS's Corporate Governance Organization Structure and Annual Report and Relevant Information of the Shareholders Meeting²².

3. XPEC Aggressively Expands Investment and Raises Capital

XPEC obtained financing channels after listing, and the ambitious Mr. Hsu began to expand the territory to China. In June 2013, the subordinate XPEC Beijing Inc. became the first Taiwan-funded enterprises listed on the new OTC market of the Beijing Stock Exchange, and set up a XPEC Art Center Inc. in Kaohsiung in July, which mainly engaged in game production and fine arts; in addition, online game topics continued to fever, which stimulated the stock prices gradually out of the range of NT\$ 60-100 (Table 5). The board of directors also introduced the strategic investors China Cinda Fund and Dygame Co. (Table 6) through a cash capital increase of private equity in May and August²³, and the total capital stock increased to NT\$ 653 million in 2013 (Table 5). In 2014, he actively laid out the global and China mobile game market, and made a bold statement to be the Ang Lee of the gaming industry²⁴, supporting investors' willingness to hold the stock. On September 30, XPEC acquired over 90% equity of Tiny Piece Co. (hereinafter "TP") for NT\$ 2.93 billion²⁵, and on October 7, the board of directors approved the acquisition of Xiamen Tongbu Technology Co. (hereinafter "Tongbu") for NT\$ 5.29 billion²⁶, making the largest investment in Taiwanese gaming industry history. XPEC had up to NT\$ 900 million in cash (Table 5), and to raise acquisition funds, the board of directors twice raised cash capital increases through private equity²⁷, respectively introducing overseas strategic investors: BCGT and Gamania Co. (Table 6). The stock price rose to the new price of NT\$ 194.5 in October of 2014 (Table 5)²⁸. This private equity was the initial understanding between XPEC and BCGT, while the large-scale merger and acquisition (hereinafter "M&A") investment was the beginning of the interest dispute between Mr. Hsu and XPEC, as well as the initial hint of tunneling behavior of controlling shareholders.

²² Same as Note 13 and Note 14.

²³ Weng, Shu-Ting (2013, August 9), "Targeting China's Smart TV Business Opportunities, XPEC's Private Equities Introduced Game Platform Provider Dygame Co.," *Business Next*, (accessed November 24, 2017), [available at <https://www.bnext.com.tw/article/28873/BN-ARTICLE-28873>].

²⁴ Xie, Fu-Xu (2016, September 8), "Asking for a Name Also Benefits Chin-Lung Hsu's Three-In-One Personality," *Business Today*, (accessed September 30, 2016), [www.businesstoday.com.tw/article/category/80392/post/201609080022/].

²⁵ Guo, Zhi-Rong (2014, September 30), "Supporting Innovation and Entrepreneurship, Gamania Co. and XPEC Actively Develop New Business," *Business Next*, (accessed September 30, 2016), [available at <https://www.bnext.com.tw/article/33891/BN-ARTICLE-33891>].

²⁶ Guo, Zhi-Rong (2014, October 9), "XPEC Spent NT\$5.2 Billion to Acquire Tongbu Co. of Chinese Startups," *Business Next*, (accessed September 30, 2016), [available at <https://www.bnext.com.tw/article/34007/BN-ARTICLE-34007>].

²⁷ Huang, Yu-Wen and Ying-Wei He (2014, October 3), "Cross-Share Holdings of XPEC and Gamania Co.," *Commercial Times*, (accessed October 30, 2017), [available at <https://www.chinatimes.com/newspapers/20141003000078-260202?chdtv>].

²⁸ Chen, Zhong-Xing (2016, October 8), "XPEC listed 5 Years and Ups and Downs Revelation," *Mirror Media*, (accessed January 24, 2017), [available at <https://www.mirrormedia.mg/story/20161004fin002/>].

In 2015, XPEC was engaged in a cross-industry catering business. In January, it purchased an old pastry factory called E-G-Sain Inc. for NT\$ 139 million²⁹. Mr. Hsu was confronted with the question of idleness from the market. His personal collateralized share ratio reached 93.05% in June (Table 7), and XPEC had become the target of the short-sell lockout³⁰. The stock price fell sharply from NT\$ 191 to less than NT\$ 70 in August (Table 5), and he admitted that he was busy fundraising and negotiating the acquisition when the stock price fell sharply. At the end of the year, XPEC announced it would complete the acquisition of Tongbu with private capital of NT\$ 2.075 billion³¹, and continued to issue the convertible bond of NT\$ 2 billion (Table 8). The introduction of three strategic investors ranked among the top ten shareholders of XPEC (Table 6), with BCGT holding 5.39%, Mega Cloud Co. holding 9.84% and Triple Collaboration Co. holding 4.41%. In the fundraising process of XPEC, BCGT was originally the subscriber of the first private equity in 2014, but since the MOEAIC was still reviewing the matter and the one-year limit for private equity was about to expire, it withdrew its investment application³². Mr. Hsu stated that after renegotiation, both parties agreed to participate in the investment due to the acquisition strategy of XPEC. Mega Cloud Co. was 100% owned by Mr. Kashino from Japan, and XPEC was its first invested project³³. Mr. Hsu met Mr. Kashino for the first time in this private equity, marking the beginning of the conspiracy among the large shareholders of the fake tender offer.

Table 5 Assets, Market Value and Stock Price of XPEC from 2011 to 2016

Item / year	2011	2012	2013	2014	2015	2016
Total assets (NT\$ 100 million)	9.81	16.22	31.5	55.68	96.76	55.18
Asset growth ratio (%) (based on 2011)	1	1.65	3.21	5.67	9.86	5.62
Cash and equivalent cash (NT\$ 100 million)	0.96	2.83	9.91	8.85	7.15	6.7
Net revenue (NT\$ 100 million)	5.47	7.86	6.74	9.5	21.99	19.47
Net income (NT\$ 100 million)	0.8	2.04	0.56	3.76	5.75	- 26.61
Total capital stock (NT\$ 100 million)	2.58	2.81	6.53	8.5	12.69	18.4
Capital growth ratio (%) (based on 2011)	1	1.09	2.53	3.29	4.91	7.12
Year-end market capitalization (NT\$ 100 million)	16.04	19.77	59.46	162.38	136.16	24.26
Market value growth ratio (%) (based on 2011)	1	1.23	3.71	10.12	8.49	1.51
Highest stock price (NT\$)	77.1	76.3	110.5	194.5	193	128.5
Lowest stock price (NT\$)	47.9	43.9	63.3	89.3	67. 2	9.86
Year-end share price (NT\$)	62.1	70.4	91	191	92.1	13.2
Earnings per share (EPS) (NT\$)	3.32	6.11	1	3.55	3.83	-29.45

Source: Summarized by the Author. OTC Stock Quotes and MOPS's Annual Report and Relevant information of the Shareholders Meeting³⁴.

²⁹ Apple Daily (2015, January 30), "XPEC Spent NT\$139 Million to Acquire E-G-Sain Inc.," *Apple Daily*, (accessed January 24, 2017), [available at <https://tw.appledaily.com/new/realtime/20150130/551724/>].

³⁰ Lin, Hong-Wen (2016, April 28), "A Calculation of XPEC's Chin-Lung Hsu Selling Games and Coffee," *Business Today*, (accessed January 24, 2017), [available at <http://www.businesstoday.com.tw/article-content-80392-153297>].

³¹ Guo, Zhi-Rong (2015, December 31), "XPEC Plans to Acquire Xiamen Tongbu Co. and Announces Completion of a Private Placement of NT\$2.075 Billion," *Business Next*, (accessed September 30, 2016), [available at <https://www.bnext.com.tw/article/38366/BN-2015-12-30-190437-44>].

³² Zhang, Xu-Hong (2015, November 23), "BCGT Spent More than NT\$500 Million to Help XPEC Acquire Tongbu Co. to Take another Step Forward," *Anue*, (accessed January 24, 2017), [available at <https://news.cnyes.com/news/id/406933>].

³³ Same as Note 25.

³⁴ Same as Note 4 and Note 14.

Table 6 Private Equity Offering of XPEC and Mr. Hsu's Illegal Private Equity

Private equity offering	Issue day (Delivery day)	Completion date of payment	Issue price (NT\$)	Private placement amount (NT\$1,000)	Applicant Resources	Subscription amount (1,000 Shares) (Actual subscription price)	Mr. Hsu's illegal private Equity (1,000 Shares)
2013 1st	2013/9/10	2013/8/7	77	45,000	Cinda Fund	4,500 (NT\$77 per share)	4,500 (August 2013) (Cinda Fund)
2013 1st	2013/9/10	2013/8/8	79	45,000	Dygame Co.	4,500 (NT\$79 per share)	
2013 2nd	2014/1/29	2013/12/23	66.8	45,000	Eminent Co.	4,500 (NT\$66.8 per share)	4,500 (December 2013) (Eminent Co.)
2014 1st	Withdrawal of investment application in August, 2015				BCGC Co.	20,000 (NT\$103.7 per share)	
2014 2nd	2014/11/14	2014/10/16	115.1	32,000	GAMANIA Inc.	3,200 (NT\$115.1 per share)	
2014 3rd	2015/1/23	2014/12/24	138.6	18,000	9Splay Co. / Hulu Co.	100 / 1,700 (NT\$138.6 per share)	1,700 (December 2014) (Hulu Co.)
2015 1st	2015/12/25	2015/12/1	77.2	68,000	BCGC Co.	6,800 (NT\$77.2 per share)	6,800 (December 2015) (BCGC Co.)
2015 2nd	2016/11/5	2015/12/31	73.8	210,000	Mega Cloud Co. / Triple Collaboration Co.	14,500 / 6,500 (NT\$73.8 per share)	21,000 (December 2015) (Mega Cloud Co. and Triple Collaboration Co.)

Source: Summarized by the Author. MOPS's Private Placement Area³⁵, Annual Report and Relevant Information of the Shareholders Meeting³⁶. Taipei District Court Procuratorate Press Release³⁷.

Table 7 Collateralized Share Ratio of XPEC's Controlling Shareholders

Collateralized share ratio (%)	2010/12	2011/12	2012/12	2013/12	2014/6	2014/12	2015/6	2015/12	2016/6	2016/12
Hsu, Chin-Lung	0	0	0	0	0	83.06	93.05	65.19	77.19	42.49
King Kong Co. (Mr. Hsu 100% owned)	0	0	97.19	58.79	64.47	40.35	46.48	52.73	96.44	55.59
Hsu, Fei-Lung	0	0	0	95.34	88.89	65.43	65.43	96.43	99.61	0
Hsu's Family	0	0	0	0	0	0	0	0	0	0
Board (Directors and Supervisors)	0	0	83.75	56.14	61.06	42.39	49.99	56.14	89.25	49.45

Source: Summarized by the Author. MOPS's Distribution Profile of Share Ownership³⁸.

³⁵ Taiwan Stock Exchange (2017, January 1), "Private Equity Zone of Market Observation Post System," Taiwan Stock Exchange, (accessed March 30, 2017), [available at <https://mops.twse.com.tw/mops/web/t116sb01>].

³⁶ Same as Notes 14.

³⁷ Taiwan Taipei District Prosecutors Office (2017, January 24), "Taipei District Court Procuratorate Press Release," Taiwan Taipei District Prosecutors Office, (accessed January 25, 2017), [available at <http://p.udn.com.tw/upf/news/2017/81.pdf>] . (In Chinese)

³⁸ Same as Note 16.

4. XPEC's Assets and Market Value Grow Rapidly

In April of 2016, Mr. Hsu announced two investment plans one after the other. It purchased 91.5% equity of Ikari Coffee, the fourth largest chain coffee dealer, for NT\$ 130 million, and subscribed to the convertible bonds of Japanese AltPlus Inc. for about NT\$ 251 million³⁹, making continuous expansive investments into the most aggressive expansion of the gaming industry in recent years (Fig. 3). The operating results of the reinvestment firms are listed in Table A1 and A2. Since 2013, XPEC had already dealt with six private equities (Table 6) and four convertible bonds (Table 8). Mr. Hsu was good at rapidly expanding the asset size and market value through M&A investments and financial operations. The capital stock from 2011 to 2015 grew nearly five times (Table 5), with total assets growth during the period of nearly ten times over. Market value grew nearly nine times sharply, and thus he had won the title of “the workaholic of the gaming industry”⁴⁰.

Table 8 XPEC's Convertible Corporate Bond Offering and Conversion during Tender Offer

Convertible bond offering	Issue date	Due date / Delisting day	Conversion price (NT\$)	Number and amount of Issue (NT\$)	Month-end balance (August 2016) (number of sheet)	Conversion situation (June to August 2016) (number of sheet)
XPEC 1st	2012/7/19	2013/7/25	50.72	2,500 / NT\$ 250 million	0	
XPEC 2nd	2012/7/20	2012/11/20	47.2	500 / NT\$50 million	0	
XPEC 3rd	2014/6/27	2016/3/1	154.83	4,000 / NT\$400 million	0	
XPEC 4th	2016/3/1	2019/3/1	76.3	5,000 / NT\$5 billion	2,755	June: 122; July: 2123; August: 0
XPEC 5th	2016/3/1	2019/3/1	76.3	5,000 / NT\$5 billion	4,999	June: 1; July: 0; August: 0
XPEC 6th	2016/3/2	2019/3/2	77.7	10,000 / NT\$100 million	1029	June: 7,909; July: 1062; August: 0

Source: Summarized by the Author. Bond Market Information⁴¹. MOPS's Changes in the Conversion of Convertible Corporate Bonds⁴².

5. Controlling Shareholders Secretly Tunnel XPEC

BCGT suddenly launched a tender offer of NT\$ 4.86 billion and XPEC's executives continuously released this news plus media reports⁴³. The number of XPEC's shareholders involved increased sharply from 8,863 investors in 2015 to 22,839 (Table 9). The acquisition default also defrauded many investors, and the prosecutor investigated and found that, Chairman Mr. Hsu falsified the tender offer for self-interest, and to gain illegal benefits through false foreign investors, sold the shareholder secret agreement, concealed irregular transactions, speculated in stocks, and created fraudulent financial statements⁴⁴. He also hid the leading identity in the acquisition and the fact that the fund source was from China, so that the board of directors and the MOEAIC were cheated and approved the matter. He then deliberately defaulted payment, and after the acquisition was announced, he also required an external stock

³⁹ Lin, Hong-Wen (2016, April 27), “Chatting about XPEC's Chin-Lung Hsu: Buying AltPlus from Ikari, What are You Busy with?” *Business Today*, (accessed January 24, 2017), [available at <https://www.setn.com/News.aspx?NewsID=141822>].

⁴⁰ Same as Note 30.

⁴¹ Taipei Exchange (2016, September 1), “Bond Market Information,” Taipei Exchange, (accessed February 2, 2017), [available at https://www.tpex.org.tw/web/bond/publish/convertible_search/code_table/cb_treaty.php?l=zh-tw].

⁴² Taiwan Stock Exchange (2016, September 1), “Changes in the Conversion of Corporate Bonds of Market Observation Post System,” Taiwan Stock Exchange, (accessed March 30, 2017), [available at <http://www.xpec.com.tw/wp-content/uploads/2017/12/2016-XPEC-Annual-Report-part3.pdf>].

⁴³ Zhang, Xu-Hong (2016, June 1), “A Japanese Firm Acquires XPEC to Celebrate, and Game Stocks will Start a Wave of Acquisitions,” *Anue*, (accessed June 7, 2016), [available at <https://news.cnyes.com/news/id/2012637>].

⁴⁴ Same as Note 36.

operator through dummy accounts to buy and sell the stocks to make a profit⁴⁵. BCGT was also the dummy firm set up and controlled by him practically⁴⁶. Through private equity, he hid the fact and acquired stock in about 80% of the current price by falsifying strategic investors (Table 6), and then using the M&A investment opportunity of the TP and Tongbu, signed a secret deal with their executives individually to sell some private stocks at current price. He hid the book-building investors of convertible bonds that were arranged for his private interests through a false public statement⁴⁷, and also privately resold the bank and reserved conversion options for profit by conversion during the acquisitions (Table 8). He controlled the private equity offering as in-line with industry development trends and the long-term business development of the firm, but the fact was he was tunneling XPEC's equity and assets (Table 10). Furthermore, he concealed affiliated transactions based on self-interests to manipulate the stock price and XPEC's profits, and intended to affect the stock price. He embezzled and misappropriated the firm funds for personal use in 2013 and sold XPEC's games to the firm under his control in 2014 and 2015, and the financial statements did not report the related party transactions and inflated income. From June 2015 to August 2016, he also conspired with external stock operators to manipulate the stock price. As the controlling shareholder, he ultimately violated his Chairman's authority by hiding the fact of secretly tunneling XPEC to the shareholder meeting and board of directors.

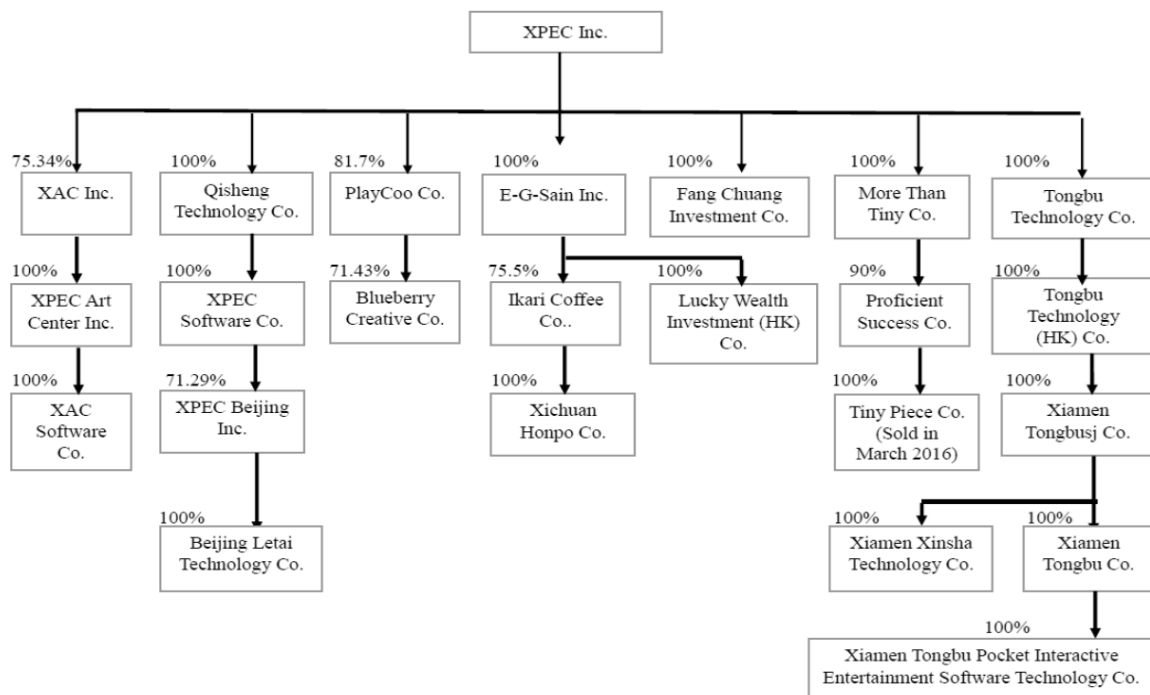


Figure 3 Organization Chart of XPEC's Related Firms in 2016

Source: Summarized by the Author. XPEC 2015 Annual Report⁴⁸, and 2016 Annual Report⁴⁹.

⁴⁵ Xie, Jun-Lin (2016, October 19), "Ten Billion Thief Rui-Ren Yang Involved in Speculation on XPEC's Shares and NT\$3 Million Insured," *Liberty Times Net*, (accessed October 30, 2016), [available at <https://news.ltn.com.tw/news/society/breakingnews/1860160>].

⁴⁶ Same as Note 11.

⁴⁷ Ding, Guo-Jun Ding (2016, October 5), "XPEC's Convertible Bonds List Revealed and Revealed Chin-Lung Hsu's Century Scam," *Mirror Media*, (accessed September 30, 2016), [available at <https://www.mirrormedia.mg/story/20161004fin009/>].

⁴⁸ XPEC (2016, May 10), "XPEC 2015 Annual Report," XPEC, (accessed June 15, 2017), [available at http://www.xpec.com.tw/wp-content/uploads/2016/06/2016060227_c059a598bceab65b4ba9419adee220dd.pdf].

⁴⁹ XPEC (2017, May 25), "XPEC 2016 Annual Report," XPEC, (accessed June 15, 2017), [available at <http://www.xpec.com.tw/wp-content/uploads/2017/06/2016-XPEC-Annual-Report.pdf>].

Table 9 Number of XPEC's Shareholders

Item / date	2010/4	2011/5	2012/12	2013/12	2014/11	2015/6	2016/5	2017/7
Number of total shareholders	570	2,203	1,612	3,150	3,653	3,603	8,663	22,839
Number of domestic individual investors/	545	2,173	1,579	3,102	3,591	3,528	8,543	22,717
Shareholding Ratio of domestic individual investors (%)	48.28	60.86	70.63	55.62	42.73	44.78	43.86	53.07

Source: Summarized by the Author. MOPS's Disclosure of the Shareholding Table of the Information Observatory⁵⁰.

Table 10 Mr. Hsu's Illegal Profits by Tunneling XPEC

Crime	Date	Trading behavior	Illegal profit
Appropriation	2013/2/25	The invoices were submitted by Xinji Co. with untrue accounting vouchers, occupying XPEC's NT\$3.5 million.	NT\$ 3,500,000
Illegal private equity	2013/5	Acquired XPEC's private equity in the name of the Cinda Fund.	NT\$1,270,549,266
	2013/12	Acquired XPEC's private equity in the name of the Eminent Co.	
	2014/3/30	A total of 11,114,169 shares of XPEC's private equity obtained through Cinda Fund and Eminent Co. were sold to Shen Jun, the original management team of TP Co. at the current price of NT\$114 per share.	
	2014/10/7 (Sign up beforehand and pay in succession from 2015 to 2016)	A total of 27.8 million shares of XPEC's private equity, acquired through BCGC, Mega Cloud and Triple Collaboration Co., were sold to Xiong Jun, a Tongbu Co. at a current price of about NT\$95 per share.	NT\$2,641,000,000
	2015/11	Acquired XPEC's private equity in the name of BCGC.	
2015/12	Acquired XPEC's private equity under the names of Mega Cloud and Triple Collaboration Co.		
Illegal issue of convertible corporate bonds	2016/3/3 ~ 2016/8/30	A total of 5984 pieces of convertible corporate bonds of XPEC's 4th and XPEC's 5th were purchased using the circle of people, which were dismantled into CBASO by Far East Bank, and then purchased by others such as Zong-han Lin, and then performed in advance in cash. The estimated profits of XPEC's 4th were NT\$50,804,730. The estimated profits of XPEC's 4th and XPEC's 5th were NT\$621,419,250.	NT\$140,004,180
Insider trading	2016/5/16 ~ 2016/5/31	An XPEC's insider after learning the news of the tender offer on May 15, 2016, he bought and sold the XPEC's shares during the period from May 16, 2016 to May 31, 2016. The profit was NT\$15,185,000.	NT\$15,185,000
Total			NT\$4070,238,446

Source: Taipei District Court Procuratorate Press Release⁵¹.

⁵⁰ Taiwan Stock Exchange (2017, October 1), "Distribution Profile of Share Ownership of Market Observation Post System," Taiwan Stock Exchange, (accessed December 1, 2017), [available at <https://mops.twse.com.tw/mops/web/t16sn02>].

⁵¹ Same as Note 37.

6. XPEC Faces Delisting

In March 2016, XPEC sold the balance payment of NT\$ 2.2 billion of reinvested TP, but still failed to recover by the end of September⁵². Furthermore, with the detention of Mr. Hsu⁵³, its stock prices hit NT\$ 33.8 (Fig. 1). The Taipei Exchange was still concerned about the financial gap of XPEC and changed its shares in full-cash delivery stock on October 4. Its stock price plummeted to NT\$ 27.45. Certified public accountants, Ernst & Young, who was in charge of XPEC's financial statements certification, resigned in September, and the independent directors also resigned on January 6. XPEC failed to submit the financial report for the third quarter of 2016 as scheduled. The stock price closed on January 16 at NT\$ 13.2, and the stock was suspended on January 17. Its market value fell to NT\$ 2.426 billion in a short period (Fig. 4), and the firm and shareholders suffered great losses. Due to the value recognition of the intangible assets (including goodwill) and the rapid disposition of the investment in TP, the unrecovered funds shall be subject to asset recognition loss and the financial statements were acquired by the FSC to restate⁵⁴. To resume stock trading, XPEC uploaded the financial report on May 15, 2017; after identifying the impairment of intangible assets, the after-tax net loss in 2016 reached NT\$ 4.936 billion (Table 11), with a net loss of NT\$ 29.45 per share. Liabilities increased to NT\$ 2.617 billion, and cash on-hand was only NT\$ 669 million (Table 5). The Taipei Exchange thought XPEC failed to prudently evaluate the impairment loss of XPEC's related reinvestment, nor did it put forward effective and specific measures to protect the shareholders' rights, so its shares stopped trading on May 16⁵⁵. Finally, the shareholder meeting could not be held as scheduled for the by-election of independent directors and the adoption of the consolidated financial restatement. XPEC was delisted and 22,000 shareholders lost all their money⁵⁶. Mr. Hsu led the rapid expansion of XPEC, but actually, XPEC was plunged into an operating and financial crisis because his concealed tunneling behaviors had expropriated shareholder interests, and damaged the firm value and hindered the corporate development⁵⁷.

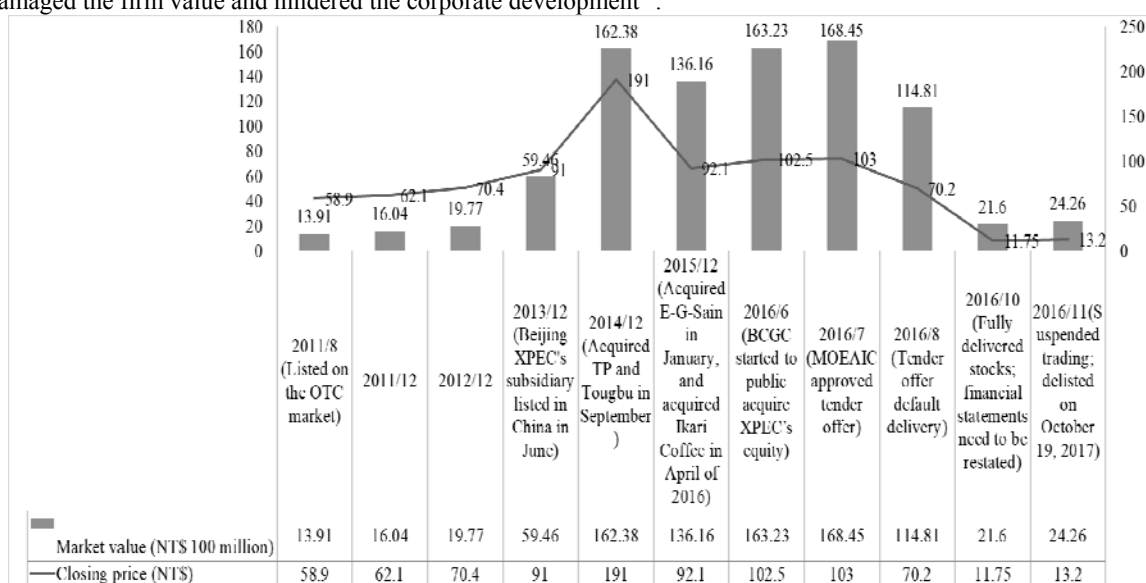


Figure 4 Changes in the Market Value of XPEC before Listing and Trading Suspension

Source: Summarized by the Author. OTC Stock Quotes⁵⁸.

⁵² Zhang, Hui-Wen (2016, October 1), "Money Hasn't Arrived Yet! The NT\$2.2 Billion Balance of XPEC's Chinese Subsidiary was Delayed Until the End of the Month," *Liberty Times Net*, (accessed October 3, 2016), [available at <https://news.ltn.com.tw/news/focus/paper/1037268>].

⁵³ Lu, Zhi-Ming (2016, September 30), "Chin-lung Hsu Was Finally Taken into Custody and the Reason Turned Out to be This," *Apple Daily*, (accessed October 3, 2016), [available at <https://tw.appledaily.com/new/realtime/20160930/958855/>].

⁵⁴ Peng, Yi-Ling and Qiao-Yi Wei (2016, October 28), "The FSC Requires XPEC to Restate Q2 Financial Report," *Chinatimes*, (accessed October 30, 2016), [available at <https://www.chinatimes.com/newspapers/20161028000204-260206?chdtv>].

⁵⁵ Chen, Yi-Hua (2017, May 17), "The 24-Hour Situation is Changing, and XPEC Resumes Trading Again and Fails Again," *Cmmedia*, (accessed May 18, 2017), [available at <https://www.cmmedia.com.tw/home/articles/3881>].

⁵⁶ Xiao Wen-Kang (2017, September 9), "XPEC Delisted and 22,000 Shareholders' Shares Turned into Wallpaper," *Apple Daily*, (accessed September 17, 2017), [available at <https://tw.appledaily.com/headline/daily/20170909/37775953>].

⁵⁷ Qiu, Po-Cheng (2017, July 12), "XPEC Once again Ignited the Financial Crisis of NT\$240 Million Pledged Creditors Insolvency," *Newtalk*, (accessed September 15, 2017), [available at <https://newtalk.tw/news/view/2017-07-12/91990>].

⁵⁸ Same as Note 4.

Table 11 Financial Status and Operating Results of XPEC from 2011 to 2016

Item / year	2011	2012	2013	2014	2015	2016	2015	2016
							(After restatement)	(After restatement)
Total assets (NT\$100 million)	9.81	16.22	31.5	55.68	96.76	55.18	73.26	55.18
Total goodwill and intangible assets (NT\$100 million)	3.05	1.26	1.36	26.55	27.14	15.48	11.89	15.48
Net goodwill (NT\$100 million)	0.00	0.00	0.01	25.29	25.77	4.00	8.41	4.00
Current liabilities (NT\$100 million)	2.42	3.26	5.76	9.29	33.63	15.16	34.88	16.07
Total liabilities (NT\$100 million)	2.64	5.47	6.09	12.44	36.25	26.17	36.26	26.17
Total equity (NT\$100 million)	7.17	10.75	25.41	43.24	60.51	29	36.99	29
Net revenue (NT\$100 million)	5.47	7.86	6.74	9.49	21.98	19.46	22	19.46
Operating gross profit (NT\$100 million)	2.48	4.1	3.32	5.21	14.08	10.48	14.11	10.69
Operating income (NT\$100 million)	0.24	2.26	0.14	2.15	7.67	-6.4	1.4	-0.24
Net income (NT\$100 million)	0.8	2.68	0.56	3.76	5.75	-49.36	-17.39	-26.61
Operating net cash flow (NT\$100 million)	-0.29	-0.85	-6.67	11.33	-0.69	2.98	-72.75	254.54
Reinvestment (equity method) (NT\$100 million)	1.84	4.42	9.11	45.00	52.35	40.41	34.88	16.07
Goodwill and intangible assets to assets ratio (%)	31.11	7.76	4.32	47.68	28.05	28.05	16.23	28.05
Goodwill to intangible assets ratio (%)	0	0	0.84	95.23	94.93	25.83	70.71	25.83
Debt to assets ratio (%)	26.92	33.74	19.34	22.34	37.47	47.43	49.5	47.43
Asset growth ratio (%)	77.65	65.26	94.24	76.77	73.76	-42.98	-55.22	-24.68
Revenue growth ratio (%)	30.48	43.79	-14.29	40.87	131.5	-11.47	131.8	-11.6
Operating gross profit to revenue ratio (%)	45.39	52.21	49.27	54.93	64.05	53.89	64.15	54.96
Operating income to revenue ratio (%)	4.39	28.77	2.14	22.64	34.89	-32.9	6.36	-1.26
Non-operating income and expenditure to revenue ratio (%)	16.8	26.69	7.93	10.51	-0.8	-217.57	-77.37	-132.27
Net income to revenue ratio (%)	14.59	34.09	8.31	39.57	26.17	-253.7	-79.03	-136.76
EPS (NT\$)	3.32	6.11	1	3.55	3.83	-29.45	-15.19	-15.73
Return on assets (ROA) (%)	10.65	21.18	2.54	8.93	7.87	-64.35	-26.59	-40.7
Return on equity (ROE) (%)	14.64	29.92	3.1	10.94	11.09	-110.29	-43.35	-80.63
Operating net cash flow to current liabilities ratio (%)	-12.2	-26.19	-116	122.04	-2.05	19.64	-2.13	16.79

Source: Summarized by the Author. MOPS's Information of the Financial Statement⁵⁹, Investment in Overseas Subsidiaries⁶⁰, and XPEC's 2016 Consolidated Financial Restatement⁶¹.

⁵⁹ Taiwan Stock Exchange (2017, March 1), "Financial Statements Information of Market Observation Post System," Taiwan Stock Exchange, (accessed May 1, 2017), [available at <https://mops.twse.com.tw/mops/web/t164sb03>].

7. Suggested Questions for Discussion:

- (A) In this case, what methods were used by the controlling shareholders to tunnel the firm? What would happen to the interests of small shareholders after tunneling the firm occurred? Discuss the scope of impact.
- (B) What caused the controlling shareholders to tunnel the firm? If you are a senior executive, how do you detect the motivation of controlling shareholders who intend to tunnel the firm or the incentive to do so?
- (C) What are the countermeasures to prevent the tunneling behaviors of controlling shareholders? If you are a senior executive, how do you effectively restrain the controlling shareholders from tunneling the firm?
- (D) What are the economic consequences of the controlling shareholders to tunnel the firm? If you're an investor, how can you uncover financial pre-warnings of tunneling behaviors by controlling shareholders?
- (E) If you are the competent authority, with regard to the interests of the firm, shareholders and society as a whole, what supervisory measures would you take to prevent the tunneling behaviors of controlling shareholders?

⁶⁰ Taiwan Stock Exchange (2017, May 1), "Investment Overseas Subsidiary Information of Market Observation Post System," Taiwan Stock Exchange, (accessed June 1, 2017), [available at <https://mops.twse.com.tw/mops/web/t05st16>].

⁶¹ XPEC (2017, October 24), "XPEC 2016 Consolidated Financial Report Restatement," XPEC, (accessed November 11, 2017), [available at <http://www.xpec.com.tw/wp-content/uploads/2017/12/2016-XPEC-Annual-Report-part3.pdf>].

Appendix 1

Table A1 Financial Status and Operating Results of XPEC Group Affiliates in 2015

Item (NT\$1000)	Qisheng Technology Co.	XPEC Software Co.	XPEC Beijing Inc.	Beijing Letai Technology Co.	XAC Inc.	XPEC Art Center Inc.	XAC Softwave Co.	Fang Chuang Investment Co.
Total assets	1,520,713	1,183,104	831,907	34,814	478,462	179,636	233,034	22,946
Total liabilities	614,877	295,229	183,769	678	132,306	76	48,508	—
Total equity	905,837	887,875	648,138	34,136	346,156	179,560	174,526	22,946
Total operating revenue	—	1,809	392,438	83	398,203	—	236,234	—
Total operating costs	11,212	96,832	50,217	1,057	234,078	—	188,989	—
Gross profit (loss) from operations	-11,212	-95,023	342,221	-974	164,125	—	47,245	—
Total operating expenses	14,869	23,870	58,890	9,756	58,545	3,736	16,775	24
Total non-operating income and expenses	63,845	159,043	10,759	-175	38,534	38,783	15,667	7,385
Profit (loss) before tax	37,765	40,150	294,090	-10,905	144,114	35,047	46,137	7,361
Profit (loss) after tax	37,765	74,447	207,817	-10,947	120,773	35,047	38,783	7,361
Item (NT\$1000)	PlayCoo Co.	Blueberry Creative Co.	E-G-Sain Inc.	Honeytown Co.	Lucky Wealth Investment (HK) Co.	More Than Tiny Co.	Proficient Success Co.	Tiny Piece Co.
Total assets	12,989	10,671	151,899	4,421	—	3,386,977	427,091	328,479
Total liabilities	56,677	8,264	95,757	—	—	577	100,938	1,921
Total equity	-43,688	2,408	56,142	4,421	—	3,386,400	326,153	326,558
Total operating revenue	26,300	—	255,698	374	—	—	—	406,278
Total operating costs	17,023	1,759	120,248	358	—	—	—	38,643
Gross profit (loss) from operations	9,277	-1,759	135,449	16	—	—	—	367,635
Total operating expenses	28,073	6,335	139,436	39	—	558	390	9,758
Total non-operating income and expenses	-7,546	2	2,202	23	—	72,545	357,915	38
Profit (loss) before tax	-26,341	-8,092	-1,785	—	—	71,987	357,525	357,915
Profit (loss) after tax	-28,507	-8,092	-1,413	—	—	71,987	357,525	357,915

Source: XPEC 2015 Annual Report⁶².

⁶² Same as Note 43.

Table A2 Financial Status and Operating Results of XPEC Group Affiliates in 2016

Item (NT\$1000)	Qisheng Technology Co.	XPEC Software Co.	XPEC Beijing Inc.	Beijing Letai Technology Co.	XAC Inc.	XPEC Art Center Inc.	XAC Software Co.	Fang Chuang Investment Co.	PlayCoo Co.	Blueberry Creative Co.	
Total assets	1,157,075	904,722	692,412	28,001	420,264	217,881	245,995	26,845	5,179	2,450	
Total liabilities	562,435	181,293	192,405	113	113,392	419	29,214	3,920	73,950	19,492	
Total equity	594,640	723,429	500,007	27,888	306,872	217,462	216,781	22,925	-68,771	-17,042	
Total operating revenue	-	55	100,757	212	381,132	0	273,450	-	15,534	2,337	
Total operating costs	-8,504	-10,101	-54,380	-1	-253,225	0	-210,904	-	-9,763	-2,442	
Gross profit (loss) from operations	-8,504	-10,045	47,377	211	127,907	-4,257	62,545	-	5,771	-105	
Total operating expenses	-26,364	-3,808	-155,694	-2,619	-89,790	-4,257	-15,769	-20	-21,148	-11,794	
Total non-operating income and expenses	-213,505	-78,131	6,133	155	55,740	58,179	23,584	1	-5,708	-7,551	
Profit (loss) before tax	-248,737	-91,984	-102,184	-2,253	93,856	53,922	70,360	-19	-21,084	-19,450	
Profit (loss) after tax	-248,737	-101,992	-103,908	-3,843	76,269	53,922	58,153	-19	-23,926	-19,450	
Item (NT\$1000)	E-G-Sain Inc.	Lucky Wealth Investment (HK) Co.	Ikari Coffee Co.	Xichuan Honpo Co.	More Than Tiny Co.	Tongbu Technology Co.	Tongbu Technology (HK) Co.	Xiamen Tongbusj Co.	Xiamen Xinsha Technology Co.	Xiamen Tongbu Co.	Xiamen Tongbu Pocket Interactive Entertainment Software Technology Co.
Total assets	193,263	0	158,007	2,897	238,626	904,171	923,941	921,711	393	643,367	45,463
Total liabilities	222,093	0	124,563	15,477	1,534,643	316	21,008	17,220	515	263,091	15
Total equity	-28,750	0	33,444	-12,580	-1,296,017	903,856	902,933	904,491	-122	380,276	45,448
Total operating revenue	272,138	0	306,350	10,518	0	0	20,103	706,724	0	400,066	0
Total operating costs	-135,288	0	-140,605	-6,968	0	0	-8,862	-7,101	0	-369,098	0
Gross profit (loss) from operations	136,850	0	165,774	3,549	0	0	11,241	699,623	0	30,968	0
Total operating expenses	-172,435	0	-205,352	-8,590	-543	0	-13,433	-167,181	-125	-21,695	-76
Total non-operating income and expenses	-49,008	0	-22,103	-2,213	-1,397,058	-374,583	377,189	-151,776	-2	8,860	-1,970
Profit (loss) before tax	-85,593	0	-61,710	-7,254	-1,397,601	-374,583	374,997	380,665	-128	18,133	-2,045
Profit (loss) after tax	-85,593	0	-61,710	-7,254	-1,397,601	-374,583	374,997	380,665	-128	24,208	-2,045

Source: XPEC 2016 Annual Report⁶³.

⁶³Same as Note 44.